

一、 CASE 1 (30%)

Kmart Trying to Find Itself

Vowing to succeed in its head-to-heel battle with rival Wal-Mart, Kmart since 1990 has built 153 fashionable new discount stores and expanded or refurbished 800 existing ones in an ongoing \$3 billion expansion program. To add balance, Kmart built a specialty retail group including Payless Drug, Waldenbooks, OfficeMax, Sports Authority, and Pace membership warehouse. Add to this Builders Square, Kmart's answer to Home Depot, and you get the picture: a company much more diversified than its rival. The only problem, though, is that Kmart has performed poorly compared to Wal-Mart, as shown below.

Wal-mart	(dollars in millions)	Kmart
32,602	1990 sales	32,070
1,291	1990 profits	756
67,345	1993 sales	34,156
2,333	1993 profits	534

The driving force of Kmart is Joseph Antonini, who holds the position of chairman, CEO, and president. In an effort to stimulate revenues and earnings, Antonini speaks in terms of Kmart's renewal, especially in its discount stores. Antonini lowered prices on thousands of items, such as health and beauty products, household goods, and detergents, to become more competitive with Wal-Mart. Kmart's "Look of the Nineties" stores - a more spacious, open look; color-coded department signs; pharmacy; and a music store - have been installed in over half the company's 2,400 locations. The apparel division has become the cornerstone of each store, including popular brands Wrangler, Hanes, L.A. Gear, and Britannia. But sales per square foot in all Kmart stores continued to drop for the third consecutive years. And Kmart cannot win a pricing battle with Wal-Mart, which has a huge 5 percent advantage on operating costs.

Kmart has undergone its own downsizing, announcing 1995 plans to eliminate 2,500 managerial and 6,000 operative jobs and to shut down 110 marginally to poorly performing discount stores.

While Antonini remains confident that the discount store division can turn itself around, Kmart has work to do in its other business lines too. Its Builders Square stores average \$15 million in sales per store, compared to Home Depot's \$40 million. Over the past two years, Builders Square turned tail and got out of the California, Atlanta, and Hartford markets. Home Depot has taken dead aim at San Antonio, Builders Square's headquarters. And Home Quarters, a division of Hechinger, is coming into Detroit, another critical area. Competition is really heating up. Kmart's Pace membership stores have been heavy losers; in 1993, Pace abandoned Dallas, selling its eight stores to Wal-Mart's Sam's Club after trying unsuccessfully to dislodge Sam's Club. Pace also sold out to Sam's in Chicago, Kansas City, St. Louis, and Toledo. A new management team at Pace is likely to sell off more stores and retrench, focusing on business customers.

A Major positive sign has been the success of the Super Ks, which, at 167,000 square feet, are two-thirds larger than the normal Kmart. A full-line grocery store combined with specialty departments, pharmacies, Video rentals, and complete discount store assortment, Super K sales have outstripped projections so greatly that 75 new stores were completed in 1994, with a projected 400 to 500 open by the year 2000.

Experts say Kmart still doesn't seem to have a clear strategy, but Antonini disagrees. Still he seems to concede that he may be running out of time, with stockholders displeased with their company's performance.

Questions

1. Based on this case and other available information, develop a SWOT analysis of Kmart.
2. What types of generic strategies do you see reflected in this case? Master strategies? Explain.
3. What are some of the important planning premises supporting a commitment to build 400 to 500 new Super Ks through the year 2000?

二、CASE 2 (30%)**First in the Market**

Juan Peron is a process engineer employed by Vantage Engineering, Inc., and assigned to the research laboratory in the Advanced Products Division (APD). Vantage is a well-established manufacturer of military hardware. APD's general purpose is to conduct research to improve the company's military hardware products. However, the laboratory director was recently given permission to develop spin-off products for possible sale on the open market.

Juan spent his first year in APD assisting on various project assignments. At the end of that year, he was put in charge of a special project to research a chemically processed wood for specialty applications. During the initial stages of the project, Juan spent most of his time in the laboratory becoming familiar with the basic aspects of the treatment process. However, he soon tired of the long, tedious experimental work and became more and more eager to move quickly into the promotion and marketing of the product. This desire was soon realized. An article in a recent national trade publication had generated keen interest in a similar wood product, and as a result, Vantage immediately allocated several thousand dollars to the development and marketing of the chemically processed wood. Simultaneously, a minor reorganization occurred, placing Juan and his project under the direction of Greg Waites, a close friend of Juan's. Thus, Juan had an opportunity to get out of the lab and become involved in the more desirable promotion and marketing aspects.

Juan and Greg soon began traveling nationally, discussing the new product with potential customers. Traveling enabled Juan to spend less and less time in the lab, and as a result many of the experiments required to determine the performance characteristics of the new product were left unfinished. As the number of companies demonstrating an interest in purchasing small quantities for trial applications grew, Juan suggested to Greg that a small pilot plant be constructed. In response to Greg's concerns regarding the performance characteristics of the wood, Juan assured him the preliminary tests indicated the wood could be successfully produced. Juan contended that Vantage had to get a head start on the newly created market before everyone else got into the game, that they should build the pilot plant immediately to fill the sudden influx of orders and then worry about completing the performance tests. Greg, seeing the advantages of getting into the market first, finally agreed, and construction of the pilot plants began shortly thereafter.

During construction, Juan and Greg continued traveling to promote the wood. When the pilot plant was near completion, Juan went to Vantage's personnel department and requested that three laborers be hired to operate the plant. Juan intended to personally direct the technical operations and thus saw no need to establish elaborate job descriptions for the positions.

A week later, Juan had his three employees. Due to a workload reduction in the Electronics Division of Vantage, the employees filling these positions had taken the laborer jobs to avoid being laid off. One had been a purchasing agent, and the others had been electronics technicians. At the beginning of the workday, Juan would drop by the plant and give directions to the crew for the entire day before departing to make sales calls. No formal leader had been appointed, and the three laborers, knowing little about the chemical process involved, were instructed to "use common sense and ingenuity."

A month after the plant operations had gotten under way, a major producer of archery bows requested an order for 70,000 bow handles to be delivered in time to be sold for the upcoming hunting season. It was too good to be true! Juan knew that if they accepted the order, the first year of operations would be guaranteed to be in the black. On receiving the product specifications, Juan persuaded Greg to sign the contract, arguing that they would be throwing all their hard work down the drain if they didn't. Subsequently, a crash program was established at the plant to get the order out on time.

One month after the final shipment of handles had been made, Juan hired a junior engineer, Libby Adams, to conduct the performance experiments that had been disbanded while the plant was getting the rush order out. Libby examined some of the experimental handles and discovered hairline cracks at various stress points that had not appeared during the initial examination. She immediately went to Juan's office to inform him of the problem and found Juan and Greg sitting there with a telegram from the archery company. It stated that several retail merchants had returned bows with hairline cracks in the handles and that the archery company would seek a settlement for its entire investment in the handles.

Vantage paid the settlement and subsequently canceled the wood project.

Questions

1. What caused the wood project to fail?
2. Would a more effective strategy on the part of Juan and Greg have helped ensure the success of the project?
3. At what stage of the strategic management process did the breakdown occur?
4. What general observations can be made to prevent such a situation from occurring again?

三、CASE 3 (40%)

Johannsen Steel Company

Johannsen Steel Company (JSC) was established by three Johannsen brothers in 1928 in Pittsfield, Rhode Island. The brothers began JSC by concentrating on high-quality, high-carbon, high-margin steel wire. Products included "music wire" for instruments such as pianos and violins; copper, tin, and other coated wires; and high-tensile wire for the newly emerging aircraft industry. JSC even pioneered new types of wire.

Throughout the 1930s and 1940s, JSC prospered while maintaining its reputation for high-quality products and in-house design and construction of its own equipment. In 1946, the last remaining Johannsen brother sold the company to West Virginia Steel for \$4 million. For its investment, West Virginia Steel (WVS) obtained three Johannsen steel mills located in Pittsfield, Rhode Island (500 employees), Akron, Ohio (100 employees), and Los Angeles (16 employees), and two steel wire warehouses—one in Chicago (8 employees) and one in Los Angeles (4 employees). WVS kept Johannsen completely intact as a wholly owned subsidiary.

The 1940s and 1950s witnessed increasing JSC sales to the U.S. military and to U.S. automakers and tire makers. JSC also sold wire for use in staples, nails cables, cookie cutters, steel brushes/wire wheels, and electrical products, leading to a continued healthy upward climb in sales and profits.

1960 was a climactic year for the U.S. steel industry. A prolonged steel strike of 14 weeks caught steel customers off guard. With stocks nearly exhausted, steel customers throughout the United States looked for alternative sources. Up to this point, competition from Japanese steel plants had been minimal. However, with few options, steel customers turned to the Japanese. They found the quality, price, and even delivery of steel to be very acceptable. No longer was competition from offshore steel makers to be insignificant.

(背面仍有題目,請繼續作答)

The combination of offshore steel competition and a productivity-minded economy drove steel prices down to very competitive levels throughout the 1960s and 1970s. Attention in the industry and in JSC turned toward cost cutting and sales expansion as means to maintain profit levels.

The selection of Joe Thomas, formerly the sales manager of JSC, as its president in 1978 resulted in a further emphasis on sales expansion. And, indeed, sales grew by nearly 2 million pounds per year through the 1970s and 1980s. The growth in sales revenue paralleled the tonnage sold. However, after-tax profits on sales throughout the late 1980s were never above 2%.

Because profits had been meager since the mid-1970s for both JSC and WVS, the "mother corporation" was spending little on capital investment unless a 40% return on investment (ROI) before taxes could be demonstrated. WVS had other restrictions on its JSC subsidiary. Sixty percent of JSC's total purchase of steel rod (the raw material for steel wire) had to be purchased from WVS, even though it was well acknowledged throughout the industry that WVS's steel rod was the lowest in quality. Also the smaller size of WVS rod coils (300lb), compared to the newest industry sizes from Bethlehem Steel (1,500 and 3,000 lb), increased the number of machine setups and production cost.

To use up their quota of WVS steel rods and spread overhead costs over more tonnage (thus reducing allocated overhead per ton), Joe Thomas ordered his sales people to increase sales at least 10% per year. And they did. Orders and revenue for the more common grades of steel wire products such as staple wire, stitching wire, tire bead wire, and brush wire continued to increase. The prices of these steel wire products slowly continued to fall as the Japanese, in particular, manufactured these products with greater efficiency.

Johannsen steel nonetheless maintained its reputation for high quality throughout the 1970s and 1980s. It won prestigious NASA and computer industry contracts and still produced "music wire" and other high-carbon grades. The percentage of these high-quality/high-margin sales to total sales continued to decrease, however.

Wire-drawing machinery now was so sophisticated that JSC no longer designed or produced its own machines. In fact, by the 1980s JSC often purchased used equipment.

Although several new JSC product innovations had appeared every few years, these were highly irregular and not significant. To control costs, the research and development (R&D) lab staff had not increased in size or funding for many years. JSC had much of its original equipment (some over 50 years old), which was in good working order. However, equipment and building maintenance costs continued to rise.

The sales salaries were low, with 6% commissions paid on all sales generated. To cut costs, sales staff travel was considerably reduced.

In conversation with John Green, JSC's operations manager, Joe Thomas was overheard to say, "I can't understand why our profits are now at zero. Sales are up again. Scrap rates are reasonable (5%), even our raw material costs per ton shipped are lower. John, if we can just lower our labor cost and maintenance costs per shipped ton and spread out fixed overhead costs over more tonnage, I am sure we can pull ourselves out of this."

Question

1. What does an analysis of external threats, opportunities, and internal strengths and weaknesses suggest?
2. What tools and techniques would help you in your analysis of JSC or in explaining your recommendations to top management?