### Case: Business Strategy Analysis (BSA)—4 Cases

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<th>Case</th>
<th>Key Issues</th>
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| Intel vs. AMD | • Prior to 1996, AMD was a clone/imitator. It shifted strategy in 1996 towards product differentiation. It increased its R&D spending dramatically. It is forming alliances to form a virtual gorilla to compete with Intel. AMD’s 1995 acquisition of NexGen helped it produce Athlon and leapfrog Intel in chip performance.  
• Intel has differentiated product (performance wise and brand differentiation—Intel Inside). It also has advantage of lower cost.  
• AMD does not have many strengths, except it is “not Intel.” Weaknesses include higher COGS, larger SG&A in %.
• AMD is different from David successfully attacking Goliath; AMD chooses to fight Intel using the same kind of weapons that Intel uses, but possesses in greater strength. That is a wrong fight to fight. |
| BPS (Barco Projection Systems) vs. Sony | • BPS was a leader in data and graphics projector systems segments. First in graphics (55%) and second in data (23%). Heavy R&D focus: 8-10% of annual sales.  
• Sony projection systems—global leader in video (50% share) and data (49% share). Prior to 1989, Sony’s top projector scanned at only 35KHz vs. Barco’s 45KHz. Sony 1270, unveiled in 1989, was a “super data” projector; beats BG400 in performance and was rumored to be priced 20—40% below Barco.  
• Barco should refocus its strength by developing a higher scan rate (90KHz) projector and aim to move ahead of Sony in product development. Barco held market share but at lesser margins. |
| Wal*Mart | • Wal-Mart’s philosophy is to stock consumer staples, name brand, undifferentiated products which consumers want year-in year-out. This means that Wal-Mart can easily switch between suppliers of same class of products and since it buys in large volume, it can dictate terms to its suppliers.  
• Wal-Mart exercises customer power: sells undifferentiated products, few retail buyers—hence clout, product performance is not premium for end-buyers, switching costs are low. |
| Dell Online | • Dell’s sources of advantage are (a) Superior Inputs (b) Superior Technology (c) Superior Operations (d) Superior offering and (e) Superior access.  
• Dell communicates its PC-demand forecasts to its component suppliers thereby ensuring latest parts supply just-in-time. Low inventory -> efficient supply chain.  
• Dell’s use of technology to share its demand forecasts with suppliers and sales people is quite exemplary. Dell uses Internet to let users design their own PCs to order. Mass-personalization like no one else uses.  
• Superior operations are due to effective use of technology. Direct selling means |
Dell has low A/R, while favorable supplier relationships means Dell has long payment cycles (high A/P). This leads to higher operating cash for Dell: collect early, pay late.
- Dell’s superior offering is the made-to-order PC. Dell’s reputation gives it a good surrogate for superior access to customers.

**Course: Corporate Strategy Analysis (CSA) – 5 cases**

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<th>3M: Profile of an Innovating Company</th>
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<td>- In 1991, 3M’s CEO, “Desi” DeSimone wondered whether 3M had grown too big and how to sustain its innovation and growth.</td>
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<td>- 3M started in 1902. 3M’s success rested on continuous research, experimentation, and product differentiation—the last one being the key to its commercial success.</td>
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<td>- Early on McKnight believed in the value of “individual entrepreneurship” and sought to create an organizational atmosphere that created “a climate that stimulates ordinary people to produce extraordinary performances.”</td>
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<td>- Keys to 3M’s success are: (1) Technological Innovation (2) Market Responsiveness and (3) Institutionalized Entrepreneurship.</td>
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<td>- 3M leveraged external demand and internal capabilities to create new opportunities for itself. Internally, employees were encouraged to look for new applications of existing technologies. Coating process tech → heat sensitive paper → duplicating technologies.</td>
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<td>- A key to 3M’s success was the philosophy that, “while products belonged to businesses, technology belonged to the company (as a whole).” This meant that knowledge sharing was a central theme among 3M employees. Technology councils, fairs facilitated this transfer. Also a ‘tripod’ linkage of Sales ← Manufacturing ←→ Research ensured good cross-unit cooperation.</td>
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<td>- Continuous market-oriented technologically based development was 3M’s lifeblood and was institutionalized by the objective that 25% of 3M sales should come from products introduced into the market within the most recent 5-years.</td>
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<td>- Management was supportive of innovations that did not seem to have immediate market potential. Also, management was tolerant of mistakes; they were not destructively critical, which would’ve killed initiative.</td>
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<td>- But as 3M began to grow big, the communication became difficult and market responsiveness began to slow down. So, the organization was re-structured to be more focused and disciplined rather than the previous way, unstructured (“What rabbit can you pull out of the hat? Management asked researchers earlier).</td>
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<td>- 3M constituted “Action teams” comprising of production, marketing, and technology specialists and charged them with bringing new products faster to the market. (Similar to Business Teams at Rubbermaid—TINPD case). Individual entrepreneurship gave way to team based entrepreneurship at 3M.</td>
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<th>Newell Company: Corporate Strategy</th>
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<td>- Newell had just acquired Calphalon (broadened Newell’s cookware line and add premium products to that line) and Rubbermaid (expanded Newell’s base into plastic products) in 1998. In light of increasing market power of Newell’s primary customers, the volume retailers, Newell wanted to develop or buy stronger brands such as Calphalon and Rubbermaid.</td>
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<td>- Newell started out in 1902. By mid 1960s it had a $10M revenue. Ferguson, a Stanford MBA, wrote out its strategy as to “focus on the market for hardware and do-it-yourself (DIY) products to volume merchandisers.”</td>
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<td>- Newell followed a 2 pronged strategy of aggressive acquisition: (1) It acquired 20 businesses in 30 years. It basically acquired companies that manufactured low technology, non seasonal, non cyclical, non fashionable products that volume merchandisers would keep on the shelf year-in and year-out. The firms were under performing due to high costs and had operating margins of less than 10%. (2) After acquisition the companies were put through a process of streamlining, focusing on operational efficiency and profitability—“Newellization.”</td>
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<td>- By 1997, Newell’s revenues were $3.23B! In the 10 years prior to 1997, it had returned 31% to investors as opposed to 18% by the S&amp;P500 average.</td>
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| - Newellization involved a quick streamlining of the newly acquired firm on 3 lines:
(a) Integrated financial system, (b) a sales and order processing system, and (c) a flexible manufacturing system. Typically, within 6 months, the new firm was streamlined.

- Newell kept up its efficiencies as the merchandisers demanded more efficiency. Wal*Mart started using a system called “cross-docking” wherein it wanted to eliminate inventory except at the store level. Suppliers were required to ship directly to the company’s central warehouse where an automated system distributed the delivery directly from the loading dock to trucks going to individual stores. This system required an on time delivery of the correct order. Newell’s efficiency kept up with Wal*Mart’s and almost touched 100%!!
- Calphalon was a premium cookware producer. Its SG&A was 25% of sales. It used a pull strategy. In this light, Newell’s other product and corporate structure did not match Calphalon’s. Newell wanted to keep the Calphalon product line separate in the department and specialty stores and use them to build Newell’s presence in these channels. (Not sure if this strategy would work though, because Newell’s products till now were not meant for specialty stores).
- Rubbermaid was built up as an innovator of new products. It however had operational and management problems. Customers complained that Rubbermaid could not provide the service level they requested. Customers said Rubbermaid was a lousy shipper. Although the acquisition fit with the spirit of Newellization, WSJ wondered if this target was too big to be Newellized.

### RPG (Ram P Goenka Enterprises)

- In 1995, RPG was the 4th largest business group (BG) in India, after Tata, Birla and Reliance groups. Sales were Rs.46.5B and net profits were Rs 2B. RPG had interests in tires, power generation and transmission, agribusiness, communication, financial services, retail, chemical, etc. The group basically grew through opportunistic acquisitions rather than an overarching strategy. Flag ship firm in the group was Ceat tyres.
- In light of the 1991 liberalization policies of the Indian govt., the Goenka brothers undertook a restructuring. They were moving away from a acquisition based model of corporate strategy toward a model ostensibly espoused by GE, that emphasized longer term management of a portfolio of businesses. RPG only wanted to remain in businesses where it could build a dominant market position.
- RPG organized itself along 6 core sectors, after the restructuring: tires, power generation and transmission, communications, agribusiness, financial services, and retail. RPG was already a leader in the first 3 businesses. A new business head was placed as a head in charge of each of the core sectors, who assumed responsibility for the sector’s strategic plan and performance. A business review board met frequently to challenge and support the business head. This was a move towards a formal structure over an intuitive style of management.

### Analysis

Why do business groups come into existence? In the absence of well-developed capital markets, BGs fill the void. It is also an inevitable effect of diversification. Often they exist in countries with a lot of regulations, which raises transaction costs (TCs). BGs internalize the market mechanism in order to reduce the TCs.

- A VC market does not exist in places like India because of severe informational asymmetries. So if anyone has an idea and want capital for it, they go to the BGs because they are the only source of capital. BGs give the capital, but basically you become their “employee.”
- Accounting method is ‘cash accounting’, not ‘accrual’. So at the end of each day people know if they are cash positive or negative.
- As markets were liberalized in 1991, privatization began. So the voids the BGs were filling earlier could disappear now. There could be lot of competition in labor markets, in product markets, in capital markets, and for govt. attention.

### GE’s two decade transformation: Jack Welch’s

- GE was founded in 1878 by Thomas Edison. It engaged in diverse businesses such as power generation, household appliances, lighting, broadcasting, aircraft engines, financial services, and medical systems.
In the 1930s it was highly centralized, and tightly controlled. By 1950s, GE had delegated responsibility to hundreds of department managers leading a trend towards greater decentralization. In 1970s, Reg Jones, instituted strategic planning into GE’s blood. He was voted the best CEO of the decade and was voted CEO of the year 3 times during 1970s. In 1981, Jones handed the reins of GE to Welch.

Welch challenged everyone to be “better than the best”: #1 or #2: Fix it, Sell it, or Close it. 3-circle concept: Businesses were either Core (priority of reinvesting in productivity and quality), High-tech (challenged to stay on the leading edge), or Services (required to add outstanding people and make contiguous acquisitions).

Welch made GE “lean and agile” in the mid-1980s. Huge layoffs resulted, earning him the title “neutron Jack.” He did away with laborious strategic planning and introduced real-time planning. Each business’s playbook provided simple 1-page answers to five questions concerning (a) Current market dynamics (b) The competitors’ key recent activities (c) The GE business response (d) The greatest competitive threat over the next 3 years and (e) The GE business’s planned response.

Results were evaluated externally—do they show increase in market share? Do margins indicate a competitive advantage? Hierarchies were cut down from 9 levels in businesses to 4. He also introduced the idea of “stretch targets”. (Using dreams to set targets, with no real idea of how to get there!)

By 1988, Welch said the company’s “hardware” was in place – he had set right the anatomy. Now, the “software” had to be set right (the physiology, systems and processes in the firm that is). (1) Work-out: A process designed to get unnecessary bureaucracies out of the system while providing a forum in which employees and their bosses could work out new ways of dealing with each other. Managers had to make instant on the spot decisions about a proposal facing them. This led to great productivity improvements. (2) Best-practices: How can GE learn from other businesses such as Toshiba, HP, Ford, Xerox, etc., that are achieving higher productivity than GE is? Successful companies focused on customer satisfaction and they treated their suppliers as partners. (3) Boundaryless behavior: no distinction between various functionalities (sales, marketing, manufacturing, R&D, etc.) and also no difference between international vs. domestic operations. The idea was to share ideas and leverage the diversity of resources within the whole GE organization. An outcome of this ‘speed’ and ‘learning’ was quick integration of new acquisitions (akin to Newellization).

During Welch’s time GE also instituted the 6-sigma program, borrowed from Motorola.

The final step in Welch’s strategy for the company was to fix the brain, or the psychology. Employees and people had to be motivated and opportunities should be made available for them to grow. The strategic assets going forward are the intangible assets→employees’ expertise, knowledge in their brains.

### Daimler Chrysler Merger

In January 1998, Jurgen Schrempp, Daimler’s CEO approached Robert Eaton of Chrysler with a proposal to merge. He said, “both companies are leaders in their respective markets. Both have dedicated work forces and successful products but in different markets and different parts of the world. A perfect complementary set of capabilities to merge!”

Chrysler focused heavily on trucks for its sales. Trucks accounted for 2/3rds of its sales. Hits included Jeep Cherokee, Wrangler. Chrysler was known for its short concept to market cycle for new products, low development costs, efficient plants, and creative styling.

Daimler, during 1980s, was unfocussed and inefficient, leading to a DM5.7B loss in 1995. It did return to profitability by 1997 though. Schrempp focused on shareholder value, something foreign to Germany typically.

Auto industry, much like the telecom and airline industry was facing lot of pressures to consolidate and have “global car companies.” It seemed like global scale was needed to clamp down on costs and raise efficient scale of production.
Industry in general was plagued with over capacity.

- By merging Daimler and Chrysler hoped to gain economies of scale in R&D, internal services (shared costs), parts (common suppliers), and a better understanding of each other’s markets. But both do not seem great at inbound and outbound logistics, so it is not clear if they can handle them better together. But, the merger could be a “pre-emptive” attempt to thwart competition.
- Few mergers are easily justifiable. Daimler and Chrysler are quite large by themselves and so they might already be tapping out most of the economies of scale. Merger would not improve the case. Further more for a successful merger, the operational integration should be swift.

### Course: Managing Growing Companies—7 Cases

#### Xerox PARC: How Xerox Blew It.

(Analysis paper done by me—no team)

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<th>STORY</th>
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<td>Xerox introduces its 914 automatic paper copier machine in 1959. It is an instant success. Xerox’s revenues grew from $40M in 1960 to $550M in 1965 and reached $1.2B by 1968— the fastest record for an American company to hit $1B sales.</td>
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<td>Xerox realized in late-60s of the impending digital and computer revolution. Its then CEO, McCollough, thought that acquiring a company is the best way to jump into the computing market. Xerox acquired SDS (Scientific Data Systems), a scientific computer maker. McCollough’s idea was to transfer SDS’s R&amp;D skills to the high volume data processing market and compete with IBM. But he overpaid for SDS (90x earnings) and also overestimated the transferability of R&amp;D skills. McCollough defended his purchase with Wall Street saying that Xerox was going to “build the office of the future” by controlling the “architecture of information.”</td>
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<td>McCollough saw that Xerox needed a fundamental research laboratory that would build technologies to equip this office of the future. Thus PARC was born in 1970. PARC hired top class people from the start. Bob Taylor (ARPANET creator), Alan Kay (portable personal computer visionary), etc. A corporate liaison with Parc, Pendery, asked PARC scientists to come up with a vision document that would outline their work for the next 10 years. The scientists basically came up with the blueprint for the computer as a communications device. Out of this vision document came 4 concrete technologies to accomplish the vision: a PC, a network (Ethernet) to link up the PCs, a printer that could print anything, and a killer app (GUI text editor). By mid-70s, PARC had created the modern PC essentially.</td>
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<td>Xerox’s copier monopoly dwindled in the 70s and it weakened. In 1980s, many PARCers left Xerox for upstarts such as Apple and Microsoft and built GUIs, Lisa, Macintosh, etc. for them.</td>
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#### ANALYSIS (VIE framework)

- Core Values: a guiding principle at PARC was a commitment to basic research. |
- PARC’s purpose was to always push the frontiers of science & technology. |
- Pendery’s vision papers of 1972 basically created a big, hairy, audacious goal (BHAG) for PARC—a clear mission like Kennedy’s moon challenge. However, the mismatch occurred because Xerox did not have a parallel mission to prepare the organizational strategy to deal with PARC’s mission accomplishing innovations. |
- Internal Assessment: PARC’s strength were its incredibly innovative people. Xerox’s strength was its brand, financial might due to copier monopoly. PARC’s weakness was its ‘elitist’ attitude. Xerox’s weakness was that it only thought in copier terms. Structure wise, Xerox was organized to sell copiers, not computers. So this was Xerox’s myopia in not creating appropriate conduits for tech. transfer. |
- External Assessment: PARC’s elitist attitude let it to miss some key innovations like ‘computer on a chip’ (Apple’s model). It was blinded by its own success. |
- Product / Market Strategy: Xerox fell in love with the “Star” system. It was a PC + network + printer, which costed a hell of a lot. Companies balked at the price and... |
the latent demand that Xerox assumed did not materialize. Xerox’s famed marketing power fell to the common pitfall: they fell in love so much with the product and the technology that they forgot the key element of a marketing strategy: the consumer, his/her wants, needs and usage patterns.

**Organizational Design:** Xerox created “SDD: Systems Development Division” to commercialize “Star”. But SDD changed chiefs so often that it never had a coherent mission and organization.

**Key factors in Xerox’s failure:**
- The primary factor that contributed most significantly to the failure of Xerox Corporation not reaping the fruits of PARC substantially is the misalignment in visions for the parent corporation and the research center. While PARC had the ‘future office’ vision clearly in its mind, Xerox did not envision its’ name on the products PARC’s innovations could spawn.
- SDD was kicked around constantly, its leadership rotated constantly in SDD’s infancy, its mission was not focused, there were no cost controls on the system SDD was building. Finally I wonder whether Liddle had the expertise to bring innovations to the market.
- Xerox got too caught up in love with the product and forgot the customer—a marketing failure.
- PARC scientists’ blind attitude towards lesser systems in the market—Apple & IBM.
- Key PARCers left to start or aid companies, which competed with Xerox (Apple, Microsoft, 3Com).

**Yellowtail Marine** (real name: Boston Whaler, Inc.)

- Robyn steps in to manage Yellowtail when its long time founder dies suddenly. There are several problems facing Yellowtail then: Environmental situation, low cash, accurate and current financials not available.
- Robyn should not let the “in-box” manage her time. Decide what is urgent (pressing, calling for immediate attention) vs Important (significant, carrying or possessing weight). Don’t pay too much attention to urgent things and forget important ones.
- Robyn has to get the latest financials before she can make strategic decisions.
- Robyn should engage in “clock building”—talk to employees about vision first.

**Granite Rock**

- Granite Rock sells ‘rock’ in the San Francisco bay area. But the unique thing about this company is that it is able to charge a “6% premium” on such a commodity product as rock!
- Product innovation and industry attractiveness needs not be corner stones for a great company, but a vision driven, customer-centric workforce can be foundation for a great company. Idea is not as important as execution is.
- Specific ways in which Granite Rock “preserves its core values”: (a) Give decision-making power to employees—empowerment. (b) Performance evaluation has been scrapped in favor of Individual Professional Development Program (IPDP)—IPDP allows managers to be coaches rather than cops. (c) Granite Rock university trains employees and helps them develop their skills, which are tracked through IPDP. (d) Customer satisfaction is paramount at Granite Rock. Employees are empowered to let customers “short pay” on the spot if they find the product unsatisfactory. (e) Granite Rock has systematized customer comments/complaints and goes to great lengths to fix customer complaints so that they don’t recur.
- Differences between Granite Rock and a large company: Management was very involved in developing the processes and culture and they used to do MBWA: management by walking around. The employee empowerment ensured speed of decision making at Granite rock. Communication was very open b/w workers and management—an open door policy by top management.

**L. L. Bean**

- L.L. Bean started when Mr. Bean himself felt a need for a hunting shoe, which then became a big hit with customers as well. Great quality products that exactly fit customer needs are the hallmark of L.L.Bean. Mr. Bean himself tested out each
product to see if it met the Bean quality standards—till 1964 at least. Bean started the 24x7x365 model well before the Internet or even Toll-free numbers. Initially any product that Mr. Bean himself felt a need for, on his hunting and fishing trips became a Bean product.

- Mr. Bean was a good innovator and an entrepreneur who knew what his customers wanted, but he was not a visionary. He could not institutionalize his knowledge in the company processes. He did not ‘clock build,’ he got stuck in ‘time telling’.
- Mr. Bean was very good to his employees. Tom Peters, the management guru, says that being good to your employees might be even more important than being good to your customers.

### Joan Fabrics

- Joan is in the fabrics upholstery business; it is a family owned business. Joan’s success drivers have been reputation for quality, superior customer service, and good designs. Issues being faced by Joan are which areas should Joan focus on?
- Should Joan aim to become the #1 player in the upholstery fabrics industry? No, that would mean that they have to cater to the discount warehouse style of fabrics, which require large production runs with little variation in designs. Joan’s strength is not in large-scale production, so that’s not something Joan should get into.
- Joan should aim to be the #1 in niche areas like furniture upholstery, apparel and commercial carpets, where superior fabric design is a requirement.
- Joan should exit from the ‘industrial fabrics’ segment—although Joan has captured a significant share of the market, the entire segment itself is not large and does not offer too much more scope for growth.

### Lost Arrow Corporation / Patagonia

- Lost Arrow started with a unique product that addressed an unmet customer need: light but strong pitons, to be used in rock climbing. The products that Lost Arrow offered initially reflected the need of its founder, Yvon Chouinard, who was an avid rock climber himself. The company made unique products of high quality and innovated continuously to stay ahead of competition. Lost Arrow’s motto was to get out of a product line if someone else started imitating them—they were so R&D and innovation focused.
- Lost Arrow had a ‘family’ type of work atmosphere. Its offices had large open-air spaces, to foster collegiality and communication—shows the importance of physical setting in work place cultures.
- Lost Arrow was one of the first to have a ‘day care’ center in house—this shows how much it cared for its employees. People were Lost Arrow’s #1 asset and the top management showed that they meant it. This fostered employee loyalty.
- Lost Arrow had another vision (apart from employees as #1 asset)—10% of its pre-tax profits went to environmental groups / funds, etc. The employees felt the same way too. This created a common, pro-environment culture in the organization.
- Patagonia’s weakness was that it did not do much of focused market research and marketing for its products. Its employees often assessed their needs and developed product ideas. This is a tunnel vision approach to new product development.
- Patagonia’s initial products were sought after by outdoor enthusiasts, but later the mass market wanted them, more for fashion. Patagonia disdained such ‘fashion’ customers. This neglect of a huge customer base was a marked weakness.
- Patagonia fashioned small organizational entities called “Pods,” which combined multiple functions into one small ‘autonomous’ team. These pods proved to be a great success in bringing customer-focused products quickly to the market.

### Jamison & Leary Advertising

- J&L is an advertising agency focused on serving black markets. They have a lot of expertise on the black consumer, which would be of great use to companies trying to target the black consumers.
- What criteria should J&L apply in choosing partners: The key is “same vision.” If my partners do not share the same vision, the company cannot have a unified purpose. The moral fiber of the partner should also match mine, else there would
be frequent conflicts.

**Course: Multinational Business Management (MBM)—8 Cases**

| “Globalization Challenges for Infosys”—Indian IT Industry analysis and strategic recommendations for Infosys. | In this paper, we have analyzed the tremendous growth of the Indian Information Technology (IT) industry, and that of software exports in particular, during the 1990s. We have also looked at the strategic challenges being faced by one company in particular, the flagship of Indian IT industry, Infosys Technologies. The Indian IT software and services exports grew from $131M in 1990-1991 to $7.68B in 2001-2002. Our analysis of the industry using Porter’s diamond model of national advantage reveals that the following factors played a key role in enabling this IT boom: (1) India’s highly skilled English-educated work force (2) Government’s positive role by relaxing import/export laws, tariffs and taxes on exports and govt. sponsored institutes (STPs) to promote software exports as part of a national vision (3) Domestic rivalry between upcoming IT shops (competition between Satyam, Wipro, TCS, Infosys, etc. for better quality, bragging rights, etc.) and (4) Drive towards software and organizational process quality. Infosys started in 1981. It listed itself on Nasdaq in 1999, raising $70M. It achieved CMM L5 certification by 1999. In 1999 its revenues were $100M. By 2001, they were $400M; 2002 Revenues were $0.5B! 2002 Net Income was $164M. Infosys’ strategic challenges currently include (1) Shedding the ‘good stuff for cheap’ image and migrating up the value chain towards higher margin end-to-end IT services (2) Staving off challenges from lower-cost countries such as China, Philippines, etc. (3) Diversifying output destinations to beyond US and diversifying industry focus (4) Choosing a strategic direction for the firm towards Software products or Business/Strategy consulting coupled with technology consulting. We recommend Infosys to take up three strategic thrusts: (1) Shift low-end IT services work from India to lower cost countries by establishing fully owned subsidiaries in China, Philippines, etc. (2) Simultaneously shift focus in India operations towards ‘end-to-end’ IT services. (3) Move to build software products by first learning the rules of the product game by playing in the US via partnering with another product firm. We suggest banking/financial services software as the first choice for products. (Prof. Added that “healthcare IT” is a great opportunity). |
| Philips and Matsushita | Philips started off primarily in the typical ‘international’ company mode with overseas subsidiaries being guided by home market strategies. It quickly transformed into a ‘multi-national’ company (forced by WWII), where by its national subsidiaries were free to modify product, marketing, and management strategies according to local demands. The pressures of globalization are forcing Philips towards a ‘global’ mentality: (a) focusing on core competencies—display, connectivity, and storage—and divesting unwanted businesses (b) Uniform branding worldwide (c) Maintaining local flexibility and innovation, while leveraging efficiencies of global learning and production (trans-national aspect). Matsushita’s history is a demonstration of the ‘product life cycle’ theory: it innovates in Japan (home), centralizes production, then starts exports, and finally activates a resource seeking motive, as Yen appreciates, to move production to low-cost countries (host country pressures also are a driver for this). Matsushita is trying to introduce flexibility into the national organizations, which are quite dependent on Matsushita for guidance—due to the centralized organization since the beginning. Matsushita is coming from a ‘one-product-one-way all-over-the-world’ attitude towards a nationally flexible + globally efficient organization. Matsushita has inculcated a ‘global product strategy’ habit into its PDs since early-1980s, just as globalization was becoming a force to reckon with. This should give it a head start over its competitors in executing global strategies. Global politico-economic environment and competitive environment drive multi-national company strategies. Both Philips & Matsushita have responded to forces such as World War II, Globalization of standard technology products, Yen... |
For the proper execution of a company’s strategy, an appropriate organizational structure is required—both are intricately linked. Strategy and type of industry (global or local) should dictate organizational structure, not the other way around.

A firm’s core competencies can become its core rigidities in a changed environment.

Focus on core competencies is key to define a crisp, unified global strategy/vision.

Transformation of organizational culture, habits, linkages, takes a long time.

**Jollibee Foods**

- Jollibee is a successful Philippines based fast food joint specializing in ‘spicy burgers’ in its home market. Key success factors: (a) Knowledge of local tastes (b) Capitalized on anti-foreign (McDonalds) sentiment (c) Tied up key locations.

- Is Jollibee in a global business? Yes—burgers are a global taste now and since it was serving burgers, it was in a global business. But, tastes were local as well as McDonalds found out—its burgers were bland and western, while Jollibee’s were spicy, sweet and large—catering to Filipinos’ taste buds.

- Lessons from their international ops? (Hong Kong, Middle east, Singapore, etc.). A key lesson was that tight control was very important. There were high pioneering costs—first mover disadvantages. Local adaptation leads to operational problems if HQ does not know how to do it. Also lack of a dominating global brand means that Jollibee could not attract the best franchisees, while McD’s could.

- What should Jollibee do w.r.t expansion into Papua New Guinea, Hong Kong, and the US? In PNG, Jollibee could have a monopoly, but the market size itself is small. It could be costly to establish stores there. The country is poor and it might not have much disposable income. Volume of sales could be low. These factors implied that JFC should not venture into PNG.

- Hong Kong: Long-term benefits are a foothold into Mainland China. Tastes were a bit local though—tea needs to be served. Further, till now only expats were coming to JFC stores currently in central Hong Kong. That needs to be expanded to the mainstream population. The competition was going to be severe in Hong Kong: McD’s is dominant. But the strategic importance of the market is such that JFC decided to go ahead with an entry into Hong Kong.

- U.S: The mecca of fast food—should JFC enter McD’s home base? JFC’s strategy was to enter via the expat Filipino ➔ Asian ➔ Hispanics market. Filipinos were most present in California. The rewards of succeeding in the US market are very high. The cost is high as well—a thud here means the whole world will hear it. The marketing costs could be very high as well. JFC decided to go ahead with expanding to the US.

- In the video tape interview with JFC founder, he says that the key issues facing them in the international expansion are not so much of strategy, but mainly the organizational structure and HR related aspects. How to implement the strategy was the key issue they faced. In MNCs organizational/HR issues are key than strategy.

**Gerber Baby Food Products entry into Poland**

- Poland was coming off of a communist regime to become an open capitalist society and Gerber was contemplating entry into the Polish market in 1991. Poland wanted to convert many of its state-owned assets into modern, private firms. It wanted technology, capital, management and marketing skills, foreign currency ($), etc.

- Why should MNCs invest in Poland? Low wages, low input costs, low acquisition costs, growing/emerging market for consumer goods, access to East-European markets (pre-empting others by locking out key resources), first mover advantages.

- Gerber’s CEO’s concerns currently: (a) Repatriation of profits and dividends—there were no restrictions now, but in the future? (b) Taxation—privatization ministry, with whom Gerber was dealing, has no authority on tax codes and preferential status promised to Gerber. (c) Inflation and Currency devaluation—
what if the currency falls dramatically? Receivables and inventories would be severely affected.

- **Pros of investing:** All the reasons why any MNC would want to invest in Poland. The upfront investment cost was low ($11M only). Gerber was taking over a renowned Polish brand—Bobo nectar—which was a good opportunity for market entry.
- **Cons of investing:** the concerns of the CEO, as already listed above.
- **Gerber went ahead with the deal. They put a large part of the $11m investment in an escrow account in London. The funds were to be released as Polish government met the conditions / negotiated terms.**

<table>
<thead>
<tr>
<th>Komatsu: Project G</th>
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<tr>
<td>Komatsu started off as an EME (earth moving equipment) provider to Japan’s reconstruction effort after WWII. With protectionism in place, it enjoyed a monopoly. In 1960s, MITI opened up the EME sector to foreign competition thereby allowing the US giant Caterpillar to set up shop in Japan.</td>
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<td>In response to Cat’s competition, Komatsu improved its quality dramatically first—it won the Deming prize in 1964. It also cut costs and became a ‘low-cost producer’. Further it upgraded its R&amp;D skills via partnerships, licensing of technology. Also Komatsu expanded abroad and cut its prices to 30-40% below Cat’s prices, thereby gaining a foothold in international markets. The diverse product line and full product line started to give Cat a run for its money. The key motivating factor for Komatsu was a “Maru-C” (Kill Cat) slogan devised by management, which unified all the ranks of Komatsu to take on Cat worldwide.</td>
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<td>Komatsu had a centralized manufacturing system. But this core competency became a liability as certain host countries started demanding Komatsu to set up plants locally, to provide local jobs. Further, the appreciation of Yen vs. $ in the 1980s led to Komatsu’s Japan-produced products becoming costly. This change in Forex also caused Komatsu to shift to a de-centralized system.</td>
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<td>Mid 1980s saw Komatsu slump—its sales remained flat between 1982-1989, even though Japanese GDP jumped 43% during the time! Komatsu suffered from a post-survival syndrome—its strategy to Maru-C had been successful and it became focus-less once it achieved the goal of beating Cat. Katada started Project G in ‘90s. First G—globalization (increase sales of construction equipment worldwide). Second G—overseas operations to manufacture over 50% of K’s output. Third G—Groupwide leveraging of existing assets/resources and applying them to new biz. Like electronics, plastics, robotics.</td>
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<td>Globalization brought cultural problems—Japanese were sent to units abroad. The idea was to gradually groom local talent to run home country businesses. Goal was to move from centralized hub → integrated network. Rather than top-down management of 1960s, the idea was to promote creativity, innovation and bottom-up management (people at lower rungs taking initiative).</td>
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<td>Learning points: (1) Changes in a company’s operating environment (Forex changes, industry demand, politics, etc.) can erode a firm’s core competencies. (2) A firm’s core competencies could become its core rigidities in a changed environment. (3) Company’s transformation is a long drawn out and very difficult affair. (4) Strategy and organization are fundamentally inter-dependent.</td>
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<td>The organization you have should come from your strategy, but typically what happens is the organization you have dictates your strategy.</td>
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<th>Xerox &amp; Fuji Xerox</th>
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<td>Fuji Xerox (FX) started in 1962. Originally it was just a sales organization for Xerox, because Japan prohibited a foreign company to sell directly in Japan. But FX slowly developed local market knowledge and started developing innovative products itself. FX implemented a TQC quality program in the 1970s in response to the oil shocks. Program aims were to cut costs, reduce product development times, and aggressively adopt latest technologies.</td>
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| Xerox itself had a bad 70s and 80s. It started to learn from FX seeing its success in Japan. Xerox implemented a quality program itself and won the Baldrige award in 1989. It cut its manufacturing costs by 20% and reduced dev. Time by 60%. FX
contributed up to 22% of Xerox’s earnings by 1989, up from 5% in 1982.

- Key success factors behind FX: (a) Autonomy from Xerox meant FX could be more flexible to market conditions. (b) Product innovation: FX came up with products needed by Japanese market, which Xerox (partner) was not aware of (the market needs, that is). (c) Process innovation: TQC program improved quality dramatically. (d) Learning marketing and product technology skills initially from Xerox. (e) Excellent relations between Xerox and FX staff at various levels. Frequent meetings ensured FX stayed focused. This also ensured open communication.

- Xerox and FX are considering how to organize their partnership as they go forward. Alternatives for **Marketing** are: (1) Independent & Overlapping—two separate companies. No geographic constraints. (2) Independent & Separate—today’s situation. Continue geographic separation. Who gets how much profits? Source of today’s conflict. (3) Separate with exceptions—Joint or overlapping responsibility on a case-by-case basis. (4) Coordinated global product mandates.

- Alternatives for **Research** are: (1) Independent –separate and self-sufficient. (2) Coordinated: Overlap but self-reliant (today’s way). (3) Joint—One research org. (4) Complementary: similar to but no overlap. Makes firms over dependent on each other.


- Learning points: Alliances are dynamic & evolving. They need flexible management. There is an ongoing tension between autonomy and integration. A network of global alliances is an alternative to a unified global organization (Fuji-Xerox + Xerox vs. Canon).

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<tr>
<th>Corning Glass Works International</th>
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<td><strong>Fundamental problem being faced by Corning was organizational:</strong> how to coordinate between and among countries; how to coordinate domestic and international activities? Other problems included duplication of plants, lack of proper technology transfer, resentment of imposition of US system on subsidiaries, and a lack of coordinated global information.</td>
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<td>Corning tried the concept of an “International Business Manager”, who basically coordinated activities between different units and product lines. But this concept failed—implementation was flawed. The key reason was that IB manager did not have power. Country divisions did not trust them.</td>
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<td>Corning next tried to assemble “World Boards” for various product lines. They also failed because they were built from discredited Intl. Business Managers. Further, they were too large and unwieldy. One World Board—the Optical products board—succeeded. Why? Optical was a worldwide business and all people on the board who came from various parts of the board had common concerns and the board was an apt organizational vehicle to let their concerns known and get them addressed. An effective leader led the Optical World Board—he had power to get things done.</td>
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<td>World boards succeeded and were appropriate for businesses that were global in scope. In such cases, the people in those businesses needed to compete on a global scale and needed to coordinate their diverse marketing efforts in order to succeed.</td>
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<td>Should all of Corning’s businesses have World Boards? NO. The Strategy for different industries (Electronics, Consumer, TV bulbs) will be different and so should their STRUCTURES. An industry such as Electronics has global scope and so it should have a global structure. Consumer depends on local tastes, etc., and so organizations should be locally adaptive. Global might not make sense here.</td>
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<td>How many should be in a World Board? Use a “Necessary and Sufficient” rule: Is every individual necessary on the board to accomplish what is needed? Together, are the members sufficient for the agenda that you have in mind. Professor suggests between 8 – 12 members for things like a World Board. You need</td>
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</table>
McKinsey started out as an Accounting and Engineering advisory services firm. It began to focus on issues faced by top management, and attracted top quality talent. It was dedicated to serving the client superbly. From the beginning its culture encouraged learning and knowledge sharing across the firm. It was one of the first to move into this area called “management consulting.”

In 1960s and 1970s, McKinsey experienced a slow down, due to rapid growth, routine work, and a lack of functional and industrial expertise among consultants. McKinsey then slowed down its growth. It changed its mission to emphasize development of the consultant. It created industry based clientele sectors. It developed a “T-shaped” consultant model: generalists with a strong (deep) functional expertise. It also started a McKinsey staff paper series to encourage consultants to share their industry expertise in the firm and to gain prestige.

Fred Gluck’s Knowledge management initiatives: Form 15 centers of competence. Experts in industry/functional areas are named as practice leaders. These people issue practice bulletins (2 pg. Summaries of key ideas). These centers are evaluated based on client impact they create. A network is developed for Practice Development experts—captures core knowledge in practice areas. Also a knowledge resource directory is developed that lists people that are experts in an area. An alternate career path is established for experts/specialists so that they could become partners as well (not just the generalists).

Gluck realized that if knowledge resided in individuals, if they walk out of the door, the firm loses the expertise. He tried to institutionalize the knowledge in the firm. Knowledge Aristocracy → Knowledge Democracy.

**Course: Entrepreneurship (9 Cases)**

- **“Kids Care—A Pediatric Emergency Medicine Practice Management Company” Business plan for Startup built by me, with a team.**
  - The opportunity assessment that follows is a natural outgrowth of two simple but critical observations about health care. First and foremost, not enough attention is paid to differentiating the type of care provided to children, resulting in much lower quality than is possible. This deficiency is particularly apparent at one of the key gateways to the entire health care system, the delivery of emergency services. Second, there is a tremendous amount of inefficiency in how health care is delivered, especially in hospital settings. In our minds, this situation not only presents a significant opportunity; it demands action, and we are in a position to begin to address and remedy these shortcomings.
  - KidsCare, Inc. is to be established in order to assist hospitals in developing and administering pediatric emergency services, with higher quality, higher revenues, and lower costs than the hospitals can accomplish themselves, and to provide related pediatric services elsewhere in the facilities. In so doing, KidsCares’ goal is to become the company of choice for Pediatric Emergency Departments (PEDs) nationwide, from the perspective of hospitals, patients, and pediatric emergency physicians.
  - Trends in healthcare we are leveraging: (1) Cost containment by hospitals. (2) Outsourcing of non-core competency services to other parties. (3) Organization of physicians into Practice Management Companies (PPMCS).
  - Market size is huge: 100M patients in all. 1/3rd are children ~ 35M. Growth rate has been 5% per year. $9B market a year.

- **Vindigo**
  - Joerg and Devitt researched on users’ online information seeking habits and found that people seek entertainment related pages the most (on Yahoo). They also saw the rise of wireless devices and decided that providing information on entertainment options would be a good application for the wireless device market. They did not believe that stock quotes, financial info were the killer apps.
  - Sources of opportunity: Industry and market change towards mobile/wireless devices from PCs. Trusted sources for content online were sought by users. Vindigo sought to become such a trusted source. Unexpected occurrences can aid business sometimes—US military opening up GPS data to civilian public is one such development that aided Vindigo. Perception changes, such as “lifestyle”
change—people on the move in cities needed info then and there—aided Vindigo’s development.

- Would Vindigo be profitable? Reliance on advertising alone is a bit shaky in the business model. Paying customers get ‘richer’ data currently. But the question is will people pay for the info they are used to getting for free on MSN Local and AOL? What is the guarantee that MSN itself will not offer a similar service for PocketPC (both being MSFT supported) handhelds?
- Will Vindigo be around next year? Why or why not? They have a huge installed base—1/2 million users. Vindigo is spreading its technology to other handheld platforms (besides Palm) so that it gains enough critical mass. Vindigo could become a data repository of valuable mobile user habits and it could sell that as a service. Even though Vindigo has ½ million users, switching costs for non-paying customers are very low. So Vindigo might not have a sustainable advantage.
- Reasons for not being around—other players such as Mapquest enter the game (they have brand equity in providing maps already).

| Xando          | Xando is a café that aims to create an experience of the neighborhood ‘hang out’ place. It transforms itself through the day, catering to breakfast, lunch, afternoon-chill-out, evening dinner, and as night bar. It has 22 stores in 6 states. It is profitable. It was started by an NYU/Stern alum. It has been successful in creating a ‘community’ feel to its stores, whereas Starbucks could not. It, however, is suffering in the lunch and dinner times, when it does not have a signature product to beat its competitors.
|               | Growth estimates for Xando (from 3 people in class—3 approaches):
|               |  o Grow from 22 stores to 2498 (same as Starbucks). Revenues: $500 / sq. ft x 2498 stores x 2400 sq. ft / store = $2997.6 Million. Similarly for COGs and Op. Expenses; Operating income ~ $1B.
|               |  o It can serve 5% of baby boomer market (80 mil) = 4 mil.
|               |  o Take historical growth rates and project into future.
|               | The point in this case is that list out your critical assumptions in estimating market sizes, sales growth, expenses growth, etc. As time passes and more information is gathered, keep checking with the assumptions to see if they can be refined to yield a better estimate on market size. Plan your milestones around testing the assumptions.

| Napster       | What need is Napster filling in the market? Cheap (free), convenient, distribution medium for music. Efficient distribution mechanism from an artist point of view—artist gets better share of royalties; new comers could find equal footing as established artists; High quality, digital reproduction of popular music titles; Music from all over the world (variety); Community experience for fans—ability to meet like minded people via Napster.
|               | IP—protect your ideas via patents. This is a ‘block’ strategy.
|               | Is Napster crossing the IP line?

| Esperya.com   | Esperya USA is a subsidiary of Esperya in Italy, which sells gourmet Italian food. The owner Antonio Tombolini has special arrangements with many pesants in Italy to supply him distinct wines, cheese, olive oil, pastas, etc. Esperya Italy was founded in 1998; Esperya USA was founded in 2000. Esperya USA wants to exploit the Internet and be a B2C site selling gourmet food via the web.
|               | The gourmet food commands hefty margins and are considerably pricier than the mass market alternatives. One of the problems Esperya faces is scalability in supply. Small Italian farmers cannot scale their supply well enough to meet demand escalation. There are also operational problems—inventory management and stocking.
|               | Total US gourmet food sales are projected to be $54B by 2002. It is a very fragmented industry.
|               | Esperya might not have any competitive advantage except for its cozy relationship with the small farmers in Italy. The value chain is structured so that the parent company in Italy applies a markup to the products, and then ‘sells’ it to the sub in
| MBA Case Database © 2002. Kaushal Kurapati. NYU/Stern | the US, which again applies a markup and sells it to the consumer, thereby jacking up the price quite a bit.  
- What must Esperya do online to beat the competition? It is doing all it can at the moment. Its web site is easy to use and so is online ordering. It can start a ‘personalized’ service on the lines of amazon.com.  
- Offline strategy? Industry statistics show that 60% of gourmet food sales happen via supermarkets. May be Esperya should survey its top market (NY-NJ-CT area) to figure out which chains carry which gourmet food and then place some of its products in these chains. With an added layer of supermarkets, the margins could go down. Also Esperya should weigh whether it can match the scale that supermarkets might require.  
  
| TiVo |  
| TiVo’s service might be valuable, but can they make money out of it?  
- TiVo has moderate pricing power—TiVo users have it and they love it. But are new users deterred?  
- Does TiVo have any unique capabilities? Well, it hires people with regular skills (programming, databases, embedded s/w, digital video manipulation). So it does not have any unique competencies. Its capabilities seem generic. This points to a low imitability.  
- I might disagree with Tucci’s point that TiVo does not have any unique capabilities. It has the knowledge of how customers use PVRs. No other company has that customer habit knowledge. It can use this knowledge to better design its PVR and add new innovative features to the PVR (continuous innovation).  
- Is TiVo’s strategy of market penetration through alliance building the most appropriate model? Or is it partnering too much? I think it is a good strategy to partner. TiVo is a service company, and so it is beneficial for TiVo if its service is available via multiple distribution channels. The more its technology is spread out, the more barriers to entry it creates. The entrant would have to disrupt more of a value network then and that might be more difficult.  
- Will TiVo be able to sustain profits from its own innovation?  
  
| Pixar |  
| Pixar’s strengths are in 3D computer graphics, animation, realistic scene rendering, etc. It is a very innovative firm. Its skills are hard to imitate and so it has a significant competitive advantage. If Pixar is so advantaged why is it worried about cash flow and making films?  
- Building great 3D graphics is one thing and making a successful film is another. Distribution and marketing of a film play a great role in driving its success. Pixar does not have those skills and also does not have the brand name in film-making. Disney is an expert at that. Also Disney has a lot of cash to fund Pixar’s R&D and do the film marketing for them.  
- Pixar’s case is an example of what ‘complementary assets’ a firm needs to make its products successful, besides the core technology and the product itself. Imitability was low for Pixar; but the complementary assets were also tightly held (by 1 firm—Disney) and were important (Distribution, Marketing). So the outcome was a ‘bargaining outcome’—50-50 split in revenues b/w the two parties. This comes from the Complementary Assets (CA) Framework (CAF).  
- Another lesson here is that all entrants (Pixar entering the film business) try to leverage CA strength of some large incumbent in order to enter the market.  
- Also entrants form alliances with big companies to keep the big companies from developing those same competencies, which the entrant has, themselves (Judo strategy of ‘gripping the opponent’—forestalling opponent from capability dev.).  
  
| Vinod Khosla & Sun Microsystems |  
| Sun’s strategy was to build a computer (work station) with standard off-the-shelf components. Apollo, a major CAD/CAM workstation manufacturer at the time, was building proprietary workstations. Sun’s first customers were universities and OEMs. Universities wanted the product because it was based on “standard” components—Unix, Ethernet, etc. Univs could reconfigure these things as they desired. Also Sun’s workstations were much cheaper—1/2 or 1/3rd the price of Apollo. Market share penetration was a key goal for Sun. |
**Real Networks**  
- How was MSFT able to gain valuable market share with Windows Media Player (WMP) even though Real was an entrenched player? One word: Bundling! WMP was bundled with the Windows OS (client side). On the server side, WMP software was bundled into Win 2000 server OS thereby penetrating that market as well. Also MSFT opened up its SDK to the software development community so that it became the de facto standard for streaming media software development. MSFT achieved higher audio quality in the smaller bandwidth—dial up—space, which is what 85% of the Internet users used.
- How should Real adapt if at all? Real should adopt a ‘judo’ strategy approach. Real should not fight MSFT head on. It should ‘embrace and extend’ MSFT’s SDK for instance. By embracing the WMP format, consumers will go for the real player since it can play both formats (real & WMP). This is a ‘pull when pushed’ strategy. Real can also entrench itself by making deals with music companies and CE manufacturers to push its platform into as many places as possible, thereby creating a lot of barriers for Microsoft. This would be a ‘team-up’ strategy for Real.

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**Course: New Venture Financing (11 Cases)**

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<thead>
<tr>
<th>Opportunity Recognition – 6 ideas, pick 2 for investment.</th>
<th>Chrysalis Limited got tons of business plans for investment and they short-listed 6 of them. 2 out of these 6 have to be picked for investment. Which ones are worth it?</th>
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<tr>
<td><strong>Sports Inn:</strong> A proposed theme sports restaurant. The core service is the delivery of a high quality eating experience in an exciting, stimulating sports-rich environment. Promoters: a salesman with 10 years experience in consumer products (an avid sports fan); another person has operations experience in retail business. Low customer need; Low willingness to pay; Low margins industry; Cash cycles—not favorable. <strong>Deal breakers:</strong> low barriers to entry, saturated market, promoters do not have right experience. NO INVESTMENT.</td>
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<td><strong>Piccadilly Collection:</strong> A specialized selection of high quality branded British goods mail order business catering to Japanese businessmen. Call center in UK will process orders. Promoter 1 has 7 years experience in a UK retailer (merchandising, marketing); Promoter 2 has 5 years experience in inventory control &amp; financial management. Customer need—low; Willingness to pay—Medium; Margins—low; Cash cycle—good/favorable; <strong>Deal breakers:</strong> People do not have Japan experience. NO INVESTMENT.</td>
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<td><strong>Corrosion management services:</strong> Has a patented s/w process that can detect corrosion in plant and machinery as it occurs (real-time). Such real-time monitoring is not available today. Promoter 1 is a scientist who patented the process. Promoter 2 has good sales and general mgmt. Experience in oil &amp; shipping industries. Customer need—high; Willingness to pay—high; Market attractiveness—high; Cash cycles—unfavorable; <strong>Deal breakers:</strong> high R&amp;D investment. But people have right experience and technology is protected (high barriers to entry). YES for INVESTMENT.</td>
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<td><strong>Mediacom Associates:</strong> Specialist media consultancy to provide strategic advisory services to companies operating in the telecom, media, and entertainment industries. Promoters have 20 years combined experience in the industry and are recognized as ‘opinion’ leaders. Customer need—high; Willingness to pay—high; Market attractiveness—high; Cash cycles—unfavorable; <strong>Deal breakers:</strong> Low barriers to entry; if employees leave, company susceptible to loss of business (relationship business). Promoters have right experience. YES for INVESTMENT.</td>
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<td><strong>Nextor Services:</strong> Will provide short term ‘instant offices’ to large MNCs setting up shop in Europe (London initially, other EU cities later). Promoters have worked in MNCs and in IT consulting. Customer need—high; Willingness to pay—high; Market attractiveness—high; Cash cycles—unfavorable; <strong>Deal breakers:</strong> Low barriers to entry; Promoters do not have experience in real estate. NO INVESTMENT.</td>
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| **Advanced training systems:** Development, marketing, and distribution of high-
quality, premium off-the-shelf and semi-tailored computer based business training software. One of the promoters was a McKinsey consultant and owns the s/w engine underlying the CBT software. Another promoter is a trained psychologist. Customer need—high; Willingness to pay—high; Market attractiveness—good; Cash cycles—unfavorable; Deal breakers: Platform is not that key; promoters do not seem to have handle on content. NO INVESTMENT

### The DAG (Drycleaning Acquisition Group) Group
- Chris and Val were HBS students looking to consolidate the 'dry cleaning' business. They thought: “here is an industry that is fragmented, undifferentiated, and has low entry barriers. Why can’t we do what others did to supermarkets, pizza parlors, and office supply stores.”
- Problems with drycleaning stores were: poor quality of service and high customer turnover rate (35-40%). Key success factors were: consistent quality, professional management of store (optimized operations, trained employees, etc.), good customer service, and easy access to store (parking, easy turning off the road).
- Chris & Hal decide that customer retention is the key to success.
- Superb drycleaners was up for sale: (+) business of $386K, more possible. Good quality reputation. Neat appearance. (--) Need $40K to upgrade computers, washing system. No laundry, only dry cleaning. Investment needed to spruce up customer area. +/- : location less than ideal. Owner is asking $450K for the business.
- Is the Superb acquisition an attractive opportunity for Chris & Val? The location is bad, but quality reputation is good. The $450K owner is asking for is 1.17x sales. Industry range is 0.75—1.25x. So its in the ball park. But with current profits, rate of return is about 10%. The new VC (Rainier) will seek 25-50% returns and increasing sales and profitability to those levels of ROI is quite hard.
- The drycleaning business is such that profit margins are low. Investment is high. Immigrants are buying up businesses and are not too bothered about ROI as long as their family has employment (its an employment source, not investment).
- Should they go ahead or Quit? They should quit. Imitation is easy in this business and so Chris, Val can’t protect their advantage. Moreover, they cannot expect to earn substantial abnormal returns in this industry, to satisfy their VC’s ROI goals.
- Key is to understand industry structure and what kinds of profits are possible.

### Car Wash Partners
- Car Wash industry was fragmented and may be ripe for a national ‘consolidation.’ National automated car wash market estimated at $3.2B, growing at 3-5%. Why is it attractive for consolidation? Unskilled labor, no national player, heavy fragmentation, low capex / year, current owners getting old and next generation might not want to be in car wash business—so current owners want to exit, high margins (70-90%), high barriers to entry because of zoning requirements.
- Key success factors in the industry: quality of service, consistency, labor mgmt., location, flow/through put, etc. Is brand name important? Local brand / trust may be important, but nationally, may be not. (How many people who move towns or are traveling and look for the same car wash brand shop they want to take their car to? In case of Pizza it might be different—you look for familiarity in food).
- Are there inefficiencies in current businesses? Can they be addressed? Labor productivity is low, but not too much can be done with unskilled labor.
- No Economies of Scale in industry—labor dependent and labor is biggest cost.
- What makes a good roll-up candidate? Industry should be fragmented. Also bringing together individual units would create EoS and add value. E.g: Cost-wise, grocery store chains are good to consolidate. Revenue-wise, food, airlines, etc.
- How do roll-ups create value? By tapping unexploited efficiencies of scale. Also, if firms are private, they might be misvalued in private mkt. By buying them up and taking public, might get better valuation in public mkt.

### Paint-Pen*
- Hamer gets a call from Dubois, a business broker, that a company called Paint Pen is for sale. 5 days remained for the bid. Paint-Pen manufactured and distributed liquid paint in easy-to-use ballpoint dispensers. Paint was used by hobbyists, crafts people. Products sold via “home party” plan, in which distributors recruited hosts
to sponsor events at homes, during which the products were sold. Distributors had very key ‘hosts lists’.

- Apprehensions about Paint-Pen: Bid process unusual (Sealed bids unusual, short time period, stipulation not to contact distributors, winning bid does not win biz. Because PP has clause that they can reject all bids. Are they trying to estimate what the market thinks and then go to distributors to up their offer—distributors wanted to buy PP earlier.), Not sure if current mgmt. Will stay to manage, Would distributors be loyal if company changes hands? To buy or not?

- We recommend “not to buy”. Reasons: (1) For a mid-market pvt. Firm like PP, we require a 15% rate of return and PP might not generate those returns and associated growth needed. (2) We do not want to actively manage, so PP might not fit investment criteria if current mgmt. Does not stay on. (3) Distributors have lot of power here. They could walk away if PP changes hands. (4) Too little time for due diligence and so too much information asymmetry. (5) Finally a wrong and over-estimation of PP value will lead to “winner’s curse” for us.

- Positivies about PP: (a) Short deadline for bid, meaning desperate to sell. (b) High margin business (40%). (c) Market leader (d) Good cash flow.

- Negatives: (a) Only 5-days, no time for due diligence. (b) Offer came to us later than others, so are they damaged goods? (c) Can’t talk to distributors. (d) A/R growing faster than sales—so more working capital (WC) needed. (e) Larger competitors loom in related markets. (f) Dividends being taken—milking biz?

- Prof. Estimates a bottomline valuation by adding up cash, A/R, notes/R, Inventories, furniture, etc. -- $2.1M. Business is worth at least this much. Applying a 5x multiple on earnings ($0.9M) gives $4.5M valuation. Doing DCF with $R = 15\%$, $g = 5\%$ on steady-state earnings gives $9M valuation. We got a $14M valuation. In reality, bid was for $3.5M—a conditional bid to protect yourself. Do not bid as high as you value the company—winner’s curse. Conditional bids make sure you are protected if company does not perform the way you expect it to.

#### Walnut Venture Associates

- Walnut is a group of ‘angel’ VCs seeking to fund early-stage companies in the New England area. They focus on IT companies addressing rapidly growing markets. They prefer seed-stage or 1st round. Invest b/w $250K to $1M per round.

- Walnut got a proposal to invest in RBS Group—a young company that developed an accounting, operations, and financial systems s/w targeted at Software companies. Bob O’Connor was founder & CEO of RBS. Company’s vision is to become the global leader in business apps for s/w companies. RBS sells via a direct sales force and strategic partners. Through this Walnut financing, it hopes to expand sales operations and the resultant growth.

- Due diligence agenda by Walnut: (1) First priority is to check out customer references for RBS. Did the company meet expectations? Have they been responsive? How good is the software? (2) Secondly, size up the market for packaged financial/operations software. (3) Finally, check out mgmt. Team.

- Customers gave glowing references of RBS. Their s/w is unique & valuable.

- Market size? Compare using a competitor, Great Plains s/w. Their sales~$57M. Assume Great Plains has a 25% mkt. share. So total market size for Financial SW for the middle market is about $250M. Assuming s/w companies form 10% of this market, which is high, the size of financial s/w for s/w companies is only $25M. This is a potential deal-breaker. If the potential upside of the entire market is limited to $25M, it will not earn the sufficient rate of return for Walnut’s capital.

- Walnut decided that RBS was attractive because of its good product. Although it was not a market with a ‘home run’ potential, but at the right valuation, Walnut could still make an investment that offered an attractive return.

- In Walnut’s terms, vesting schedule was harsh: 4 years for Bob to vest fully. Interval of vesting was annual. Also Bob starts at 0% now. In negotiation, Bob got a better deal: monthly vesting and he starts with 50% ownership now, vesting over 4 years for the rest 50% of his stock.
- Walnut wanted a ‘redeemable preferred’, which would not convert to common stock and was basically a put option. In negotiation it was changed to participating redeemable preferred: Walnut can redeem and also convert to common (double dip securities).
- Also valuation was proposed at $6M, which was improved in negotiations.

**Hotmail***
- Hotmail’s business model was to provide a free, web-based, platform agnostic email service. Hotmail’s primary goal is to acquire a dominant share of the corporate email users. Revenue sources: (1) Advertising. (2) Revenue-sharing with affiliate sites (3) Provision of fee based services. Hotmail was the first such service and had first-mover advantages via creating high switching costs to its customers (people tend to retain email addresses because they’ve told all their friends and can’t change that too often—too painful).
- Draper Fisher Juwertson—DFJ, was the VC firm Bhatia was after to get $. DFJ invested in relatively small amounts of money (up to $1M), principally at the seed stage. Traditional VCs don’t focus in this area and so there is a ‘financing gap’ in the market that DFJ sought to fill.
- Purpose of the case was to read through a term sheet and at each round of valuation, compute the % ownerships of the major shareholders and what their investments and stakes were worth. Valuation starts in Feb 1996 @ $2M (shares outstanding: 12.45M). By March 1997, firm value is $21M (17.43M shares).

**Interactive Minds (IM)**
- IM is a Silicon Valley based VC + consulting company that consulted with, and helped start new interactive businesses. Interactive implies Intranet, Internet, Multi-media, e-commerce companies. IM helped companies in following areas: biz. Plan development, marketing & sales, tech., finance, admin., and legal. The promoters, Nichols & Haykin (Randy & Carl--RC), felt that the initial IM consulting model would work even better if they were able to provide seed capital to the startups they worked with. The firms asked for help in 3 areas: management, finding good people, and raising money. IM was helping them in first 2, so why not in the third aspect as well. Typically these startups were in a “capital chasm.” They tapped out their friends and colleagues at $250K, but were small for VCs’ money of about $5M. Typically the gap was filled out by high net worth angels. Nichols and Haykin hoped to fill this gap—more as a ‘venture catalyst’ rather than a VC fund. This idea was similar to what “Idealab!” did.
- Conflicts of interest: Where did the consultant stop and VC begin, if both were under same umbrella? One risk of combining VC model with consulting is that of ‘negative signaling’. If IM consults with several biz. And does not fund some of them, what are the chances for those startups to get funds from elsewhere? Another risk is that of ‘capture’. If IM becomes VP of sales at a portfolio biz. Say some product pricing things don’t pan out. Then they might use fund $ to bail them out. IM is too involved in business. Also, as consulting fees, IM got cash and stock at times. Also if IM was a VC to the firm, and had an equity stake for Nichols and Haykin, would they inflate firm value artificially so that their equity stake is boosted or would they value it lower, as a VC would try to do?
- Another structure was to make IM a corporation. Investors invested in IM and took equity in IM. IM did 2 things: consulted with startups and invested in them. The problem with this structure was that of liquidity. How would investors in IM get their returns? If a portfolio company went public and there was an $8M profit. IM investors got only their proportion of IM equity ownership as profit spoils—say 20%. Nichols and Haykin got the rest 80%—opposite of a traditional VC model!
- Nichols & Haykin ended up raising $5M for a traditional VC fund. They do consulting as a value added service.

**JAFCO American Ventures***
- JAFCO (Japanese Associated Finance Company Ltd.)’s principal activities were to invest in and offer consulting services to private companies with good growth potential. JAFCO, however, was not structured like a typical US VC firm. It was a publicly traded firm in Japan. Its employees held a negligible share in the firm’s
equity and they did not participate in profits significantly. JAFCO operated more like a mutual fund rather than a VC firm. Is JAFCO an IPO feeding machine to its keiretsu partner? 400 of its 1600 investments IPOed (25%!!). In US 1 in 10 might. Finally, JAFCO invested in later stage deals.

- JAFCO America Ventures (JAV) was set up in 1984 with 2 goals: (1) Tap US funds for investment into Japan and (2) Study the US VC industry, learn and apply relevant elements in the Japanese market.
- JAV was successful on the first goal: it raised 2 funds in 1988 ($36M) and 1994 ($67M) respectively. Further, JAV built up a great reputation through its unique value proposition: JAV provided access to high quality manufacturers, distributors and customer bases in Japan to young companies seeking that expertise.
- However, on the second goal, it seems to have faltered: JAFCO’s organizational model is still corporation like and not a limited partnership. JAV’s decision making still lacks autonomy and all decisions are routed through JAFCO in Japan and take 8 weeks (a VC firm in the US can respond in 2 weeks). Key employees left JAV due to non-competitive compensation structures at JAV.
- Key issues facing Schiffman, the new chief at JAV were (1) To move into seed financing area? (2) Go into venture leasing? (Firm leases equipment, etc., to startups and takes equity instead of cash. (3) Enter the life sciences market?

**Our Analysis**

- JAV has no competitive advantage in the Seed financing area and should avoid it. Seed financing takes up a lot more hand holding than later stage deals and JAV is not familiar with that process / terrain. Also, JAV’s “access to Japan” value proposition makes sense for companies that are close to attaining market presence and need Japanese partners. Young startups might not need to meet Japanese manufacturers and distributors immediately. Finally, JAV’s value proposition in the life sciences area is not clear. There are no international synergies to be gained where products typically require governmental / regulatory approvals.

### ONSET Ventures

- Onset was a top-tier seed investor in the major leagues of Silicon Valley. Fund raising record: 1984--$5M feeder fund (make seed stage investments that would move up the food chain to later stage VC firms for follow-on financing); 1989--$30m; $1994--$67M; 1997—asking $80M, investors committed $140M. Should they accept the more money they are getting for the latest fund?
- Onset studied the VC industry and distilled key patterns that are the basis for successful companies: (a) Success rate of startups rose from 25% to 80% once a person who ran a startup and a larger business mentored them. Also if a VC spent personal time with the startup, it would not fail—rather than just considering the firm as a portfolio investment. (b) Business model needed to be flexible to changing market conditions. Also, hire a CEO after the business model has been validated, else the firm will adopt whatever business model the CEO pursued at the previous job. (c) There has to be a want, not just a need, for the product.
- Onset identifies 5 issues with any startup:
  - Technical risk: Will the technology work?
  - Market risk: Are there enough customers?
  - Operating risk: Can we actually build it at the required cost?
  - Distribution and Pricing: Is there a distribution channel that will get the product to the customer cost effectively?
  - Team risk: Is this the right team to execute?
- Onset’s phases of investing: (1) Pre-seed – during which Onset attempts to decide if a firm’s business concept could be the basis for an attractive investment. It tries to rip the assumptions behind the business model apart and see if they hold water. They ask the startup-team to refine their business plan and see what elements of their value chain are crucial. The output of the pre-seed stage is an “incubation plan” that described the analysis that would be undertaken during the seed stage, as well as the milestones the team would meet. (2) After the pre-seed stage, a $1M check is written and then the incubation plan is executed. This is seed-stage.
Basically Onset turns “Interesting projects” into “Companies”, via INCUBATION. Projects have intriguing ideas, exciting technology, and capable entrepreneurs. Companies have products and proven technology, with a management team, a business plan and model, and financing to execute the plans.

A drawback in Onset’s approach is that it tries to do for the firm whatever it thinks will be liked by the next round of investors. This is a short-term focus.

Seed stage investments are un-correlated with the general market and so make good diversification investment vehicles.

Preview Travel

In mid-1997, Preview Travel was a leading provider of branded online travel services for leisure and small-business travelers, with quarterly travel bookings of $18M, growing at close to 30%.

Preview had struck a deal with AOL to be their “primary and preferred provider of travel services”, which gave Preview a strategic advantage. Travelocity, Expedia, Biztravel, were its competitors.

Matching investors with stage of the business. Angels stepped in when business plan was in development. VCs stepped in when business plan is developed. Strategic investors step in when business is operating.

In August 1997, Preview was considering two financing options: (1) A down round from a strategic investor, QuadMedia (QM) at $4.50/share. Preview fit well with QM’s strategic interests in Internet. Also, QM’s interest in Preview has brought another investor to the table. But a down round might upset current investors (US west) and sends a negative signal to future investors. (2) Accelerated IPO (have to pull off only in 9 weeks) underwritten by H & Q.

They went with the IPO and were the best performer on the Nasdaq in Q1 ’98. They got bought over by Travelocity in Oct. 1999.

ArthroCare

Dr. Hira Thapliyal was the key promoter behind ArthroCare. AC was a young company in the medical devices arena. They made small, disposable, electrosurgical tools that could be used for cutting and shaping tissue through minute incisions in the body. AC went public in Feb. 1996 @ $14/share, raising $32M for the company.

The key issue facing the company was that the AC system depended on a stable electrical current supplier called the “controller”, which the company sold for $12,500. It was getting increasingly difficult to get the hospitals to buy these controllers at that price. What should AC do?

One thing they could do is drop the price so that people will adopt the controller—and pursue a Razor / blade model of Gillette. Sell the controller for cheap and tie them up to your equipment. Make money off of other accessories. Good thing is that the IPO raised a lot of cash for them and at their burn rate of $2-3M per quarter, they will last 11 quarters! So they do not need to get to $ raising now.

Course: Technology Innovation and New Product Development (8 cases)

Sony & Philips:
SACD vs. DVD-Audio
Team project.
Case and Analysis of NPD processes at Sony,
Deployment strategies, Standards Battles, and Timing of Entry

Super Audio CD (SACD) technology was developed jointly by Sony & Philips; launched in 1999. Competition was from DVD-Audio headed by Matsushita.
SACD improved digital reproduction of analog music. Due to its dual layers, it can store more data (4.7GB) and also include text, graphics along with the music on the CD. DSD (Direct Stream Digital) encoding technology was used in it, developed by Sony. Software and hardware were backward compatible. SACDs could be played on CD players, although the superior effects cannot be got. CDs could be played on SACD players as well.

DVD-A extended the CD Pulse Code Modulation (PCM) technology. Extends the DVD-Video spec. Also launched in 1999.

Standards battles: Sony has licensed its technology out to 3rd party manufacturers so that more hardware is available. It is avoiding the Betamax mistake of holding on closely to the technology. It is also recruiting artists to make music for the SACD format. It has roped in its own music division, Sony Music, to support the SACD format. So it is taking steps to make many complementary goods available.
Sony has built up an impressive list of 650 titles to date, but most music is in niche genres—Classical, Jazz, Ethnic (Indian), etc.

- **Standards battles:** In order to quickly build up the installed base, Sony has lowered switching costs for customers by making SACD technology backward compatible. It is also collaborating with retailers to build special sound rooms in stores in order to let customers experience SACD music as it is supposed to be heard.
- **Matsushita** is also licensing its technology aggressively to build up the DVD-A camp. It is trying to leverage off of the popularity of DVD-Video. But, a key drawback is that the TV has to be on for the music to be heard, although that is changing now. DVD-A camp has 150 titles to date.
- **Timing of entry:** may be right because music industry is in a sales slump (5% drop in 2001 over year before). Also music industry is looking for better security standard. But, first movers seldom win, right? To beat this first mover curse, Sony is using alliances with Philips to build up scale fast. It also has instituted fast cycle development processes to be a first and second mover. Sony’s early entry then puts it in a good position to tap into the increasing returns to adoption phenomenon.

**Recommendations:**
1. Position SACD as a premium feature over existing CDs, not as a replacement / substitution.
2. Establish mass market exposure for the SACD format. Currently only Audiophiles are aware of it. Go to car makers and get them to adopt SACD as a premium, luxury add-on feature in car CD players.
3. Expand into mainstream music by tying up with mainstream musicians.

<table>
<thead>
<tr>
<th>Microsoft Xbox (Standards battles, Increasing Returns to Adoption)</th>
<th>Story</th>
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<tbody>
<tr>
<td><strong>Xbox &amp; Nintendo’s GameCube launched in Nov. 2001. Xbox targeted at the 18-34 male, head to head against Sony’s PS2. Sony had 300 game titles for PS2 by the time Xbox launched. By end of 2001, PS2 had installed base of 20M units. Xbox<del>1.5M, GameCube</del>1.3M.</strong></td>
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<tr>
<td>Xbox had 733 Mhz processor (Intel). Sony’s PS2: 300MHz (Toshiba). Xbox memory: 64MB. PS2: 38 MB. Xbox Bandwidth: 6.4GB/sec; PS2: 3.2GB/sec.</td>
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<td>In 1999, videogame hardware, software and other accessories sales totaled $7B. 35.9M households in US had video game consoles in 1998, expected to grow to 43.5M households by 2003. The 7th generation (PS2, Xbox) of video game systems were becoming home entertainment systems rather than game consoles.</td>
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<tr>
<td>Microsoft developed the OS for Xbox internally; it gained experience when it built the operating platform for Sega’s Dreamcast. OS is a stripped down Windows.</td>
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<td>Microsoft was using its DirectX PC-gaming SDK for the Xbox as well.</td>
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<td>Microsoft outsourced assembly to Flextronics.</td>
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<td>Microsoft’s major disadvantage in the videogame market was its inexperience in developing characters to attract the younger portion of the market. It was teaming up with Danish firm, Legos, to build brand image among the younger generation.</td>
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<tr>
<td>Microsoft has a huge marketing budget for Xbox: $500M for 18 months!!</td>
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**Analysis**
- Microsoft has had a huge reputation of success in industries dominated by Network externalities, where standards and complementary goods play a key role. This reputation attracted a lot of game developers. The perception among analysts is that Microsoft knows how to win. Reputation might be MSFT’s biggest strength.
- But MSFT does not have experience in hardware manufacture, deployment, and distribution. It needs to expand distribution relationship with more retailers like ToysRUs, WalMart. Also, game consoles typically lose money, and firms make money off of games. Can Microsoft digest that?
- Suppliers like Intel, Flextronics will have huge controlling power over MSFT.
- MSFT’s strengths were its balance sheet, and PC + online gaming experience, and DirectX interface, which programmers used extensively already.
- MSFT’s weaknesses were that it did not know how to build characters and cozy up to the younger generation. But remember, Sega is a 3rd party game developer for Xbox now, and Sega knows a lot about console video games! MSFT’s big-
Finally Xbox was priced attractively just below the Christmas shopping window price, at $299.

**Handspring Treo**

(Defining a company’s Strategic Intent)

- Treo was a handheld communicator, and so was Handspring’s first attempt to enter the wireless communications market—a shift in corporate strategy. Handspring was second to Palm in PDA market share, yet it did not make a profit still. SmartPhones (Treo was one) had higher margins. Shipments worldwide expected to hit 5M units in 2002.
- Palm founders left to found Handspring in 1998. Palm founders had developed a good handwriting recognition software and needed a good h/w device to deliver their cool s/w. That’s how Palm was born. Handspring entered the PDA market in 1999 with its Visor device. Visor was priced below Palms. It had Springboard module attachments that allowed for various functionalities. Visor competed mainly on design and price, in the consumer segment; business customer was only secondary target. Springboard modules never took off greatly though because they were expensive and they would only make the Visor imitate other devices, not replace them. VisorPhone was an attempt at marrying the PDA and the Cellphone, which did not fly well.
- Treo integrates the cell phone, pager, PDA functionality into one device with an ‘always on’ capability.
- Handspring was repositioning itself by transitioning out of the organizer business and into the communicator business. It would continue to support the Visor line as long as there was demand, but would focus its full efforts on the Treo. Analysts wondered why Handspring would abandon the Visor line fully. Also, Treo was targeted at the enterprise segment (B2B) rather than the individual consumer (B2C)—this was a shift in market focus for Handspring. This market focus of Treo as an employee productivity tool also put it in competition with PDAs. Treo placed 2 standards battles bets: one on Palm OS (MSFT was closing the gap with its PocketPC s/w) and second on GSM, which only had a 11% market share in the US.
- Competitors were Kyocera, Samsung, Nokia. Treo was lightest, smallest of all. Handspring shipped 47,000 Treo units in Q1, 2002. Stock shot up 34%.

**Analysis**

- When the Palm founders left Palm to found Handspring, they took the hardware part with them, not the key competency of the handwriting s/w.
- Looking at the customer bases for the PDA and SmartPhone markets: PDAs were for corporate and students. SmartPhones were for a bigger audience adding travelers, mass market to PDA customer segments. Handspring has credibility, expertise, brand, tech. leadership, etc., with PDA customers, but not with potential SmartPhone customers. Also Handspring does not have relationships with cell phone service providers.
- Treo’s battery life was only for 2.5 hrs, while its competitors had 4.5-5hrs life. Cell Phone customers consider this an important feature. So Handspring has a competitive disadvantage on this key dimension.
- People waiting for cell phone + PDA convergence are the ones who would potentially buy a SmartPhone. But would they be waiting forever? (like me?!) Finally, why abandon the Visor line? PDA market is not maxed out yet.

**Iridium Satellite Phone**

(Choosing R&D projects)

- Iridium unveiled in 1990 from simultaneous press conferences across globe. Idea was to be able to communicate anywhere anytime. 66 LEO satellites were launched by 1998 at an enormous cost ($5B+).
- While cellular networks covered the densely populated areas, 86% of land remained untapped and this is where a satellite network tookover. So the satellite network was created not to compete or replace the existing cell phone network, but to fill in the continental holes between them.
- Iridium provided voice, data, fax, paging services to users via handheld wireless phones and pagers. System, however, was capable of handling only 1100
simultaneous calls.

- Customers were mainly the highly mobile business traveler and workers in specialized industries that needed to be connected in remote corners (oil field workers, mine workers, journalists, military). However, the larger part of the target market was already situated in established centers where terrestrial cellular networks satisfied their needs.
- Original call costs were exorbitant: $2 to $7/min + $65 monthly fee.
- Iridium was creating a brand overnight and at the same time trying to educate the market about satellite phones. Iridium forecasted 240K subscribers by 1999 and 4.5M by 2005 with revenues of $5B by 2005. But by 1999, there were only 27K subscribers.
- Production of handsets was outsourced to Kyocera and Motorola. Kyocera had difficulties meeting quality control standards and so could not ship phones on time.
- Alternatives for global travelers came from dual and multi-band phones that let users travel from GSM to CDMA to TDMA cell regions without a hitch. Cell companies were making cross-roaming arrangements already. This was a serious hamper to Iridium, Globalstar, and ICO.

Analysis

- Iridium’s weaknesses were that the phones were bulky, and expensive. Only 1100 simultaneous calls could be handled. Satellite lifetime was only 5 years—so who would finance the huge cost every 5 years of launching 66 LEO satellites? Reception was also flaky.
- Substitutes threat was very real—cell service providers were allowing users of rival networks to roam their regions as well and the cost of those calls and roaming services were much cheaper than Iridium’s.
- In Iridium’s case, there was no way anyone could have obtained an “option” for a small price to check out if this system was feasible without spending the full $5B. So the real option funda does not fully work here.

Sun’s JAVA (Open vs. Proprietary vs. Modular systems)

- Sun was founded in 1982 selling high-end workstations. In late 80s it started selling servers. Sun’s motto was always a network centric belief: the network is the computer.
- With Java, Sun wanted to break the Wintel-PC centric standard and create an opportunity for network-centricity. It envisioned Java’s platform independence to extend the reach of the network to many new thin-client electronic devices. If this were to happen, the demand for networking tools and servers (where data were stored) would grow. Java would stimulate demand for Sun’s servers and networking tools.
- Java is “community source.” Some what proprietary but we will give it away for free. Sun controls the direction and code additions to Java. Sun wanted to avoid the Unix debacle of proliferation of too many versions without a common standard. On a scale of openness: fully open (Unix), liberal licensing (Sun’s Java, community source), Moderate licensing (MS Windows), Restrictive licensing (Nintendo, Xbox), fully closed (Viagra).
- Apart from freely licensing Java, Sun joined forces with other industry bigwigs like IBM, Oracle, and Netscape to create a $100M Java Fund. The idea was to fund new startups to build Java-based apps. It also created a Java Developer Connection (JDC) to help form a programmer community around Java.
- Also, contrary to its previous practices with other products, Sun relied heavily on OEM and VAR agreements as a way of ensuring Java ends up in many electronics devices.

USA Today (Organizing for Innovation)

- USAT’s 1999 earnings > 33% of ’98 earnings and 2000 was off to a flying start. Yet, the Online news trend bothered Tom Curley, President & CEO of USAT. USAT was in its 34th consecutive month of decreasing paper sales. NY Times, and WSJ were also in similar positions.
- Curley’s network strategy was to integrate 3 different media formats: Paper, Live
TV, Internet news site. Achieving this strategy would need significant tech. infrastructure, corporate culture and org. structure changes at USA Today.
  - But none of his senior staff wanted to acknowledge the impending digital changes and saw Online as a threat instead.
  - Curley was the one, in 1981, found the need for a ‘national newspaper’.
  - USAT newsroom had 2 cultures: a traditional newsroom one where reporters did diligent research and ensured their ‘facts’ checked out. Second culture was a non-traditional one, where concise stories that seldom jumped a page, with pictures were written for the USAT reader, not the Pulitzer committee.
  - Online started off as a subscription service but quickly abandoned that for a advertising-based revenue model. The site updated every 2 minutes meaning that Online could not rely on USAT for much of its content. Also, Online’s staff looked and dressed differently and they were much younger and more casual. Relations with print newsroom were not cozy as print reporters felt Online was competing with them for news sources and contacts, which were highly treasured in the news community. Print feared that Online would eventually undermine them. They were also afraid of classifieds revenue moving towards fully online.
  - In Sep. 1998, Online turned a profit, the only newspaper-owned online news site to do so!
  - Cichowski was head of Online and she was of the opinion that USAT should spin off Online. Curley had enough experience dealing with USAT’s disparate lines of business and knew that ‘separation equals death’. He wondered how to keep things integrated.
  - Update: Curley fired Cychowski and brought in another old USAT person to run online. They did not spin it off.

**Rubbermaid (Teams)**

- Rubbermaid was a housewares manufacturer. It had $2.3B sales in 1996. It started out in 1920. 97% of Americans recognized the brand Rubbermaid and 90% of American households owned a Rubbermaid product. It was an incredibly innovative company—motto being “more than 1 new product every day of the year.” It does really introduce over 400 new products each year. The key issue facing the CEO Schmitt was, “How do you take advantage of the size and resources of a large organization and still retain the entrepreneurial edge?”
- Rubbermaid was always praised for its growth, quality, profitability, and innovation. Industry analysts said that the single most important factor contributing to Rubbermaid’s growth was its NPD capabilities. Rubbermaid’s industry was ripe with copy cats and its products could be easily copied, once they are in the market. So the only way Rubbermaid could stay ahead was to keep on innovating, at a rapid pace. They don’t prototype products because competition would get an early glimpse at new products and copy them.
- In 1940s, Rubbermaid adopted a new product review committee that used a funneling approach to select ideas for new products. 300 ideas → 20 to pursue → 3 getting picked for production.
- Schmitt, in mid-80s, realized that Rubbermaid’s organization was not well matched to the increasing demands of innovation on its businesses. He reflected and realized that Rubbermaid, in its early stages, had R&D, marketing, finance, manufacturing, operations, all working closely. He correlated that with the idea of ‘fractals’—same structure (organization here) at various levels of the firm. So, he set out to create the “business team” concept. This would create the vitality and flexibility needed for innovation in a big organization. Business teams were small, empowered, and cross-functional in nature. They would contribute to reduce NPD cycle time and also match customer needs / market demands well.
- Prior to business teams, there was a traditional hand-off approach to product development, in a step-wise linear fashion, from one function to the next.
- Business team was basically a heavyweight team. It would be led by a representative from marketing, called the Group Product Manager, and would include one representative each from R&D, finance, manufacturing, and in some
cases, sales. This would be the “core team.” The team could request functional resources as needed. One or more members of a division’s Operating team, consisting of division General Manager, and the VPs of Marketing, Finance, Operations, R&D, Sales, and Finance would sponsor each business team.

- Business teams were responsible for product lines. The idea was to create focus in them and also ownership, while also giving them access to the resources of a large company and use high-level executive champions to help them focus.
- Industrial Waste systems teams were specially fine tuned due to the following specific adaptations: They had sponsor teams, not a single executive. Their performance was evaluated based on a combination of functional review (20%), 360 degree evaluation from customers, suppliers, team members (30%), and finally team’s performance (50%). Incentive alignment was good. Also they had dedicated resource groups (manufacturing and R&D), unlike other business teams at Rubbermaid which did not have dedicated resource groups allocated to them—these members also felt that they were core part of the business team, not outsiders. Thus they avoided a typical problem with the heavyweight teams. Industrial Waste teams were much more like “autonomous” teams.
- Finally, the Industrial Waste teams asked themselves, “What would we want to know if it was our business?” This mature and holistic business outlook enabled them to look at it as an autonomic business entity rather than from the functional perspective of marketing, R&D, finance, etc.

XM Satellite Radio (Deployment Strategies, Tech. Leapfrogging)

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<thead>
<tr>
<th>XM Satellite Radio (Deployment Strategies, Tech. Leapfrogging)</th>
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<tr>
<td>XM was a satellite radio service that offered a third frequency band—besides AM and FM—in a clearer, digital format, with more programming choices for the consumer. Satellite radio provided significant advances over traditional radio signals. While most radio signals broke up about 30 to 40 miles away from their source requiring listeners to scan for alternatives, satellite radio stations could broadcast a signal in excess of 22,000 miles with tremendous clarity.</td>
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<tr>
<td>The potential market was the 100M households and over 200M registered automobiles in the US. Every year 26M car radios got sold. End of 2001→30,000 customers. End of 2002 estimate→350,000!</td>
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<tr>
<td>As mentioned, competition in digital audio broadcasting required both strength of signal through satellite coverage and programming depth. XM faced significant competition for subscription and advertising dollars from Sirius Radio as well as other radio players. Sirius’s service costed $12.95/month and was ad-free.</td>
</tr>
<tr>
<td>XM and Sirius spent $80M each to acquire the frequency spectrum from FCC. They each spent $1B to set up the satellite network.</td>
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<tr>
<td>Alternatives for consumers at home included Internet radio, digital radio via Satellite TV providers (Dish, DirecTV).</td>
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<td>Customer acquisition costs were $1930 per customer in 2001 and were to drop to $100 by 2005. So XM was poised to lose $S till 2005.</td>
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**Key issues**

- Is the value-added enough to prompt customers to switch from traditional radio?
- Will XM survive till they hit critical mass of subscribers?
- Is the market big enough for two companies? (XM & Sirius)
- Advertise or not to Advertise?

- There are high switching costs for customers from traditional radio. Equipment costed $200 for home receivers. In car equipment came for $150 upgrade and the full featured one costed $1000. On top of this XM charged a $9.99 monthly fee.
- If you want to get people off of traditional radio, think in terms of technological leapfrogging: (1) Create a wide technological gap. XM radio much superior than AM/FM. It offers much wider programming choice. It has a better geographic coverage (seamless nationwide)—value for truckers, car rental companies, travelers, national advertising, and people who live in the middle of nowhere. Finally its digital and they can put more info in the transmission—about the song, singer, year, etc.
- (2) What has XM done to build the installed base and complementary goods? It made bundling arrangements with GM. Revenue sharing with GM. Advertising budget of $65M. XM has signed partnership deals with branded, known content providers.
- A curious thing was that the majority of the early subscribers were Urban. Why would urban subscribers want to subscribe to XM when they are getting radio for free? Is it the unique content that XM carries? Niche content? (ethnic?)
- Update: Stock price is $2.60 on Nov. 25, 2002. XM was planning job cuts. They seem to be in trouble. 201K subscribers by Sep. 2002 (not bad). Sirius is going bankrupt. So XM is alone…will it go the same way as Iridium did?

<table>
<thead>
<tr>
<th>Course: Marketing – 1 case</th>
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<td>Contac (Re-launch or not)</td>
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- Smith Kline Consumer Products (SKCP) faced important issues after a 1986 tampering incident. The key issue: to relaunch the Contac brand or fold it?
- Contac should be re-launched because: (1) It was too important for SKCP to let go. Contact accounted for 40% of SKCP’s sales—$59M out of total $120M. (2) Discontinuation of Contac now would not protect SKCP from future tampering. (3) A re-launch is possible. Tylenol got tampered in 1982. 7 people died. Tylenol pulled all of its product from the shelves and re-introduced in a tamper resistant packing. So reputation can be restored. (4) Contac’s reputation is not destroyed. No one died in this incident. Contac was quick to pull the product from the shelves as well.
- **Product**: Contac should relaunch the capsules and also introduce an alternate “caplet” form. Public associates Contac with capsules…so that form needs to be available to build on public trust. Best way to relaunch capitalize was to reach out to competitors who have the capsule banding technology (Eli Lilly does) and quickly get the product back into the market with the tamper resistant feature.
- **Pricing**: Contac’s costs go up due to the new tamper technology. So Contac could raise prices, but that would lead to competitors stepping in and Contac losing market share. Lowering prices would mean gaining share but at much lower margins. Keeping prices same takes that out of the competition dynamics. But margins are lower now. We recommend Contac keep the prices same. Keeping the price the same will draw back the customers who used to buy Contac at the pre-tamper prices.
- **Packaging**: the key in packaging is to figure out what the packaging should “do”. In this case, Contac’s packaging should convey two things to the consumer: promoting the tiny time pills aspect of Contac that consumers are familiar with, and secondly emphasize the tamper resistant aspects of the new package. The new package should be advertised as “cap SEALS”, rhyming with Capsules and also conveying the tamper resistant aspect of the packaging.
- **Promotion**: We propose two themes: “Contac is back, and tamper resistant” and “Get the same relief you have learned to expect from Contac, but in an all new, easy to swallow caplet” message can be emphasized. The basic strategy should be retention of market share. The focus should be on previous Contac users, and those who would likely use the product.
- **Place**: The dilemma that management faced was the reluctance of wholesalers to take capsules back after the recall. At the same time, market research continued to show that customers preferred capsules for dealing with common colds. Sell to the wholesaler, but sell both capsules and alternatives like caplets. Convincing the wholesaler to restock capsules should be done with a combination of salesman interaction, and strong advertising to convince the wholesaler of the improved safety of the capsule, as well as the addition of a new product with similar characteristics. Shelf space might not be available to stock both Capsule and Caplet forms, so Contac can drop some capsule SKUs to allow for the new form to be sitting side by side with capsules.