

# **PROCEEDINGS OF THE ANNUAL MEETING OF THE ASSOCIATION OF COLLEGIATE MARKETING EDUCATORS**

**Oklahoma City, Oklahoma**

**March 10-11, 2016**

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## **EDITORIAL PREFACE**

This year, we are including 27 papers from worldwide and we are pleased to see diversity in both research topics and authorship.

We would like to thank everyone who participated in, helped with, and arranged the 2016 Association of Collegiate Marketing Educators Proceedings. We want to acknowledge all Track Chairs for their masterful handling of the review process in the given time, and would also like to thank all the reviewers for their expert critiques.

We would like to thank all authors for their timely submissions and adherence to our Proceedings standards. Without your efforts, our task would have been next to impossible.

Last, but not least, I wish to acknowledge the assistance of ACME Program Chair, Renée Gravois, in helping me with finalizing these Proceedings, especially during the final stages of the process.

Qiang Fei, Ph.D.  
2015-2016 ACME Proceedings Editor  
Prairie View A&M University  
Prairie View, Texas

## MESSAGE FROM THE PRESIDENT

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Dear Association Members and Guests:

Welcome to Oklahoma City, Oklahoma! It gives me great pleasure to welcome all the participants at The Association of Collegiate Marketing Educators' 42<sup>nd</sup> Annual Conference as part of the Federation of Business Disciplines. It is your involvement that makes our association and annual meeting possible. Renée Gravois, ACME Program Chair, has really done a tremendous job in multitasking. She has served in various capacities for the organization and has put a wonderful program together this year. Thanks Renée for all your hard work and contribution. This conference would not have been successful had it not been due to the tireless work of Renée. She was ably supported by a wonderful and hardworking team of Track Chairs. Please thank them for the great job that they have done in soliciting papers and presenters. The Proceedings editor, Qiang Fei, has done a tremendous job in organizing all the papers that were sent for publication. There are many other individuals who were involved in making this conference as successful as possible.

Congratulations to our many award winners recognized at this year's conference. I would like to recognize Sanjay Mehta for winning the FBD Distinguished Marketing Educator Award and Zafar U. Ahmed, Priyan Khakhar, and Laurence Leigh for winning 2016 McGraw-Hill Education Distinguished Paper Award. I also would like to thank Andrea Horner, Lona Barrick, and Kerri McDonald from Chickasaw Nation for being our guests for our Plenary Session.

I would like to complement the efforts of Irfan Ahmed, 2017 ACME Program Chair, for getting started early for the next conference. Please contact him to see how you can get more involved. Remember, next year's conference is going to be held in the beautiful city of Little Rock, Arkansas! I sincerely hope that all the delegates will have a wonderful time at this conference and enjoy your stay in Oklahoma City. I thank you for your participation, and I encourage each of you to continue to deepen your involvement with the Association of Collegiate Marketing Educators.

Warm wishes,

Vivek S. Natarajan, Ph.D.  
2015-2016 ACME President  
Lamar University  
Beaumont, Texas

## MESSAGE FROM THE PROGRAM CHAIR

Dear ACME Colleagues:

Welcome to the 2016 ACME Conference! I am looking forward to our time together. I know you will enjoy the engaging presentations, lively discussions, and warm collegiality that are hallmarks of our association.

Please attend as many sessions as you can and be sure to attend these signature events:

Plenary Session – Friday, March 11, 10:30-12:00

*Making a Positive Mark: The Story of The Chickasaw Nation*

AxcessCapon Teaching Innovation Competition – Thursday, March 10, 3:30-5:00

ACME Awards Luncheon and Business Meeting – Friday, March 11, 12:00-1:15

Thank you for the opportunity to serve as Program Chair. It has been an honor and a privilege to develop the program and to work with so many dedicated and hard-working ACME colleagues.

My warmest thanks to the many ACME members and friends who contributed to the program planning and line-up.

To the authors, thank you for sharing your work with ACME. Please be sure to submit your work again next year for the conference in Little Rock!

To the award winners, congratulations! Thank you for serving as role models for outstanding teaching, research, and service to ACME and our profession.

To our guests from the Chickasaw Nation – Andrea Horner, Lona Barrick, and Kerri McDonald, thank you for joining us for the conference and developing such an engaging and informative Plenary Session.

To the Track Chairs, thank you for being such a great team! I cannot thank you enough for your hard work in recruiting submissions and reviewers, facilitating the review process, and corresponding with authors.

To my officer colleagues — Vivek, Irfan, Silvia, Pat, and Prashant, my deepest gratitude for your guidance and support during the program planning. A special thanks to Vivek for being such a terrific ACME mentor to me over the past three years.

To all of this year's conference participants, thank you again for being part of ACME. I hope the conference is a great learning and networking experience for you.

Don't miss next year's ACME Conference in Little Rock, Arkansas! Next year's Program Chair, Irfan Ahmed, is already hard at work preparing for another great conference. Please contact him to discuss how you can get involved.

My best wishes to all of you,

Renée Gravois, Ph.D.  
2015-2016 ACME Program Chair  
Sam Houston State University  
Huntsville, Texas

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*Democratic Theories and Branding in the Political Marketplace*

**Grant C. Aguirre**, University of Central Oklahoma

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*Consumer Expectations of Convenience Stores in a Developing*

*Asian Country: A Case Study from Sri Lanka*

**Prasantha Jayamanna**, DJP Holdings

**Juthathip Jongwanich**, Asian Institute of Technology

**Kishwar Joonas**, Prairie View A&M University

**Zafar U. Ahmed**, Kuwait University

### **Marketing Strategy and Innovation**

*The Role of Strategic Factors in a Firm's Propensity to Reshore*

**Ravi K. Jillapalli**, Texas State University

### **Supply Chain Management and Business to Business Marketing**

*Integrative Versus Distributive International Business Negotiations:*

*The Role of the International Manager*

**Zafar U. Ahmed**, Kuwait University

**Priyan Khakhar**, Haigazian University

**Laurence Leigh**, Monarch Business School

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## **MARKETING STRATEGY AND INNOVATION**

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### **INTEGRATIVE VERSUS DISTRIBUTIVE INTERNATIONAL BUSINESS NEGOTIATIONS: THE ROLE OF THE INTERNATIONAL MANAGER**

**Zafar U. Ahmed, Kuwait University  
Priyan Khakhar, Haigazian University  
Laurence Leigh, Monarch Business School**

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#### **ABSTRACT**

*We examined effects of negotiator features on successful negotiation. An online survey among international business executives working in the UK for MNC subsidiaries measured the success of their most recent negotiating experience in terms of integrative and distributive outcomes (N=155). We tested hypotheses inferred from the business negotiation literature and analyzed them using structural equation modeling. Results revealed that the respondents' individual motivation has a negative effect on integrative outcomes, while other characteristics had a positive effect. Results contribute to international negotiation theory, and can assist in pre-negotiation training. Academic contributions relate to model exploration, bringing causal statistical objectivity to qualitatively developed theoretical concepts.*

**Key Words:** *International business negotiation, personal features, integrative outcomes.*

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#### **INTRODUCTION**

International business negotiation is often a key element in marketing success. Negotiators frequently interact with potential business partners from markedly different cultural or social backgrounds. To be successful, they have to acquire a complex skill set that has to be acquired 'on the job' – a skill set that is useful in preventing undesired perceptions, filtering out communication 'noise' and that promotes successful negotiation outcomes. To quote Shi and Wright (2001:186); "In a global business environment, the business executive's

work has an increasingly international orientation and international business negotiation becomes an important competency”.

The growth of new emerging markets and of the global economy have seen increasing demand for negotiation training for marketing executives. Training consultants generally teach negotiation skills by drawing on communication theory and socio-psychological perspectives. They mostly emphasize “interest-based negotiation” (Fisher, Ury and Patton, 1991), where negotiators work to identify underlying interests on both sides, explore creative options for mutual gain, and use legitimate standards to determine the best possible solutions (Senger, 2002). Scholars have offered both comparative and prescriptive studies (Ghauri 1996; Francis 1991; Zartman and Berman 1982) since “International negotiators require additional skills and competencies on top of those required in domestic business negotiations” (Reynolds, Simintiras and Vlachou (2003:236).

The process of business negotiation is generally described as either taking an integrative or a distributive frame (also known as cooperative versus competitive frame, associated with win-lose and win-win outcomes e.g. Fisher and Ury 1981; Ghauri 1996; McCall and Warrington 1984). Ghauri (1996) notes that the ‘atmosphere’ of the negotiation can have varying degrees of either cooperative (associated with an integrative frame), or competitive (associated with a distributive frame) aspects.

## LITERATURE REVIEW

The study of international negotiator profile and varying negotiating methods has led, however, to prescriptive literature on the ‘ideal’ ways to communicate and behave, often with reference to different cultures (e.g. Brett 2000; Al-Ghamdi 1999; Brett et al. 1998; Gilsdorf 1997; Graham et al. 1994; Herbig and Kramer 1991; Kjaerbeck 1998; Martin et al. 1999; Mintu-Wimsatt and Gassenheimer 2000; Oikawa and Tanner 1992; Uljin and Verweij 2000; Woo and Prud’homme 1999; Acuff 1997; Rubin and Sander 1991; Marrotti 1998; Tracy 1998; Ferraro 1996; Nair and Stafford 1998; Lewis 1996; Ghauri 1996; Khakhar and Rammal 2013). Other research has focused on negotiation styles, power, problem-solving, skills, tactics and conflict resolution from social psychological and behavioral theory perspectives (Shi and Wright 2001). The success of negotiations in international settings relies on the ability of managers to effectively *communicate* their message in different cultural settings (Schoop, Kohne, & Ostertag, 2010). Managers must be aware of the contextual factors influencing the negotiation process, and should have the ability to alter their style and strategies to suit their needs (Saeed, 2008).

Various theoretical models have been proposed (Pathak and Habib 1996; Calantone et al. 1998). These generally rely on deductions from literature reviews and qualitative research (Dupont 1991; Ghauri 1996). Quantitative tests have been done using student respondents and have been cross-cultural in nature (Graham et al. 1994). However, perceptions of international negotiator features have not been examined empirically amongst business executives, despite researchers’ speculation about their effects on negotiation behavior, process and outcomes

(Tung 1988; Wall and Blum 1991). For example, Tung's conceptual paradigm was based on five key dimensions; contextual environment, negotiation context, negotiator profile, strategy selection and process/progress, and negotiation outcomes.

Because of the general absence of empirical testing among actual business negotiators, these models have not been popular with practitioners (Weiss, 2006). This paper contributes to filling this gap. In the methodologies of existing research on international business negotiations, the choice of research respondents and participants has been criticized (Weiss 2006; Angdal 2007). As mentioned, much of the research in negotiations is experimental in nature, relying primarily on students as research subjects. Ramsay (2004) notes that the academic literature on negotiation is dominated by studies of American undergraduate psychology students. The rationale for using students is related to ease of access. There is some discussion whether negotiation behavior of students accurately reflects negotiation behavior of 'real' negotiators, whilst the negotiating behavior of students has been shown to differ significantly from that of professionals (Zarkada-Fraser and Fraser 2001). In this vein, this study has approached the subject in a non-simulation and non-experimental manner, with a non-student sample. This will provide a more relevant view of the negotiation process in order to provide a full essence of international business negotiations.

## RESEARCH QUESTION AND METHODOLOGY

In order to develop a "negotiator profile" to describe international business negotiators, we used a framework based on Shi and Wright's (2001) work. This consists of the following five factors:

1. Interpersonal Competency
2. Cognitive Capabilities
3. Team Commitment
4. Individual Motivation
5. Open-Mindedness

Based on our literature review, we hypothesized that all the five factors listed above would lead to more integrative negotiation outcomes. It should be noted that our assertion that greater team commitment would lead to more integrative outcomes conflicts with Polzer (1996) who found that when teams were present, competitiveness increased and cooperation and trust decreased. Nonetheless, we hypothesized that a greater team commitment of the international business negotiator would mean a more integrative negotiation process, as individual members strived to contribute their efforts to the team, while making the team strive *collectively* to achieve overall effectiveness in the negotiation process. This assertion is also inferred from literature that focuses on interpersonal skills for negotiators within a team (Ghauri and Usunier 2003).

Despite different interests, individual members strive to contribute their personal effort to the negotiation team while the team strives collectively, to achieve *overall* effectiveness in

the negotiation process (Poole, 1991). Thus, the intensity of an individual negotiator's motivation and interest in the negotiations can influence the result (Shi and Wright 2001). Individual members must strive to contribute their personal effort to the negotiation team, while the team strives collectively, to achieve overall effectiveness and efficiency in the negotiation progress. While high levels of individual motivation may affect the negotiator's perceptions or even his personality (O'Conner and Carnevale 1997), we assume that individual motivation will be viewed favorably by both sides in the negotiation and also lead to greater team commitment. While (Rao and Schmidt 1998) have suggested that opportunism has a negative impact on the integration process, it should be noted that while opportunistic behavior may be associated with high levels of motivation, it is not a necessary consequence of motivation. Thus we hypothesize;

H1. The greater the interpersonal competency of the negotiator, the more integrative the negotiation process.

H2. The greater the cognitive capabilities of the negotiator, the more integrative the negotiation process.

H3. The greater the commitment to his team of the negotiator, the more integrative the negotiation process

H4. The greater the individual motivation of the negotiator, the more integrative the negotiation process.

H5. The greater the open-mindedness of the negotiator, the more integrative the negotiation process.

Our survey instrument was adapted from Shi and Westwood (2000) and Shi and Wright (2001) and included additional measures and changes to some of the wordings and tenses of existing questionnaire items. This was necessary to make it applicable to the sample used in our study and questions were also refined and tested using factor analysis to ensure adequate reliability and validity. Our aim was to isolate factors that captured relevant characteristics of the international business negotiator that were generally applicable to international executives. The atmosphere of the negotiation was measured using a variable which measured the perception of the negotiation process in terms of a cooperative versus competitive process. The specific items used are available from the authors.

Participants in the study were executives who had been involved in international business negotiations. To gain an appropriate population we assumed that foreign Multinational Enterprise (MNE) managers of subsidiaries based in the UK would have international business negotiation experience within their work environments with UK or European counterparts. The rationale for this assumption was that most business transactions are preceded by business negotiations (Reynolds, Simintiras and Vlachou 2003), and that therefore foreign MNE managers of subsidiaries would have appropriate international business negotiation experience. The initial population consisted of managers from lists that were

obtained from a variety of sources, such as (1) The British Chambers of Commerce Directory of International Members based in the UK, (2) Manchester Business School Alumni Network lists (3) Lists of foreign MNE subsidiaries based in the UK obtained from the database AMEDUS. These lists were seen as reliable and comprehensive in detailing the electronic contacts, names, positions as well as identifying which foreign subsidiaries were in active within the UK. We identified 1,213 potential respondents, who were sent a series of invitation and reminder emails describing the nature of the study, and an invitation to participate if they felt that they could be classified as executives with experience in international business negotiations. Thereafter, they were asked to recall their last international business negotiation experience when filling in the questionnaire. Following two reminder emails explicitly inviting the participation of experienced business negotiators only, a total of 155 useable questionnaires were completed online. This data collection process took approximately three months.

The study included a number of relevant respondents including business managers and negotiation practitioners from (1) international management consultancies specializing in advising on international negotiation strategies, (2) international business negotiators within international trade (3) procurement consultants (4) real-estate negotiators and (5) sales negotiators. Over 60% of the respondents were male, whilst most of the responses were part of the 36-40 years age group and 37% were 41 years of age or above. Around only 4% of responses came from individuals aged 61 years or above. Over 57% of the participants had greater than three years of international business negotiation experience, confirming the appropriateness of our sample. Only 19% of the respondents had less than one year of international business negotiation experience. Over 52% of the respondents were in senior management, whilst 29% were in middle management, 61% had completed post graduate studies, whilst 20% were educated to undergraduate level.

A two-step approach recommended by Anderson and Gerbing (1988) was utilized. This was executed using confirmatory factor analysis (CFA) to provide the reliability and validity of our scales. It is also consistent with other business research (e.g. Chia Ling 2005; Hadjikhani and Thilenius 2005). Our resulting model had two components: *a measurement model* and *a structural model*. Substantive research in the social sciences has employed a two-step modeling approach for theory development and testing (e.g. Bollen 1989; Li and Catlantone 1998; Chia Ling 2005). In this approach the measurement model is separately estimated prior to the estimation of the structural model. By doing so, more reliable measurements were secured to avoid interaction between the measurement and the structural model. After running both measurement and structural models, our analysis shifted to calculation of the parameter estimates of the structural model in order to determine their statistical significance.

## RESULTS

The mean of each of our variables (on a scale from 1 to 5) are shown in table 1:

**Table 1. Average Negotiator Profile Scores**

Inter-Personal Competency	4.201
Cognitive Capability	3.435
Team Commitment	3.962
Individual Motivation	3.820
Open-Mindedness	4.134

We analyzed the data by assessing the measurement model through CFA analysis, as the measurement items are required to provide adequate construct validity and reliability for the results of the data analysis to be credible (Ghauri and Gronhaug 2005). Putnam (2005) recommends the use of factor analysis within negotiation research due to its general popularity within the social science. An approach recommended by Anderson and Gerbing (1988) was utilized to assess the measurement model. A satisfactory measurement model using CFA demonstrates good reliability and validity (Anderson and Gerbing 1988). In this research, there was sufficient evidence that the indicator variables or questions really did measure the underlying constructs of interest and the model adequately fits the data. For both reliability and validity, there are a number of different ways that they may be measured using CFA. The model chi-square was 4029.865 with 1259 degrees of freedom,  $p < 0.0001$ . The 'normed' or relative chi-square was  $(4029.865/1259) = 3.2$ . RMSEA=0.113, 90% CI for RMSEA=0.110; 0.117. The Comparative Fit Index (CFI) was 1.000 and the Goodness of Fit Index (GFI) was 0.945, and consistent with the fit statistics suggested by Stevens (2002). Fornell and Larcker (1981) recommend a minimum composite reliability of .60. An examination of the composite reliabilities revealed that all meet that minimum acceptable level. The variance extracted estimates assess the amount of variance that is explained by an underlying factor in relation to the amount of variance due to measurement error. Fornell and Larcker (1981) suggest that constructs should exhibit estimates of .50 or larger. Estimates less than .50 indicate that variance due to measurement error is larger than the variance captured by the factor. The variance extracted estimates meet this minimum threshold, so the validity of our latent constructs as well as the associated constructs was acceptable. Results for various reliability estimates are shown in Table 2.

**Table 2. Reliability Estimates**

<i>Constructs</i>	<i>Composite Reliability</i>	<i>Variance Extracted</i>	<i>Cronbach alpha</i>
Interpersonal Competency	0.731	0.563	0.987
Cognitive Capability	0.701	0.655	0.828
Team Commitment	0.905	0.761	0.976
Individual Motivation	0.987	0.796	0.959

Open-Mindedness	0.803	0.692	0.877
Negotiation/Process	0.670	0.582	0.711

Data analysis thereafter focused on assessing the structural model fit. The aim of the structural model is to determine if the data fits the model well (Chia Ling 2005). A more ‘parsimonious’ model was re-estimated yielding the following fit statistics; The chi-square for the model was 477.693 with 276 degrees of freedom ( $p < 0.001$ ). The normed chi-square was 1.73. RMSEA was 0.065; the 90% CI was 0.055; 0.075. The Comparative Fit Index (CFI) was 1.000 and the Goodness of Fit Index (GFI) was 0.986. These values are indicative of a model that fits very closely with the data. All indices were also better than those in the previous measurement model. Analysis then moved to the deduction of the correlations between the constructs of this structural model to ascertain relationships between the dependent and independent variables. The results are presented in Table 3.

**Table 3. Summary of the Correlation Analysis**

<i>Explanatory Variables</i>	<i>Proposition</i>	<i>Correlation</i>
Interpersonal Competency	Integration	0.207*
Cognitive Capability	Integration	0.173*
Team Commitment	Integration	0.091*
Individual Motivation	Integration	-0.168*
Open-Mindedness	Integration	0.077
* p-value < 0.05		

H1, H2 and H3 are thus supported by these results. Unexpectedly, however, individual motivation was negatively correlated correlation with integrative outcomes. Thus H4 is rejected and we found that individual motivation was actually associated with *distributive* outcomes. The correlation related to H5 was positive but not statistically significant so this hypothesis was not supported.

## DISCUSSION AND MANAGERIAL IMPLICATIONS

We found support for three of our five hypotheses (and four statistically significant results) and this has both managerial and theoretical significance. Our results for interpersonal competency and cognitive capability have implications for decision-makers responsible for the composition/ training of negotiating teams or negotiators (these could be policy-makers for government level negotiations, or multinational managers at the firm level). Greater investment at the government and firm level in training and development of negotiating staff (e.g. team-working skills, cultural and social adaptability) increases the likelihood of cooperative negotiation processes – this investment should be balanced against the possible gains from particular negotiations. Managers could conduct this at the pre-negotiation phase (Ghauri 1996) through specialist negotiation workshops. In particular, cognitive processes may be composed of visualizing, judging, evaluating and intuiting skills. To support such processes, negotiators need mechanisms that transform these observations and first-hand knowledge into a deeper



level of comprehension and understanding. We believe that interpersonal competency and higher cognitive capabilities can be developed through specifically tailored negotiation programs that require the use of information from personal experiences, critical thinking skills and, most importantly, extensive practice at a real professional level. Our results indicate that cognitive capabilities are associated with cooperative processes. Hence an attempt to widen these capabilities will also have favorable implications for negotiations. Cognitive capabilities may also be related to general intelligence and the 'process of knowing'; the consciously or sub-consciously comprehended senses (e.g. skills such as adaptability) and a comprehension of subjectivity (e.g. reading 'between the lines') can come only from continued learning and exposure to new negotiating situations over time.

An example of the importance of interpersonal competency can be found in the negotiation training industry where seminars, lectures, simulations and exercises are given to executives with a view to improve skills such as adaptability, discipline, listening skills, relationship management and reading 'body-language' or non-verbal cues. Negotiation trainers should know how to develop these useful skills as they may lead to positive processes, whilst executives should also be perceptive in detecting such skills in individuals when composing a particular negotiation party.

The correlation between team commitment and the negotiation process is also revealing. Sending teams that are skilled and experienced at working well internally will lead again to cooperative frames; while teams with less adapted frames may run the risk of greater misunderstandings. A lack of understanding and a lack of consistency *within* the negotiation team itself may lead to unsuccessful negotiations and associated losses. Team commitment should therefore focus on features that help forge consensus on negotiated business deals such as: consistency of team behavior, cooperative workings within the team, an awareness of the roles in the negotiations, self-discipline in observing team regulations and focus on orderliness and conformity in terms of the individuals' behavior towards the other team members. Hence managers should (1) have cooperative workings *within* the team, (2) define the roles of negotiators in the team, and (3) enhance self-discipline in observing team regulations. Preparation and awareness may therefore lead to a greater potential for a mutual satisfaction process through team working and team commitment skills.

Our results for individual motivation are interesting – greater personal motivation (achieved through mental evaluations of personal gains and losses, such as developing personal business connections) is associated with competitive negotiation processes. Here, we assumed that personal motivation can come from personal gain. This gain can be direct (e.g. bonuses for performance) or indirect (e.g. potential promotion due to displayed competence). We believe that when there is an opportunity for either explicit or implicit personal gain, the possibility of opportunistic behavior in the negotiation will exist. The perceptions of this behavior may affect the negotiation process; our results imply that there is a possibility of 'overly' motivated individual negotiators creating competitive processes in negotiations. This is not to say that individual motivation equals opportunistic behavior, but instead the potential for opportunity and any explicit or implicit gain or loss at the personal level, may be a pre-cursor to the

motivation itself. This, however, is only a proposition based on our results for individual motivation. A real-world example of such can be seen in the choke-hold of the bonus mechanisms in the stock-brokering industries, whereby bankers receive hefty individualized incentives to motivate performance-based results. Due to the amount of money involved in the individual bonuses, bankers may be driven by opportunism to undertake a greater amount of risk. It may be argued that such risky gambling behavior would not take place if such hefty bonuses were absent. In the context of negotiation, possible individual opportunistic behavior may stem from systems (explicit or implicit) in place to achieve individual motivations and this may lead to distribution, as the perceptions may be viewed or seen as resulting from opportunism itself.

As noted above, Rao and Schmidt (1998) have shown that high opportunism results in less integrative outcomes. Given our unexpected result in relation individual motivation, it is clear that the link between opportunism and motivation needs to be explored further. In practice, opportunistic negotiators may be involved in making false or empty promises and threats, in the expectation that individual advantage will be realized in the short-term. We believe that decision-makers should invest in creating a team that works successfully internally and is motivated *collectively*, as our results indicate that it is the cooperative working within the team that increases the chances of integrative negotiations, and hence leads to potential profits. Decision-makers should therefore identify individuals with “core competencies” in team working, recognizing that opportunistic characteristics that result from individual motivation may be perceived negatively and result in unsuccessful negotiation processes.

## **LIMITATIONS AND DIRECTIONS FOR FUTURE RESEARCH**

It is important to note some of the limitations of the current study. Where possible we recommend further investigation to enhance our findings. Even though the response rate is comparable to studies of a similar nature in social sciences, it is still subject to the common biases associated with similar methods. Examples of these biases include sample selection bias and self-reporting bias.

Secondly, this study highlighted the important elements of the negotiator’s profile or characteristics, but did not study the impact of each of the elements on different parties in the negotiation, i.e. dyads. Instead, as previously stated, the view was taken that the underlying factors would apply to all parties, and ultimately their interests in the negotiation could be both mutual and conflicting in terms of price or cost (Cavusgil and Ghauri 2002; Ghauri and Usunier 2003). As a result, we did not distinguish on the operational types of negotiations. This study approached the topic from a culture-neutral point of view. Therefore, the current study is limiting in this area. However, given this, an interesting area of further investigation with regards to individual motivation arises; researchers could assess the perceptions of personal motivation in different *types* of negotiations (and distinguishing negotiating parties), or varying perceptions of motivations in different cultures or nationalities (e.g. applying the scales in this study between competing sets of cultures in international business negotiations can be proposed to infer conclusions that could be added to various prescriptive cross-cultural issues). Could it

also be possible that motivated or 'eager' negotiators cause competitive negotiation processes, with varying results for type of negotiations as well as potential cultural parties involved? As this research report did not examine these areas, further study is recommended to build upon our conclusions. Again, these perceptions could be either culture or negotiation specific and addressing these points could also generate a deeper understanding of the complexity of international business negotiations.

The third limitation can be viewed in general terms by the use of questionnaires. Questionnaire surveys are a good method of researching negotiations if the objective of the study is to deduce perceptions, and assess the distribution of those among the population. A major drawback of questionnaires, particularly in international negotiation research, is that the questions that are asked are *couched* in the researcher's frame of reference, and hence run the great risk of missing important information that is outside that frame (Wright 1990). The influence of different researchers means that survey items which may be inferred by one researcher may not be precisely those inferred by another researcher. The questionnaire items obtained by the researcher in this research are obtained from the 'lens' or the mind-frame of the researcher, and therefore experience a degree of subjectivity, in relative terms to other researchers who may have conducted the same study.

The fourth limitation relates to our methodology including measurement and structural models; it has to be noted that a SEM is not absolute, but relative *per se*. We accept that simplifying subjective concepts in negotiation study to linear structural equations may not reveal the true complexity and dynamism of negotiations themselves. Although structural equations analyses are intended for, and very effective in hypothesis-testing analysis amongst a comprehensive set of variables, it remains a statistical approach for determining causality, not a temporal one. Negotiations vary and their related variables may also alter with time (Ghauri and Usunier 2003). Repeating the study using different sequences of actual negotiations can, however, be a very difficult task and may significantly reduce the sample size required for a SEM method. The possibility of following a negotiating team within the frame of one (or several related) business deals for a longer period of time might yield important new insights into negotiation process. To do this, either a researcher might be present during sequential negotiations, or participants would be asked to keep a protocol or complete questionnaires of their actions at every stage of the process (Agndal 2007).

Another important objective would be to determine how training should be designed to help negotiators act collaboratively. At the same time, can negotiators also learn assertive behavior to probe and test the other party's limits in an aim to achieve a more favorable outcome (Agndal 2007). With regards to team commitment and interpersonal competency, observing multiple negotiation scenarios within the same negotiation research may provide opportunities to compare how negotiation behavior changes following training. Thus, future researchers could compare negotiation processes with two teams of negotiators, one of which could be trained in the necessary skills, whilst the other would not have received any instruction.

## CONCLUSIONS

Research on international business negotiation has been underway for 35 years and has developed within two major paradigms: the macro-strategic, which focuses on organizational wholes, and the micro-behavioral, which focuses on individuals (Weiss 2006). This research report adds to the micro-behavioral stream focusing on individuals. The purpose of this research was to further the empirical understanding of factors related to international business negotiators, and their link to corresponding processes. Previous prescriptive studies, although extremely useful in contributing to the understanding of often complex and dynamic negotiation processes, are sometimes lacking in quantitative analysis of real-life negotiation experiences.

Gaining an empirical understanding of the factors studied will add to the existing body of academic and practical knowledge in a specific way. The study of international business negotiations is often subjective and theories about them are constantly being updated. An existence of a body of empirical analysis will aid the evolution of the discipline for both scholars and practitioners.

Successful negotiation experiences should result in both parties feeling more satisfied with the relationship, thus enabling the parties to reap the benefits stemming from a long-term involvement. Thus, negotiation can be examined as a management mechanism that can allow both parties to benefit from the experience and move toward a stronger relationship (Atkin and Rinehart 2006). Research that explores the impact of negotiator features on negotiations will, we believe, facilitate the creation of these strong relations through the pragmatic understanding of the impact of these individual level characteristics.

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## **STRATEGIC LOGISTICS ALLIANCES: DEMAND COMPLEXITIES**

### **FOR A NATURAL GAS PRODUCING COMPANY**

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#### **ABSTRACT**

*Taking a business-to-business (B2B) perspective, this research explores logistics problems involved in transporting natural gas products from producer to consumer. This research characterizes problems a natural gas producer experiences in anticipating demand, describes strategic logistical alliances necessary to meet demand, and explains the complexities involved in transporting the product. A systems dynamic model is developed to illustrate and suggest solutions to the problem. The model provides insight into the logistical complexities gas producers face when meeting increasing demand.*

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#### **INTRODUCTION**

The natural gas industry divides into three major areas: the upstream, midstream and downstream sectors. The industry comprises of various systems, processes and functions, all interlocking together to achieve a common goal. The natural gas industry is characterized as a system of systems with interconnected and mutually dependent systems (Kauffman 1993; Rinaldi et al. 2001). The system is defined as an extended enterprise comprising of various systems, processes and functions all interlocking together to achieve a common goal (Fairbairn et al. 2000). These complex processes, functions and systems can either be seen as a whole (including global, international, national companies) or considered in parts per each company's system (Ackoff 1971). Either way the industry faces several complexities that characterize the flow of funds, goods and services to the end consumer. These complexities faced include but are not limited to risks, price elasticity, demand and supply provisions, complications arising from long-term contracts with other service providers, and other challenges faced with strategic partners (Mulherin 1986).

As complexities increase over time, the company tries to determine what sector to specialize in to gain a competitive advantage. The company then decides strategically if it would be beneficial to specialize in one sector or in all three sectors. The company also determines if it is best to simplify the processes involved in each sector of the industry, what activities to outsource or integrate, and if this strategic decision would help reduce risks or help monitor demand and supply conditions in order to increase profits.



Over time, as natural gas companies make strategic decisions and become more globalized in the production of natural gas products, complexities in the industry also increase (Foss 2005). Complexities such as erratic risks involved in the fostering of strategic alliances, lead to increasing challenges in relation to competition and cooperation tension with other service providers (Hamel 1991). In recent market strategies research, it is imperative that companies compete or form better strategic alliances to achieve a common goal in meeting varying demands.

The purpose of this research is to examine the system dynamics of the strategic logistics alliances involved in the upstream - midstream to downstream sector of the industry from the perspective of a single natural gas company. The research uses system dynamics to help describe the cohesive strategies that could solve and provide more insight to manage the problems faced by businesses (De Vany and Walls 1995). The model effort enables understanding some of the activities, challenges and complexities involved in the natural gas business processes in order to meet demand. The researcher addresses these variables in the model: demand, strategic options, strategic alliances and outsourcing, transportation, and rate, costs and technology. The products explored, produced and sold in the industry is specifically limited to the uncertain demand for pipelines in the natural gas industry.

The research seeks to understand and encourage the strategic alliances in the natural gas company from all sectors of the industry in order to meet demand. These strategic alliances, when developed and cultivated enable companies gain a competitive advantage (Karmarkar 2004). The company can have the advantage of meeting demand efficiently and with actualized reduced costs. This research uses a causal loop as a system dynamics tool to provide a better description about the complexities natural gas companies face in a competitive market. Using a system thinking approach, the research develops the causal model about some of the complexities the natural gas company face in order to meet demand. The research also explores the demand and logistics involved in transporting natural gas products from a business-to-business (B2B) perspective. The author presents a systems dynamic analysis to describe the demand for natural gas from the perspective of a natural gas company by developing a systems dynamic model to understand and describe the research problem. The model provides more insight to help understand the complexities the natural gas company faces with increasing demand. The next section of the research paper provides background on the research problem and the origin of the project. Next, a discussion presents the methods used and how the model describes the overall structure. Then, the paper provides the conclusion and future research opportunities.

## **BACKGROUND**

### **Theories Used**

The paper predominantly draws from economic theories applied to the logistics and strategic management literature. Research has shown that a number of economic theories and concepts have been used in the logistics and supply chain field (Stock 1997; Defee et al. 2010). This research considers transaction cost economies, exchange theory and rational choice

theory. However, the two main economic theories used in this research include agency theory and complexities theory. Agency theory conceived in the 1970s, has theorized the contractual and relationship management between agents and companies in achieving a common goal (Jensen and Meckling 1976). Using the agency theory in the research paper helps the research consider supply chain management issues such as risks sharing, capital outlay and the resilience of costs and benefits of supply chain integration (Stock 1997).

Complexities theory highlights the research interests in complex organizations and strategic decision-making (Anderson 1999). Complexities theory helps in understanding network models, and the challenges and difficulties experienced in the industry's network (Anderson 1999; Matos and Hall 2007). The research capitalizes on using these economic theories in the context of the paper.

## **Model Variables**

### ***Demand***

Natural gas is conceivable into residential and commercial markets (Al-Sahlawi 1989; Balestra and Nerlove 1966). Narrowed down to two main markets, these natural gas products tend to influence the nature of demand as being stochastic and hard to determine (Krichene 2002). Demand for natural gas in each sector can be very distinct in nature and tends to be inelastic to price elasticity (Al-Sahlawi 1989). Demand for this product primarily relates to price fluctuations that have generated many disruptions in the supply of the product (Hamilton 2009). Many of these disruptions are noticed in the united states without taking into consideration the global scope of the demand complexities (Foss 2005). Recent development has come to see the demand for natural gas exploding in the U.S. compared to the demand for oil, especially for residential markets (Hekkert et al. 2005; Bhattacharyya 2011). However, consumer needs for the product is high for both commercial and residential markets.

Demand in the natural gas industry consists of natural gas production and exploration rates and costs. Demand also includes specialists in the fields, such as geologists, chemists, logisticians and other specialists (Bhattacharyya 2011). This also expands to the need for outsourcing specialties such as transportation, and exploration functions. Demand for technology, equipment, storage facilities, and other materials especially for pipelines used in forms of transportation (De Vany and Walls 1995). These pipelines are usually provided mostly by companies that manufacture and supply quality pipeline products (De Vany and Walls 1995). In collaboration with other companies, natural gas companies tend to set contracts in place to avoid future issues and disruptions such as oil spills and related wear and tear situations.

This research explores the logistics, concerning demand, involved in transporting natural gas products from a business-to-business (B2B) perspective. Here the business consumer is considered. The business consumer demands the natural gas products, spare parts and materials for running daily services and business practices. Research has shown how the demand for products and services for business consumers are different from the individual residential consumers. Although past research tends to put a focus on the e-commerce aspect

of the B2B consumer, this paper emphasizes on all aspects of the business consumer. For the natural gas markets, business consumer's demand includes such products as staff, pipelines, raw materials, information, and impact on time, cost, quality and revenue management (Secomandi and Johnson 2007; Kaplan and Sawhney 2000).

### ***Strategic options***

The natural gas industry is best labeled into three major areas: the upstream, midstream and downstream sectors (An et al. 2011). The upstream section provides exploration and production processes of the raw materials. The sector involves the processes of exploring and producing crude natural gas. The downstream sector strictly deals with refining, processing, distributing and marketing of the crude oil and natural gas products. The midstream sector focusses on the conversion processes and product refinement (Foss 2005). These three sectors require the strategic flow and management of people, resources, and equipment to enable a competitive advantage.

A company may specifically operate in all three sectors of the natural gas industry or at least one sector. The network models of the three sectors are dynamic as a whole system. The processes involved in these sectors require the free flow of products, services from one sector to the other with limited disruptions (Komala et al. 2005). The logistics of these processes need to be efficiently managed to gain a competitive advantage regardless of location, time and amount of resources. Companies who specialize in the natural gas industry are prone to, under the Natural Gas Act of 1938, face a dissemination of services and functions such as production, transmission and distribution of the natural gas products bound by long-term contracts with public utility holding companies (Mulherin 1986). While a company may produce natural gas resources, public utility companies provide pipeline distribution of the product to the consumer (Hubbard and Weiner 1986). However, these natural gas companies explore the wells/oil fields, transform and process the raw materials to natural gas liquids and then distribute to the public utility companies to end consumers.

The industry requires effective supply chain functions that allow for the inventory, distribution, ordering, materials handling, and import/export of commodities from businesses to the other, one supplier to another and finally to the end consumer (Chima 2011). The supply chain network of the industry consists of interdependent networks and systems institutions, businesses, and finances to gain a competitive advantage. Each component of the supply chain function provides reliable distribution capabilities in the flow of products and services globally and locally to the business consumers (Rinaldi et al. 2001). Therefore, a company needs to face making a decision, strategic options, to perform all or one business functions and/or outsource other competencies, which will lead to faster transportation and other supply chain functions of the product and at a possible lower cost.

### ***Strategic alliances and outsourcing***

Several series and coordination in obtaining, handling, processing and selling crude oil and other natural gas products helps explain how strategic alliances and outsourcing of such products and processes are attractive in the industry. These strategic alliances with outside or third party collaborations fortify competitive advantages. These partnerships, specifically with

specialists in the field (such as geologists and transport companies), most show innovative competencies that contribute to the company's contractual agreements (Hagedoorn and Duysters 2002). The paper explores the preferences for companies to enable strategic alliances to improve such competencies, gain a competitive advantage and increase a comprehensive risk management against uncertain demand disruptions (Das and Teng 1999).

Strategic alliances involve the networks of companies and businesses, nationally and internationally, to achieve a specific purpose. These institutions come together by pooling their competences, resources, and knowledge to gain a competitive advantage (Agarwal et al. 2010). In considering the limited and undistributed availability of natural gas, strategic alliances are an advantage to the natural gas industry. These alliances can be advantageous pending on how common benefits are perceived by both parties, and lead to cooperate tension and even competition if not handled properly (Agarwal et al. 2010).

### ***Transportation***

Natural Gas as a commodity is unevenly distributed among countries, with some countries having an abundance of this natural resource while other countries are scarce (Hurst 1989). The commodity although explored is of distinct properties to oil. Therefore, the product requires a different form of transportation using pipeline transportation and distribution (Bhattacharyya 2011; Foss 2005). Although available in most developing countries, demography is an important variable in considering natural gas demand (Askari and Krichene 2010).

The demand and supply of this product compared to other commodities can be highly volatile in prices. Natural gas as a source for energy and other global sources of gas and electric power can also be of a challenge to investors and companies looking to invest in the supply of the product (Foss 2005) especially globally. Natural gas products require longer distances of transportation therefore companies need to consider making huge investments and discoveries of this product to encourage and enable the supply of the products regardless of the price fluctuations that could either increase profits and costs (Krichene 2002). Making strategic decisions based on making this product available, the company decides to provide this product either by increasing in-house capacity or by outsourcing and forming strategic alliances with companies that already have competencies in transporting and distributing the product.

### ***Rate, costs and technology***

The model takes into account the companies' production and exploration rates and costs. Demand for the natural gas products has an effect on the rates and costs in producing, transmitting and distributing the product. As the company makes strategic decision to perform more midstream activities in the exploration and production of the natural gas product, rates and costs increase. Other factors, complexities and risks that affect rates and costs drastically include oil spills, and damage to the pipelines causing pollution. These situations also lead to the demands in greener and cleaner air technology.

With the recent demands for greener and cleaner air technology for better sources of energy, companies tend to purchase these forms of technology and equipment in their already

existing plants, build newer plants or outsource the activities to plants already equipped with such technology and equipment (OECD 2002; Zarnikau 2003). Increasing rates of pollution and environmental hazards tend to limit the demand and supply of natural gasoline and mostly increase the demand for natural gas (compressed and liquefied), increasing the production costs, exploration and development of the natural gas resources. Companies faced with the challenge consider the demand complexities by providing these cleaner gas technology and equipment, services and processes (Genta et al. 1994).

## **METHOD**

System dynamics uses the complexities and feedback structures in social and physical systems and incorporates them into a modeling technique used for better visual and improved comprehension (Forrester 1994; Blair et al. 2007). Presenting a system dynamic approach, gives insights to how economic growth in emerging markets creates more market opportunities. The model framework uses the aforementioned variables to demonstrate and hypothesize potential disruptions that could occur, strategic options that are considered, and possible ways profits made are used. The model highlights dynamical feedback and many interactions that occur within the system. The research uses a casual loop diagram to elaborate the visual comprehension of the research problem. Here, the casual loop allows for an elaborated understanding and explanation.

The research model enlightens and enforces the establishment of companies seeking to earn profits and gain an advantage in these markets. The model makes clear that while the markets become globalized, this increases demand for products as well as incorporate and develop strategic options and decisions to foster more growth. The strategic options lead to the company deciding to outsource by creating more strategic alliances with other companies able to provide better or same competencies, or to increase their capacity to produce quality products.

With a motivation to meet supply, other increased demand for products, equipment and technology also increase. As other demands for natural gas products arise, companies consider the probability and risks of natural and man-made disruptions, pollution and other environmental hazards that could occur. Companies also restructure their equipment, services and activities to meet growing green demands. The company considers all these complexities and others when gaining profits to make future investments.

Different research models help in understanding how strategic alliances structure the production, distribution and transfer products. The model used in this research analyzes the product market, in the midst of or without competition (Morasch 2000). The paper provides ample provisions for addressing the uncertain demand and supply for the natural gas products in the global markets using a system dynamic methodology.

## CONCLUSION

The demand and supply of natural gas can be a dynamic mechanism for the natural gas industry (Balestra and Nerlove 1966). Demand at each point of the logistic network and the industry can be uncertain. Characterized as being stochastic, fluctuations in the demand pattern for the industry's products influence the price elasticity of the product (Al-Sahlawi 1989). Research has shown that the demand for natural gas is high for the commercial and residential markets. Demand for this commodity, although not durable, is of a short run elasticity responsive to price (Krichene 2002; Al-Sahlawi 1989; Balestra and Nerlove 1966). This uncertainty, demand for more staff, need for more green products, raw materials, fluctuations in prices, long term contractual agreements, and other risks associated with the production, transmitting, transportation and distribution of natural products all lead to complexities experienced in the natural gas industry. This research examines these and other complexities in the research model to understand the problems faced.

System Dynamics is useful in describing the integrated plans on various problems by providing a perceptual diagram to help manage the problem faced (Dyner et al. 1995). In this scenario, we use this perceptual diagram to understand the problem of increasing demand for the natural gas company. This modeling technique can be used in businesses as well many other fields. The information illustrated in the model is useful for decision makers and business managers in creating and analyzing other issues and scenarios that could occur. The model considers variables that can be associated with factors of complexities. The model specifically gives insight on what these complexities are and what causes them.

Future research could consider other hypothesized variables that have cause and effect feedbacks on the complexities in the natural gas industry. Future research could also use other research methods and other system methodologies to confirm the validity of the model (Blair et al. 2007). The paper, although limited in providing other quantitative methods and data to be analyzed, can still be helpful in providing acumen via the causal loop diagram to specifically look into each variable and see their cause and effect relationship with regards to the company's need to increase or reduce their profits when demand is considered.

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## **DYNAMICS OF BRAND EQUITY ACROSS THE KUWAITI FASHION**

### **CLOTHING MARKET**

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#### **ABSTRACT**

*This study explores the interface between marketing strategy and the creation of brand equity in the Kuwaiti fashion clothing market. The brand equity creation model developed by Yoo, Donthu and Lee (2000) has been expanded and employed to examine relationships between marketing strategy and dimensions of brand equity such as perceived quality, brand loyalty, brand awareness and brand association, and the relationships among these dimensions of brand equity. Imported fashion clothing brands have been used as product stimuli in our study. Shopping center intercept surveys were deployed to collect data across Kuwait. We discuss study findings, limitations, and directions for future research.*

**Keywords:** *Brand Equity, Kuwait, Fashion Clothing Market*

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## **THE ULTIMATE DEFINITION OF MARKETING**

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### **EXTENDED ABSTRACT**

Let's face it, marketing is about change. Can there be too much change? Perhaps not when it comes to innovative products. But what about the very definition and soul of our field? Do we have so little self-esteem as a field of study that we constantly feel the need to re-define what we are all about? Apparently so. Why change for change sake? And yet, we do...time and time again.

Take a look at what others have written about the definition of marketing (Brunswick, 2014; Cooke, Rayburn, & Abercrombie, 1992; Lichtenthal & Beik, 1984). That will get you started. If you want to stay current, mind you, make sure and read every new textbook in our field and every new article that deals (even tangentially) with the subject. Don't forget the American Marketing Association (AMA). The continued existence of the AMA may well necessitate a constant stream of new definitional offerings. Even if the AMA is not addicted to the constant definitional flux, it is, at the very least, a facilitator.

So why does this continually happen? Since people are clearly not rending their clothing and gnashing their teeth because the definition of marketing they are forced to utilize is a few months (or years) old, there must be another dynamic in play. What then?

Face it, we marketers are, if nothing else, hooked on alliteration. How about a new 4-Ps? I propose that this constant definitional change may be explained by the following broad categories:

- **Pretense** (making our profession seem important, scientific, relevant and current)
- **Prestige and Pomposity** (individual self-esteem and self-importance...I am what I write)
- **Profit** (publishers, textbooks, and faster revision cycles mean more money)
- **Political Correctness** (a need to be universal, ecumenical, inclusive, and pat our own backs)

Sure there may be other factors. I guess I could add the following:

- **Pretty Much Anything Else** (an alliterative and non-parsimonious way of saying "other")

So, that explains (maybe) the why. What about an ultimate definition of marketing? What characteristics does such a timeless definition require? It should be simple, concise, brief, unchanging, pithy, easy to remember, situationally generalizable, and have universal appeal. Easy peasy.

OK. Here's my definition. No empirical research was conducted. No committee convened.

**“Meeting something's needs and wants sometime, somehow, somewhere, someway.”**

If you don't mind me saying so, this definition has a lot going for it. A lot. What's more, it will work in every situation and never become obsolete. Problem solved.

Ultimately, marketing is strategically simple but tactically complex. So, there's still plenty more good stuff to write about tactically. Let's just stop constantly re-thinking, re-writing, re-imagining, and re-vising the definition of marketing. No more four “Re”s. Get it? Rhymes with “P”s. Did you see what I did there?

Gentle readers, I ask you to stop the madness. Ultimately, we must ask ourselves why we can't accept a generalizable and unchangeable definition of marketing once and for all. Especially one with alliteration. Especially one that is mine. At least my definition will be the same this time next year. At least it has that going for it.

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## **DOES SOCIAL CAPITAL MATTER? EVIDENCE FROM SOCIAL ENTREPRENEURIAL PROJECTS IN MEXICO**

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### **EXTENDED ABSTRACT**

Social capital has been receiving increasing attention in entrepreneurial field (Casson & Della Giusta, 2007). Most studies suggest that social capital should allow entrepreneurs to create, develop and maintain relationships of trust and reciprocity in a specific community. (McEvily & Marcus, 2005; Mustafa & Chen, 2010; Slotte-Kock & Coviello, 2010). These scholars argue that the role of social capital for entrepreneurship focuses on being a supplier of resources and capabilities for developing entrepreneurial projects (Galbraith et al., 2007; Nahapiet, 2009).

Some social capital scholars suggest that different combinations of social capital could drive different results (Coleman 1988). Nahapiet & Ghoshal (1998: 243) suggest three dimensions of social capital: *a) Structural dimension*: Refers to the general pattern of connections between actors (Ahuja et al, 2012; Borgatti et al., 2002; Granovetter, 1973; Nahapiet & Ghoshal's, 1998; Zheng, 2010) ; *b) Relational dimension*: Not all actors are related in the same way. Therefore, the relational capital focuses on identifying the type and quality of relations between actors (Ebers & Maurer, 2014; Granovetter, 1992); *c) Cognitive dimension*: Shared meanings in a community with others, 'bridging' (Dolfsma & Dannreuther 2003; Narayan and Pritchett 1999; Nahapiet & Ghoshal, 1998 ).

Despite the large number of studies examining the social capital in the entrepreneurial field, we were not able to find quantitative assessments of the empirical evidence that support the assumption that the 'same' social capital is needed in different stages of development of social entrepreneurial projects (Coleman 1988). We address this gap conducting an empirical research of 1117 social entrepreneurial projects in three different stages of development. Preliminary factor analysis results indicated that the social capital–dimensions (Nahapiet & Ghoshal 1998) are different in each stage of development of the social entrepreneurship projects. Results also showed that some dimensions of social capital construct are useful to reach other market places. Based on these findings, we develop a conceptual model and recommendations for scholars and policy makers.

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## **THE EFFECT OF TOP MANAGEMENT TEAM DIVERSITY ON INNOVATION STRATEGY**

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### **EXTENDED ABSTRACT**

According to Finkelstein and Hambrick (1996), top management team (TMT) are the set of top executives with direct impact on the formulation and execution of a firm's strategy. Corporate objectives are defined by TMT's members. Alternatively, Dodgson, and colleagues (2008), suggest that innovation strategy helps firms to decide in a cumulative and sustainable manner the type of innovation that best match corporate objectives (Mitchell et al., 2016; Zhu et al., 2016).

Although the literature has shown a perception of an increase in TMT diversity within firms over time, little clear empirical evidence exists of its impact on innovation strategy (Nielsen, 2010). The impact of a powerful TMT diversity on innovation is still an under researched field. The few empirical studies examining TMT influence on innovation have reported conflicting results.

For example, Homburg and colleagues (2015) report a positive relationship between TMT and innovation. In contrast, Götz and colleagues (2013) find a negative relationship, and Merlo and Auh (2009) report no relationship. A key problem with existing knowledge is that the few empirical studies do not consider diversity perspectives in TMT while implementing cross-sectional surveys (Finkelstein 1992; Kristinsson et al., 2016; Pfeffer 1981). To address these problems, the present study uses a cross-sectional field study of 900 diverse TMT members of firms.

Recent literature explains that the distribution of personal attributes among interdependent members of an organization is considered diversity (Jackson et al. 2003). Harrison and Klein (2007) widen this perspective by defining three different diversity perspectives: (1) diversity as separation, (2) variety and (3) disparity. The present research is focused on diversity as the variety that represents the differences in categories, primarily on information, knowledge and experience among TMT members (Bell, 2002; Fox et al, 2014). The participants in our sample work in different activity sectors.

We extend the TMTs' diversity perspective (Bell, 2002; Li et al., 2014; Nielsen, 2010) by developing a conceptual model linking TMT diversity types with different innovation strategies. Contrary to our expectations our findings show a positive effect on TMT uniformity and strategic innovations as well as TMT diversity for international

background of their members and strategic innovations. Tenure TMT seems to develop strategic innovations as well. Younger TMTs members seems to propose less strategic innovations. Theoretical and empirical implications of these findings are discussed.

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## **THE ROLE OF STRATEGIC FACTORS IN A FIRM'S PROPENSITY TO RESHORE**

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### **EXTENDED ABSTRACT**

During the past few decades, outsourcing and offshoring has not only affected manufacturing and information technology (IT) industries, but the onslaught of outsourcing and offshoring has permeated the service sectors including healthcare, consulting, legal, banking, insurance, accounting, marketing, and human resources. Outsourcing in marketing has traditionally been limited to advertising and promotion campaigns. However, firms have offshored marketing operations and analytics as well. Citing a Forrester Research survey of 650 B2B marketing executives, the survey found that 53% have either offshored or outsourced more than half of their marketing activities (McGovern and Quelch, 2005).

Outsourcing refers to hiring another company to perform a task that is currently performed internally. Typically, outsourced activities are deemed not central to the mission of a company or activities that outside vendors can perform more efficiently, with better response time and/or at better efficiency (Metters, King-Metters, Pullman and Walton 2006). In the popular press, outsourcing and offshoring have been used interchangeably, but there is a distinct difference between these concepts. Offshoring refers to a firm's decision to relocate its service or manufacturing to another country. In either case, there is a significant loss of jobs to firms abroad. How many US jobs were offshored in the past few decades? According to the Congressional Research Services, the overall job loss to offshoring by 2015 is estimated to be approximately 3.4 million jobs (Levine, 2011). There are others including the Bureau of Labor Statistics that suggest that over 6 million factory jobs may have vanished between 2000 and 2009 because of outsourcing and offshoring (Plumer, 2013). The primary motivation for this offshoring and outsourcing trend for many firms seems to be based primarily on cost savings.

Interestingly, since the early part of this decade, anecdotal evidence suggests that manufacturing and service firms are reshoring to the US. Reshoring refers to a firm's decision to relocate its manufacturing and services operations back to the US from abroad. In about three years since January 2010, the US has added 520,000 manufacturing jobs and 50,000 of those jobs may be attributed to reshoring (Plumer, 2013). The Boston Consulting Group conducted a survey of American Manufacturing companies in April 2012 and found that 37% of firms with over \$1 billion annual sales and 48% of firms with over \$10 billion annual sales were actively planning to relocate their manufacturing from China to the United States (The Economist, 2013). Interestingly, a few large firms such as Apple, General Motors Corporation, General Electric, Whirlpool, Lenovo, Caterpillar, Ford Motor Corporation have moved some of their production to the US and have paved the way for numerous smaller firms to do the

same (Plumer 2013). This trickling down effect of reshoring is expected to continue as more manufacturing and services firms realize that the outsourcing calculus has changed in China, Vietnam, India, Dominican Republic, and Philippines.

If one were to believe that the reshoring trend may pick up momentum in the coming years, then one must ponder on the reasons for the reversal of outsourcing and offshoring. The primary reasons cited by experts are the shrinking wage gap between China and the United States, rise in transportation costs, surge in cheap domestic energy due to shale gas drilling, delays in supply chain and customs; and rise in the productivity of the American worker (Plumer, 2013). Interestingly, a few of the large firms (i.e., Infosys Ltd., Aegis) in India that benefitted from outsourcing have relocated a part of their operations to the United States to be closer to their clients, to improve US customer service, and support the US domestic policies (Puri, 2012). Overall, the primary reasons for firms to outsource and offshore were driven by the availability of lower wages abroad. As the benefits of lower wages vanish, many firms are rethinking their strategy and leaning towards reshoring their productions.

Over the past years, outsourcing researchers have generally focused on the economic factors such as cost savings as the primary motivator that advances a firm's propensity to offshore. While cost savings are necessary, they are insufficient for firms to be successful in a competitive environment. The same principle applies to reshoring as well. The goal of this paper is to conceptualize the strategic factors other than cost savings that motivate a firm's propensity to reshore its productions. To the extent that the research propositions presented are supported, the implications to the field of marketing, manufacturing, information technology are meaningful. This research is significant in several ways. First, this research will help us understand what motivates some firms to have a propensity to reshore by investigating the mediating role of certain firm factors such as market-driven learning, first-mover predisposition, and competence building equity. Second, this research contributes to the body of marketing literature by providing a theoretical framework of a firm's propensity to reshore. Finally, as more firms desire to enhance their competitive advantage in the market place by reshoring, this research aims to make significant contributions to marketing practice and guide practitioners to strategize beyond a myopic view of considering only cost factors in reshoring decisions.

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**THE IMPACT OF COMPETENCY MODELS ON TECHNOLOGY**  
**ENTREPRENEUR MARKETING STRATEGY SUCCESS: AN**  
**EMPIRICAL RESEARCH IN THE MEXICAN-AMERICAN BUSINESS**  
**ENVIRONMENT**

**Hector Gomez-Macfarland, ITESM**  
**Mauricio Antunez, ITESM**

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**EXTENDED ABSTRACT**

Today, there are researchers focused on clarifying the impact of functional competencies, such as marketing, research and development on large manufacturing firms business performance (Masoud 2013), how such competences mediate the relationship between marketing planning and those large companies performance (Pervaiz 2003), and understanding what marketing competences or capabilities should be developed to maximize business performance specially on social enterprise (Liu 2015)

Although a good amount of research has been done taking as a study group large or social firms, still there is a gap to understand the right business competence model for small global market oriented firms and its marketing strategy performance. Therefore, this research empirically look for a better understanding of the following concepts 1) competences and talent management oriented to marketing activities and 2) the impact of the employee competences on marketing strategies performance of IT Consulting Services organizations operating in Mexican and the US market, and proposes a new customer oriented competence model based on the model proposed by Dubios (1993) and the competences management theory defined by Abel (2008).

The research methodology is based on ten in depth long distance interviews to Mexican IT Consulting Services entrepreneurs. Fifteen questions were considered to guide the interview on Skype application.

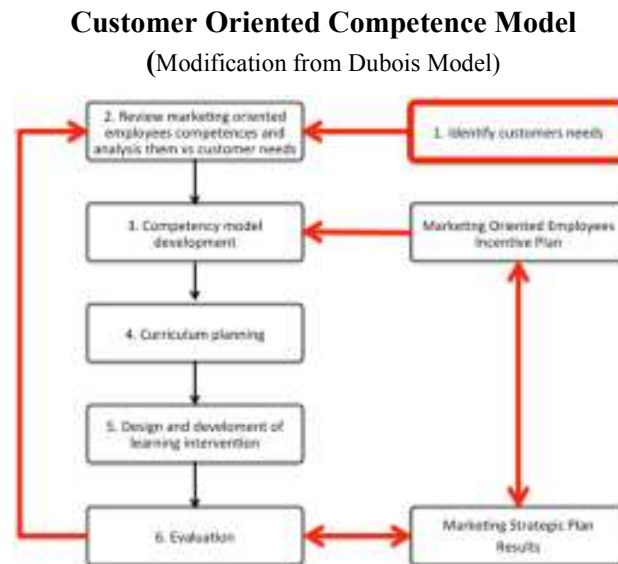
Two variables were consider to evaluate marketing stratetgy performance: Sales revenue goals and new IT product/service innovation

Some of the most significant findings are that, 100% of the interviewed entrepreneurs concur in the idea that human capital is of vital importance to reach their marketing strategy: revenue goals and generate innovation. However, about 70% don't have a formal method or framework in place to manage competencies and develop talent, therefore most of these companies are inclined/forced to hire talent that already have the required competencies instead

of developing/nurturing their talent to acquire new competencies, thus competency management is not a top priority.

Also, 100% of them consider that they need to have a formal framework for competency management but they don't know where to start, but only 20% of them give recognition or bonuses for proving the acquisition of new competencies to marketing oriented employees.

Based on the research findings and the competences theoretical framework, the following model is suggested to be adopted by the subjects of the study :



The adjusted model above suggests 3 mains modifications: 1) understand customer need as first step on for the competence model definition, 2) Make sure to include an incentive/compensation plan aligned with competences, 3) Periodically, evaluate the new competences developed, the job roles and career plans for each role vs. marketing strategy results which will also help to adjust the incentive plan, and 4) A systemic and dynamic framework that facilitates the definition, review and improvements of the competency model

These four adjustments to the original Dubois Model (1993) become part of a model that the entrepreneur could use to lead the human talent in the organization to develop or perfect competencies to better reach the organization's goals and objectives

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## **ADVERTISING MISTAKES ENTREPRENEURS SHOULD AVOID –**

### **PART II, OFFENSIVE OR POOR TASTE ADVERTISING**

**Tom Smith, Texas Wesleyan University**

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#### **EXTENDED ABSTRACT**

Mistakes. We all make them. Big ones, little ones...old ones, new ones. Some mistakes can be very costly for entrepreneurs in terms of revenue or reputation. There are literally hundreds of quotes about mistakes, many having to do with learning from them. Author, Brandon Mull: "Smart people learn from their mistakes. But the real sharp ones learn from the mistakes of others." An untraceable quote says: "I am not totally useless. I can be used as a bad example." Another common business concept is that the typical firm in America is out of business five years after inception. Some simply say that 80% of small businesses fail (Boone and Kurtz, 2014). Virtually no major marketing texts address this issue (Kleppner, 2011; Boone and Kurtz, 2014; Dunne, Lusch, and Carver 2013). A cursory perusal of scholarly journals also reveals an absence of coverage of this area...perhaps because it does not seem scholarly. Yes, you can use Google to search the phrase "Entrepreneur Advertising Mistakes" and find one document of five caveats, none of which relate to the presentation. Using the idea that one can learn from the mistakes of others, whether the activity involves government, music, or business, this presentation reviews representative print advertisements (many by entrepreneurs) which are considered as mistakes due to poor taste or offensiveness. You know what they say about taste: it's a matter of taste. One man's meat is another man's poison. One man's garbage is another man's treasure...or vice versa. Most of the PowerPoint examples relate to mistakes in terms of promotion decisions. The social-cultural environment of marketing will also be studied re mistakes by entrepreneurs. While many of the examples are by entrepreneurs, some are by larger corporations – but are still poor taste / mistakes to learn from.

Many of the environmental mistakes involve offensive / insensitive wording or visual in terms of the target market (social-cultural environment). Many entrepreneurs have created ads with no input from other people. A second or third pair of eyes might have prevented problems in the advertisements. This is particularly true when the target market is very different in terms of demographics from the creator of the ad; examples would include gender, race, and religion. A man creating an ad for women, a white person creating an ad for people of color, and so on could cause problems due to lack of empathy, understanding, or sensitivity to others. Entrepreneurs often lack academic backgrounds in business or lack expertise in some of the decision areas of the firm, such as the parts of the marketing mix or four P's. In the absence of funds for an advertising agency, many startups have relied on the opinion of individuals who may be flying blind when it comes to promotion decisions. Just as many businesses reject applicants who have offensive in their appearance or language, customers

may reject advertisements which are offensive or in poor taste. Offensive ads can be costly in several ways – loss of sales, loss of customers, plus embarrassment for the firm. These mistakes are much more common by entrepreneurs with small companies than by large corporations.

Topic areas include: questionable products, endorsers, sex, nudity, bad grammar, profanity, religion, stereotypes, potties, crime, death, gore, and puffery. Representative samples will be shown for most of the various problem areas as time permits. The PowerPoint for the presentation will be provided for all attendees – up to a reasonable number. None of the examples were derived from computer searches.

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## **SUPER BOWL ADVERTISING: WHAT TO DO TO SUCCEED?**

**Qiang Fei, Prairie View A&M University**  
**Sudhir Tandon, Prairie View A&M University**

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### **EXTENDED ABSTRACT**

Advertising on Super Bowl is a major investment decision for companies. For some small advertisers, the single Super Bowl commercial is more than their total advertising budget in a whole year. Loctite, a small glue company in Ohio, spent its entire annual ad budget on one Super Bowl commercial in 2015. With the high financial stakes involved, both advertisers and marketing researchers are interested in gaining insight about consumers' perception of these commercials and how effective Super Bowl commercials are in driving sales and improving financial performance for companies.

Existent Research indicates that Super Bowl advertising characteristics (e.g., frequency, length, placement, content, and context) are associated with advertisement recall by consumers (Newell, Henderson, and Wu, 2001; Newell and Henderson, 1998; Pavelchak, Antil, and Munch, 1988). In addition, Super Bowl advertising has been found to have increased brand familiarity and likeability for companies (Russell et al., 2003). Through promoting brand awareness and changing consumer psychology and purchase intention, movie picture companies have achieved increase in sales through Super Bowl campaigns. (Ho, Dhar, and Weinberg, 2009; Yelkur, Tomkovick, and Traczyk, 2004) In more recent years, researchers have also investigated the association of Super Bowl advertising and companies' financial market performance. (Eastman, Iyer, and Wiggenhorn, 2010; Fehle, Tsyplakov, and Zdorovtsov, 2005)

Our study contributes to filling the gap in the existing literature on Super Bowl advertising in a number of ways. First, most of the above mentioned studies were either conducted in laboratory settings or using a case study approach, thus making it difficult to generalize the results. For the few studies using real sales data, they are restricted to the movie industry, which is very different from other consumer product categories. While stock price changes can capture some of the impact of a successful Super Bowl commercial, it is not as direct as the brand's product market performance. Using a unique data containing real store sales data for consumer packaged goods in the US market, the current study is able to fill the gap and provide the urgently needed empirical evidence about the effectiveness of Super Bowl commercials. Secondly, facing the changing media landscape and the increasing cost of advertising on Super Bowl, advertisers are bound to ask whether the sponsorship is still relevant and worth the steep price tag. Thus the current study is done to address some of the new trends we are seeing for Super Bowl advertising. For example, even though we are seeing an increasing number of companies pre-releasing their Super Bowl commercials, there are few empirical studies validating this strategy. Another area of interest is that every year there are a

few Super Bowl commercials creating huge public outcries because of their controversial content. Besides the ethical issues illustrated by these examples, what are the financial consequences for these controversial ads?

We use USA Today's Ad Meter to identify and rate all Super Bowl commercials in the period of five year period of 2006-2011. Google News is used to search for pre-release of the Super Bowl commercials. In addition, scanner data from IRI are used to capture the changes in weekly sales volume of advertising brands. With its unique empirical data set, this study will provide timely and valuable insight into the effectiveness of the Super Bowl for advertisers.

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## **RETAILING AND SERVICES MARKETING**

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### **EXCLUSIVITY: A NON-PRICING MARKETING DIFFERENTIATION**

#### **STRATEGY**

**Danny Upshaw, Northwestern State University of Louisiana**

**Marcia Hardy, Northwestern State University of Louisiana**

**Doug Amyx, Louisiana Tech University**

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#### **EXTENDED ABSTRACT**

In an increasingly competitive marketplace, retailers must look for innovative ways to increase consumer value and encourage store patronage. One strategy is the use of retailer exclusive products (Sorescu et al. 2011). Indeed, exclusive products and brands are becoming more common (Dekimpe et al. 2011). However, while exclusivity may take several forms – timed exclusivity, the exclusivity associated with luxury goods, deal exclusivity, distribution exclusivity, etc., – products advertised as “retailer exclusive” products occupy a niche in that they are often, but not always, minimally altered forms of products offered at numerous retailers.

For example, a consumer might buy a Blu-ray of a popular film at any number of retailers, but one retailer may have a “retailer exclusive” version of the Blu-ray with additional deleted scenes or other bonus features that are not found elsewhere. Thus, while advertised as exclusive products, these items are often more accurately described as common products with retailer exclusive features. Such products may be labeled as “exclusive” on their packaging and advertised as exclusive in promotional materials. (However, to be clear, this statement does not preclude the notion that some genuinely unique “retailer exclusive” products exist.)

Furthermore, the uses of retailer exclusive products may vary. They may encourage store traffic, help combat price competition by offering additional value, or combat new consumer behaviors such as “showrooming” (Zimmerman 2012<sub>a,b</sub>). “Showrooming” refers to consumers visiting a brick and mortar (B&M) retailer and examining a physical product, but then buying the product online, often for a lower price (Zimmerman 2012<sub>a,b</sub>; Wharton University 2012). In this way, a B&M retailer becomes a “showroom” for a product that is bought online. Wal-Mart, Target, Best Buy, and Toys R Us are examples of B&M retailers that offer retailer exclusive products.

While exclusively offered price promotions have seen prior research (e.g. Barone and Roy 2010<sub>a,b</sub>), the appeal of retailer exclusive products is largely unknown. Do they affect consumer behavior, and if so, how? To answer these questions, the researchers conducted an experiment using an exclusively labeled DVD/Blu-ray combo pack and a control condition featuring the same product but without retailer exclusive labeling. Consumer pricing evaluations, consumer intentions to seek out the product, and purchase intentions are all examined as dependent variables. This work also examines individual consumer traits in an attempt to find a psychological basis for the appeal of exclusive goods.

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## CONSUMER BEHAVIOR

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### REFLECTIONS ON HYBRID UPPER-LEVEL UNDERGRADUATE SERVICE-LEARNING EXPERIENCES IN AN HBCU: AN EXPLORATORY STUDY OF THE PYGMALION EFFECT

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#### ABSTRACT

*This exploratory study relates to the Pygmalion Effect, a type of self-fulfilling prophecy, as initiated and observed in a graduate online course in a historically black institution of higher education (HBCU). The purpose of the study is to describe the documented Pygmalion Effect occurring within undergraduate student teams in hybrid upper-level courses. Results support a stronger effect on students' goals- personal, academic, and professional- in comparison to institutional goals. The study also covers the match between goals set by the instructor, and goals achievement perceived by students. Study limitations, contributions, and directions for future research are also discussed.*

**Keywords:** *Pygmalion Effect, teaching style, communication effectiveness, undergraduate business education, minority institutions, HBCU.*

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#### INTRODUCTION

Over 50 years since *Brown v. Board of Education*, historically black colleges and universities (HBCU's) continue to enroll 11 per cent and graduate 20 per cent of all African American undergraduates (NCES 2010). Further, a large number of students from this racial minority aspiring for post-graduate and specialized education obtain their basic degrees at HBCU's (NCES 2010). Historically black colleges and universities (HBCU's) typically have an open admission policy, with minimal entry standards, and primarily cater to African-American students from socially and economically underprivileged sections of society. Often, such students resort to low-paying jobs as a financial necessity, further compromises the requisite nine hours per week of self-study and preparation for every three-hour credit course.

By definition, a large proportion of HBCU's may be described as "at-risk" of failure, and graduation rates lag behind the national average. Absence of adequate resources and time, coupled with a lack of pre-requisite academic excellence, limits co-op and internship opportunities. As a result, there is an exponential increase in the challenge of educating such students, and of making them gainfully employable (e.g., Gasman and Commodore 2014, Albritton 2012). In light of HBCUs' providing access to higher learning among African Americans, thus contributing to the country and society, it becomes important to find paths to ensure their success and growth.

## **LITERATURE REVIEW**

Service-Learning finds roots in the 1968 Critical Pedagogy thesis (Freire 2006, English translation), which calls for the liberation of students from oppression, and recognizes their role in the creation of knowledge. Moreover, Service-Learning represents an implementation of the Social Constructivist Perspective (SCP) (e.g. Palincsar 1998) via reciprocity, collaboration, and reflection. Further, Service Learning is defined as experiential learning that speaks to human and community needs through a structure created to enhance learning and development through reciprocity and reflection (Jacoby and Associates 1996). The Pygmalion Effect concept is rooted in Thomas' (1928, p. 572) theorem, which states that "If men define situations as real, they are real in their consequences". Pygmalion Effect has found considerable attention in recent literature (e.g. Inamori and Analoui 2010, Kierein and Gold 2000, Kopelman, Protas, and Davis 2008, Paglis 2010, Walumbwa, Avolio, and Zhu 2008). Effective teachers may communicate performance expectations to students, increasing students' individual and team efficacy and course performance.

Some authors adopted a general organizational behavior approach (e.g. Appelbaum, Ritchie, and Shapiro 1994, Chen, Gully, and Eden 2004, Guidice and Cullen 2007, and Knouse, 1993). Others used the leadership framework (such as Kelloway and Barling 2000, McCullough and Faught 2014, and Wayne, Shore, and Linden 1997). An organizational expectations approach was taken by some researchers (Lindsley, Brass, and Thomas 1995, Wong and Hui 2006). Schyns (2004) couched the Pygmalion concept as innovative behavior, and Waldman (1994) in terms of quality management. An example of an educational setting was Farias, Farias and Fairfield (2010). The expression "self-fulfilling prophecy" is not wholly accurate (Eden and Shani 1982, Eden 1990, Eden 1992), since it is not the prophecy that fulfills itself, but the "prophet" as catalyst that initiates a chain reaction with predicted impact. Hence the theory and empirical research results are convincing. It appears that the effect on learning and student engagement, merit a greater scrutiny (e.g., Stoicescu and Ghinea 2013).

Despite the spread of research on the subject, there is scant research attention on the Pygmalion Effect in minority and HBCU educational institutions. This gap will potentially be filled with the present study. In general during any course work, students complete various activities for assessment of learning such as testing, writing assignments, and presentations. Rarely are students asked to stand back and reflect on the purpose of such activities, and how they relate to predefined goals. Further, instructors shy away from setting a high bar for

students, particularly in minority institutions serving predominantly underprivileged students, and achieving student learning through extensive team-based written and experiential assignments. Reasons commonly cited are time, cost, and apathy and indolence among students. Further, the use of Service-Learning is less common at the graduate level, due to greater work and family priorities. Moreover, the richness of student interface in face-to-face teams is generally perceived as more appropriate for Service-Learning, compared with online interface.

Research questions were:

1. In an HBCU upper-level undergraduate team Service-Learning experience, does the Pygmalion Effect occur, and to what extent?
2. In an HBCU upper-level undergraduate team Service-Learning experience, what is the level of match between goals set by the instructor, and goals achievement perceived by students?

## **METHODOLOGY**

The sample comprised 35 undergraduate students enrolled in a two senior level Marketing courses at an HBCU business school in southern US. Students were primarily from a racial minority, and aged 21-23 years. Students were placed in three to four teams per course. Each team was assigned to a real-life client or “community partner”. The community partner visited with class to provide a marketing brief. Under the professor’s guidance, each team was responsible to identify appropriate readings, which were then validated by representative of the Reference Library of the University. Further, each team was responsible to summarize each selected article, and to complete a literature review, validate for originality via the eCourse Turnitin function, and formatted in APA style with support from the Center for Business Communication of the College.

Team interaction was facilitated by team Discussion Forums on the eCourse. The instructor provided structured discussion threads on the Discussion Forum to facilitate the team effort. A clear set of criteria were provided for the project, and a third of class time was devoted to face-to-face interaction with students, as well as to provide team interaction among students. Moreover, frequent feedback was given as the assignment progressed. After midterm, each team was responsible to create a full-fledged integrated marketing communications campaign for the assigned product. Thereafter, each team completed a presentation to the community partner, as well as external judges from outside and within the university, comprising industry, administrators, staff, and graduate assistants.

Individual grades were based on the quality of team submission, as well as average peer evaluations received from the team. The project was graded for about 30-35% of course points. After project completion, students were asked to individually submit their reflections. Course goals were outlined in the course syllabus at the start of the semester. Students were provided

with a Student Interest Inventory comprising an open-ended questionnaire covering the achievement of four major goals- those of the College and University, as well as students' professional and personal goals. In addition, for reference, students were provided with a link to the goals and objectives of the University and the business school. Also, students were requested to refer to their own personal and professional goals that were submitted as part of a separate assignment early in the semester. The Discussion Forum for reflections was set up in open format with all responses being visible to all the students and was available for posting for about three weeks. For submitting their reflections, regardless of length or quality of content, students were given a nominal 5% of the total assignment points, or .5% of total course points.

A descriptive analysis of reflections was then undertaken. To answer Research Question 1, items reflecting goals achievement were ranked based on clusters of responses (i.e. frequency of mentions for a given goal achieved). To answer Research Question 2, a comparison was made between the classification of goals achieved, as reflected by students' responses, and the framework provided by the professor.

## **SUMMARY OF FINDINGS**

### **Existence and Level of the Pygmalion Effect**

*Course Objectives:* Every student reported complete achievement of each of the course objectives. Across all courses, 100% achievement of course goals was reported (see Table 1).

*Other Goals:* Goals reportedly achieved by students were classified as High (over 40% of respondents), Medium (10-39% of respondents), and Low (below 10% of respondents). (See Table 2).

*High level of goal achievement:* The highest rating of over seven-tenths of respondents reported achieving the goals of "Critical Thinking/Problem-solving" (71.43%) through the Service-Learning project. The percentage of students that felt they had achieved "Project management/getting the job done" and "Integration of knowledge" was 57.14. About half of respondents reported the project's "Career and long-term relevance/ Advancement" (51.43%). The percentage reporting that the project helped them become a "Team player", and improve their "Team Work" was 51.43% and 48.57% respectively. Similarly, high ratings were assigned to "Leadership and Professional development" (40.0%), and "Conducting research" (40.0%).

*Medium level of goal achievement:* An equal number of respondents reported achieving "Help a client/community partner" (31.43%) and "Personal development" (31.43 %). Also, and equal number of students felt that the project help achieve institutional goals ("University goals" and College of Business (COB) goals"= 28.57% each). Over a fourth of respondents believed they achieved "Effective communication" (25.71%). The achievement of "Value of time/keeping deadlines/responsibility" was reported as achieved by a fifth of respondents.



*Low level of goal achievement:* Some goals with a relatively low level of perceived achievement such as “Collaborating/load sharing” (8.57%). In addition, specific institutional goals showed low ratings such as “University research goals” (8.57%), “University teaching goals”, and “University service goals” (5.71% each), as well as “COB research goals”, “COB service goals”, and COB teaching goals” (2.86% each). Other goals that received low ratings (2.86%) included “Global perspective”, “Use of technology”, and “Community development”.

From the above, we find an answer to our first research question- there is a Pygmalion Effect in operation. The instructor provided a well-defined course assignment, along with a vision of success, and continuous real-time feedback. These actions empowered students to believe in their own ability, cooperating with peers, to shape up to achieve goals. Finally, students were conscious of their goals achievement, and were able to successfully verbalize their reflections.

**Table 1: Achievement of Course Objectives**

<b>Course Objectives/Accrediting Body (AACSB) Standards Met</b>			
<b>At the end of this course, the student will</b>			
	N= 35	Alignment with Academic Program	Level of Achievement
1	Demonstrate an understanding of the IMC foundation	Goal 1: Mastery of Content	100%
2	Demonstrate an understanding of IMC advertising tools	Goal 1: Mastery of Content	100%
3	Demonstrate an understanding of the IMC promotional tools	Goal 1: Mastery of Content	100%
4	Demonstrate an understanding of the IMC integration tools	Goal 1: Mastery of Content	100%
5	Be able to create and present a team-based IMC plan verbally as well as in writing	Goal 1: Mastery of Content Goal 5: Communications	100%
6	Be sensitized the various perspectives of the new business environment: ethical, social, political, legal, economic, global, and environmental.	Goal 1: Mastery of Content	100%
			N= 35

### Match between Professor's Goal-setting and Students' Perceived Achievement of Goals

As discussed earlier, students were asked to reflect on the achievement of specific goals at the end of the team Service-Learning assignment. Every student reported that the course objectives were achieved (see Table 1 and Appendix 1).

As an example, a student reflection stated, "This Integrated Marketing Communications project helped me achieve the course goals and objectives by introducing real world practices and tools that will be useful with my degree. Advertising and promotional tools and techniques that I will need in corporate America as a marketing major were learned from the project. Also, it has helped me achieve the University goals and objectives set by the COB for marketing and management students which will be the basis for my success in my field. I have work to attain dedication toward excellence in teaching, research, and service which is the schools' mission. Throughout this IMC project I have developed my professional goals by learning to meet deadlines within a timely fashion and learning to work in groups with others to accomplish a common goal. Also, I have learned to take instruction from my peers and criticism on my work to produce a better product. It has also enhanced my personal development skills in helping me become more punctual, a better speaker, and a better written communicator. This class has prepared me for the business world beyond college and has raised my confidence for my marketing career soon to come."

**Table 2: Achievement of BBA Course, Professional, Personal and Institutional Goals**

Goal achieved	Frequ ency	% of respon dents	Level of achieve ment
<b>Course, Professional and Personal Goals</b>			
Problem-solving	25	71.43	High
Project management- get the job done	20	57.14	High
Integration of knowledge	20	57.14	High
Team player	18	51.43	High
Career and long-term relevance/Advancement	18	51.43	High
Team work	17	48.57	High
Leadership/professional development	14	40.00	High
Conducting research	14	40.00	High
Help client/community partner	11	31.43	Medium
Personal development	11	31.43	Medium
Effective communication	9	25.71	Medium

Value of time/ deadlines/ responsibility	7	20.00	Medium
Relevant to future education	6	17.14	Low
Collaboration/ Load Sharing	3	8.57	Low
Advancement	3	8.57	Low
Global perspective	1	2.86	Low
Use of technology	1	2.86	Low
Community development	1	2.86	Low
<b>Institutional Goals</b>			
PVAMU goals- general	10	28.57	Medium
COB goals- general	10	28.57	Medium
PVAMU goals- research	3	8.57	Low
PVAMU goals- teaching	2	5.71	Low
PVAMU goals- service	2	5.71	Low
COB goals- research	1	2.86	Low
COB goals- teaching	1	2.86	Low
COB goals- service	1	2.86	Low
N	35		

In general, it may be concluded that there exists a high level of match in goals classification between professor and students. A reason might be that the sample comprises students in a hybrid course format, with a high level of communication as well as feedback from the professor. In addition, students' understanding of goals is application-oriented, leading them to take ownership in terms of course as well as professional goals. However, the perception of achieving institutional goals was relatively lower.

## DISCUSSION

As discussed earlier, several inherent values were built into the Service-Learning assignment framework by the instructor. As an example, the research section of all projects was based on consumer behavior aspects of online, face-to-face, graduate, as undergraduate education, with several readings relating to countries outside the U.S. Further, the Service-Learning assignment was based on teams comprising about eight members each, thus speaking to the goal of "Team work". Forum Discussions on the eCourse provided a platform for the team to develop their project, which spoke to the goal of "Effectiveness in Communication". As an extension of this goal, "Collaboration" was called for, and a reasonable level of these was achieved. The same may be said for goals such as "Critical thinking" and "Problem-solving".

Findings indicate that the instructor was successful in inspiring students to experience and become conscious of their achievement of certain goals. However, even if this were true of other goals, it appears that students either did not adequately pick up on these cues, or did not report achieving them for other reasons such as respondent fatigue. As discussed above,

there was largely a match of goals as conceived of by the professor, and as understood and interpreted by students. In future, it might help to avoid open-ended essay type reflections, but instead to provide a Student Interest Inventory comprising a list of goals, classified into Institutional, Professional, and Personal goals, with a Likert-type rating scale for each item.

Results from the Pygmalion effect of Service-Learning will help HBCUs to better serve their audience of socially and economically underprivileged students. African American students will be able to obtain financial more avenues of financial resources to support their education, and break the cycle of holding low-paying jobs for a greater focus on course preparation. HBCUs would be able to address the issue of “at-risk” students, and to improve recruitment of quality students, as well as in higher retention and increased graduation rates. Team research and service-learning would substitute for experience gained from co-ops and internships, thereby improving employability. The present study will help HBCUs to improve the quality of higher learning, providing quality access to African Americans, thus ensuring increased growth and national contribution.

### **LIMITATIONS**

Service-Learning projects were completed by senior undergraduate students at COB over a period of almost ten years. With cumulative institutional memory, the concept of Service-Learning and of writing reflections was widely discussed among student cohorts, and became an anticipated activity for most students. In addition, the sample comprised only 35 students from three courses in a single HBCU institution. A larger sample size might have generated a greater diversity of responses. Using a frame of two or more HBCU institutions would also allow for identifying organizational factors in the Pygmalion Effect. In addition, students were provided with a link to the University as well as COB goals and objectives. Also, students were requested to refer to their own personal and professional goals that were submitted as part of an assignment early in the semester. Unaided recall might have yielded different results.

Further, the Discussion Forum for student reflections, set up in open format (i.e., responses were visible to all students in class) was available for posting for about two weeks. Typically, students complete online assignment posting very near Discussion Forum’s closing time; however, there is a possibility that later responses were affected by team and class posts that were completed at an earlier time. In addition, all goals in the student interest inventory were presented with the same order, without rotation. This fact, along with the fatigue experienced by students as they progressed through the inventory, might also have biased the results. Finally, reflection on goals achievement comprised a very small part of the Service-Learning project, and results might have been different if it were framed as a separate assignment. Future research might be formulated to overcome some of these limitations. Given the above, it may be concluded that the Pygmalion Effect on learning and student engagement, merit a greater scrutiny (e.g., Stoicescu and Ghinea, 2014).

## **STUDY CONTRIBUTIONS AND CONCLUSION**

The present exploratory study confirms and extends current research on the Pygmalion Effect, and some mechanics through which it can be achieved. Further this study provides support for the existence and extent of the Pygmalion Effect in an HBCU, a research area that has received scant research attention. In addition, the present study evidences the manner in which the Pygmalion Effect works within a hybrid delivery and undergraduate-level environment. Further, this study highlights a match in the nature of objective goals- as set by the professor and perceived by students.

The value of this research to academic practitioner rests in benefits, including those beyond teaching and learning, such as for the purposes of funding and training. Additionally, the importance of this study to administrators lies in its serving as an instrument to “close the loop”, in providing evidence of learning for accreditation agencies, and to access avenues of public as well as private funds. In general, faculty will benefit from the study, in its support for motivation of students toward achievement of institutional, academic, professional, and personal goals. The study will benefit students themselves, in giving them a comprehension of the instructor as “prophet” being crucial in students’ achievement of their own professional and personal goals, while at the same time feeding into institutional goals. To conclude, Service-Learning as a pedagogical tool with a track record of benefits to academic stakeholders is supported by this study.

## **APPENDIX 1**

### **SELECTED SAMPLES OF STUDENT REFLECTIONS- NARRATIVE**

#### **Sample 1**

“As a team, we have effectively met the goals of the University along with the goals of the COB Marketing Department. One major goal of the University is to further our knowledge of research and expand our knowledge of means to conducting doing so, and as a group we accomplished that goal. This project also allowed my group and I to further understand the relationships among the functional business areas. We worked together effectively, effectively, and diligently as a group. We furthered our understanding of database operations when acquiring research and outstanding time management during meetings. Overall we accomplished an exuberant amount of goals together and now have a better understanding of the Marketing Communication.”

#### **Sample 2**

“Working with team King was a great experience. As a team we worked diligently and effectively to ensure that we met the goals and standards of the University and the COB. The members of Team King learned how to put together an integrated marketing campaign that allowed us to focus on the benefits of the services offered at the University Northwest Houston Center in regards to the MSA program. We were able to put together this information so it

could be delivered to consumers interested in continuing their education. We furthered our understanding of database operations by acquiring research based on higher education and applying the relationships of consumer behavior to the idea of people continuing their education. Overall we accomplished a lot of goals together and now have a better understanding of the correlation between Consumer Behavior and Marketing Communication.”

### **Sample 3**

“Within the course of this semester I have gained an enormous amount of knowledge within this semester in Marketing Communications. This project is expected to help our community partner, the PVAMU Northwest Center to achieve their promotional objectives as well as PVAMU’s goals and objectives. At times this assignment seemed too tedious and extremely stringent, but I realized this enhanced personal development as a student and contributed to professional development in the process also. In essence, this assignment has allowed me to gain patience and taught me to literally focus and do what needs to be done the correct way. This will prepare those of us who look forward to pursuing further education in the future and really teach us what it takes to ‘get the job done.’”

### **Sample 4**

“Over the last couple of weeks, my team and I have truly been dedicated to the team project in order to promote the Communications Programs at University’s Northwest Houston Center in a positive light. We have studied several media about the Northwest Center (NWHC) and have become very familiar with the criterion that has been selected for us. Throughout this project, I have learned that achieving your whole team to be on the same page can be very challenging. I have also learned that the material being produced by the individuals in your group has to relate to one another in order to be presentable. My team members were very active and committed to the parts they were given. This made the production of our project move somewhat smoothly. Our main goal was to give our audience proper information about communication programs that will now be available at the Northwest Houston Center. We not only wanted to inform our audience about the classes, but our goal was also to convince them why the Northwest Houston Center was the school for them. My team and I used the factors of accessibility, flexibility, and the perfect environment for higher learning. University’s tagline explains that it produces productive people. And, we wanted to not only say this statement, but explain how The University is producing productive people. My team and I wanted to stick close to the University’s themes in order to keep our audiences appeal on track. We did not want to form any doubts in our audiences mind that The University NWHC is not a reliable institution. We created several (creative pieces) in order to correlate with the institution and the communication programs. Increasing enrollment and informing our target audience was one of the major objectives within this project as well. Overall, I have learned how to work well in a group. I have learned how to bring about several ideas into one great project. And, I have also mastered how to finish a task within a given time frame.”

### **Sample 5**

“The Marketing Communication course has helped achieve PVAMU goals and objectives in order to graduate with an efficient thinking mind process before graduating. Taking this Marketing Communication course has helped many broaden my skills in many technical levels that have helped achieve COB goals and objectives to help me be a driving force in job market of a Marketer in Corporate America. This project has contributed to my professional development for future endeavors in Marketing; skills like making commercials; radio ad, TV spots, radio jingles; which will be greatly beneficial to my career as a Marketer. Marketing Communication has greatly enhanced my personal development as a marketer greatly by making me become more aware of specific details in situations that a marketer should know in the field. Marketing Communications has broaden my horizon on how marketing effects even the simplest matters in the world. This project has given been laid out in a very detailed manner that shows guidelines that will be followed by Marketers across the globe. Guidelines such as structure, content; where all setup as if we would be working in a marketing department or marketing firm that has a big name clientele.”

### **Sample 6**

“Upon the completion of this project I have acquired skills and capabilities that I believe will serve me great purpose as I continue my academic career. This project has enabled me to be full of charisma and discipline myself to work good in a team. The experience I have gained by working in this group will help me as I further my education because it has taught me to communicate effectively. Furthermore, I enjoyed working with my team members because they each demonstrated qualities that became assets for the team and that it made it pleasant to complete this project. I have grown as a student and individual because of this project because it has showed me that I can be creative and crafty in a team and still be open-minded to people ideas and opinions. I will leave the University well prepared and capable to compete with other college graduates because of this course along with others has developed me into a great intellectual. Furthermore, I am grateful for my team for completing a high quality project and the instructor of this course for helping mold me into a more productive student and person overall.”

### **Sample 7**

“This Integrated Marketing Communications project helped me achieve the course goals and objectives by introducing real world practices and tools that will be useful with my degree. Advertising and promotional tools and techniques that I will need in corporate America as a marketing major were leaned from the project. Also, it has helped me achieve the PVAMU goals and objectives set by the COB for marketing and management students which will be the basis for my success in my field. I have work to attain dedication toward excellence in teaching, research, and service which is the schools’ mission. Throughout this IMC project I have developed my professional goals by learning to meet deadlines within a timely fashion and learning to work in groups with others to accomplish a common goal. Also,

I have learned to take instruction from my peers and criticism on my work to produce a better product. It has also enhanced my personal development skills in helping me become more punctual, a better speaker, and a better written communicator. This class has prepared me for the business world beyond college and has raised my confidence for my marketing career soon to come.”

### **Sample 8**

“After completing this project, I am pleased to say that this experience has tremendously enhanced my personal development by assisting in the mastering of goals and objectives of the University and the COB. Through team work and individual effort I am now able to demonstrate an understanding of the consumer behavior process and an ability to work well in a team environment. Furthermore, the research has helped me to look at marketing communications in a very broad perspective relative to what goes on at the University. Receiving assistance from the business center, while completing this project and presentation, has enhanced my communication skills that I will need to be successful in my marketing career. Overall, I am very thankful for the opportunity that this assignment has provided me.”

### **Sample 9**

“Through this Integrated Marketing Communications course and upon completion, I have achieved the course objectives set by the Professor, the AACSB, the COB, and the University. The Executive MBA at Northwest Campus Service Learning Project incorporated all aspects of IMC, and was a great conclusion to the semester. By working on the project, I have a better understanding of the IMC foundation, advertising tools, promotional tools, and integration tools. I enjoyed sharing this coursework with my team members because our shared knowledge and experiences made a really well-rounded group. Through my participation with this group, we were able to successfully create and present an IMC plan in writing, and will share verbally. This project has prepared me for life upon graduation, because in whatever job I may hold there are sure to group work involved. This project has contributed to my personal and professional development by making me aware of the business environment and open to the opinions of others. COB and University goals were met through the excellence in research required to conduct this service learning project. Because of this project, I am better prepared for a career in Marketing.

### **Sample 10**

After finishing up this project, I have tremendously improved and expanded my understanding of the integrated marketing communications foundation, as well as have proficiently improved my developmental research skills. The completion of this assignment has also helped me achieve the goals and objectives from the University’s COB. Marketing the University’s EMBA program at the northwest campus helped me to understand the total effort it takes to totally and fully market any product or service. With technology at an all-time high there are so many different resources and channels you can use to get your brand recognized



and in this project we used a wide variety from print ads and brochures to radio spots and television commercials. Having a team to help you tackle all of these tasks in a timely manner was very helpful, because I now know that I can effectively work with a group or team in the real life work field. From this project my written skills have improved as well as my verbal speaking skills. I feel comfortable stepping in to a position for a company and having meaningful skills that can benefit the corporation and help to become a better businessman.”

### Sample 11

“Completing this Integrated Marketing Communications project has helped me achieve the goals and objectives set by the University and the COB. By helping the PVAMU Northwest Center achieve their promotional objectives I was able to further develop my knowledge and skills in totality. Prior to this project I had brief knowledge of advertising and promotional tools, such as billboards, press releases, TV commercials, and more. I was able to take everything I have learned from this course and before and effectively execute it for this project. This would also me help in professional settings when working with certain companies by demonstrating what I have learned by using the different tools from the IMC project. I have gained a better understanding of higher education and some of the different strategies that are used by faculty and staff to target prospective and current students. Overall, the information I have acquired from this project is very valuable. By working with a team we were able to create and present this IMC service learning project verbally and in writing. Working with others during this experience has contributed to the improvement of my communication skills and has enhanced my researching skills.”

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## **BLUE BELLS OF ALARM: CAN A STRONG BRAND RELATIONSHIP MITIGATE A PRODUCT HARM CRISIS?**

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### **EXTENDED ABSTRACT**

Businesses selling consumer and/or industrial products invariably run the risk of facing a product-harm crisis. A product-harm crisis is an event in which a defective product, capable of harm to the buyer and other stakeholders, is publicized and brings negative attention to the organization(s) responsible for the production and sale of the product (Siomkos and Kurzbach, 1994). The consequences of product harm crises have received considerable attention in the management and marketing literature (e.g., Van Heerde, Helsen and Dekimpe, 2007), and numerous prescriptions have been offered to businesses for managing the impact of a product harm crisis on the brand, brand equity, and the consequent financial interests of the organization.

The purpose of this paper is to add to the existing literature on product-harm crisis by studying the impact of a product harm crisis on a regional brand of ice-cream. Using the case of Blue Bell Creameries and the product harm crisis it faced in the summer of 2015, we use a theory in use approach to highlight the factors that might mitigate the impact of a product-harm crisis, and to confirm the effectiveness of strategies intended to ameliorate the effects of such an impact.

While product defects and failure, and the potential from harm therefrom are possible in any product category, the incidence of a product harm crisis is more likely in widely purchased consumer products. Of the six regulatory agencies participating in the U.S. federal government project recalls.gov, the most prominent agencies issuing recall notices are the National Highway Traffic Safety Administration (NHTSA), the Food and Drug Administration (FDA) and the Food Safety and Inspection Service of the United States Department of Agriculture. The discovery of a defective and potentially harmful product becomes a product-harm crisis when the discovery receives widespread publicity.

Blue Bell Creameries, which began its existence as Brenham Creamery Company in 1907 had, over the century of its existence, acquired immense popularity and a cult following among ice cream consumers in Texas. With a homely small-town image and popular products, Blue Bell at the time claimed immense popularity and positive brand associations, and a strong consumer-brand relationship in Texas and surrounding states. In April 2015, Blue Bell Creameries, a manufacturer of ice cream products in Brenham, Texas, encountered a product

harm crisis when the presence of listeria bacteria in one of its plants caused a shutdown. While a probability exists that any business will experience a product harm crisis, the academic literature and anecdotal evidence indicate that a number of factors may mitigate the negative effects of a product harm crisis. Various streams of literature cover the preparation for the eventuality of a crisis, the appropriate response to a crisis, and consumer responses to a product harm crisis (Haas-Kotzegger and Schlegelmilch 2013). Also, several prescriptions have been offered on ways for firms to manage the impact of a product harm crisis (e.g., Laufer and Coombs, 2006; Zhao, Zhao and Helsen, 2011). The literature has identified some salient factors that could have had a negative impact on consumer perceptions of Blue Bell due to the crisis including the nature of the product (consumed regularly, by the whole family, and especially children), and geographical proximity (regional brand and manufacturing); on the other hand, the prior reputation of the company and its response in the product harm crisis would likely have reduced the negative effect of the crisis.

Our research includes a study of the media coverage of the product harm crisis, the company's response to the crisis, especially its engagement with consumers through social media, and the resultant attitudes of consumers towards the company through the product harm crisis. We found that the presence of a strong brand relationship mitigates the potential negative impact of a product harm crisis, and also that proactive engagement with consumers through the crisis can further ameliorate the negative impact of a crisis. We offer implications for future research, the practice of product harm crisis management, and for policymaking.

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## **MARKETING EDUCATION**

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### **THE IMPACT OF INSTRUCTOR BACKGROUND AND DELIVERY**

### **MODALITY ON STUDENT RATINGS OF DIGITAL**

### **MARKETING INSTRUCTION**

**Marilyn Eastman, Morningside College**  
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#### **EXTENDED ABSTRACT**

Marketing departments are rapidly adding courses that include instruction on utilizing technology to conduct marketing activities. Technological content is being taught in a variety of courses (e.g. electronic marketing, e-commerce, social media, digital marketing analytics, internet marketing, etc.), but all have the common purpose of linking digital technology to marketing practice. These courses may be grouped collectively as “digital marketing” courses. The Digital Marketing Institute defines digital marketing as “the use of digital technologies to create an integrated, targeted and measurable communication which helps to acquire and retain customers while building deeper relationships with them” (Wymbs p.94). In a review of major universities, Wymbs (2011) found courses in this field being offered at the majority (Wymbs, 2011). These courses are being added to marketing curriculum in part to meet demand from industry to produce marketing practitioners prepared for the dynamic marketing environment (Granitz & Koernig, 2011; Rinaldo, Laverie, Tapp, & Humphrey Jr, 2013; Tuten & Marks, 2012; Wymbs, 2011). Many employers expect marketing graduates to be equipped with skills in the new digital marketing technologies used to manage communication with stakeholders and to make complex data-driven marketing decisions (Granitz & Koernig, 2011). Recent research indicates at least some employers are currently dissatisfied with the technology skill-sets of marketing graduates (Harrigan & Hulbert, 2011; Kaplan, Piskin, & Bol, 2009). As a consequence, there is growing pressure from practitioners to increase students’ level of knowledge and technical skills (Duffy & Ney, 2015). However, many current marketing faculty may not have the expertise or interest to deliver this content which often requires considerable preparation time to remain abreast of the current technological advances. Stone (2014) claims some universities are years behind the leading edge of digital marketing, blaming both the lack of the staff with the required expertise, and the slow academic processes involved in creating and validating a new course (Stone, 2014).

Therefore, to meet the increased demand for these courses, and to adapt to the quickly evolving technological environment, innovative marketing instructors have adapted a variety of approaches to teaching these complex and quickly changing subjects. One commonly used method is to utilize recorded online teaching lectures prepared by industry professionals, or digital textbooks containing recorded online lectures that are frequently updated to reflect the latest technology.

However, little is understood about how students perceive these digital marketing online lectures delivered by industry professionals, and how their evaluations may differ from marketing instruction delivered by faculty via a face-to-face modality. This is significant, as student evaluations of teaching (SETs) have become increasingly important within higher education (Clayson & Haley, 2005). SETs factor heavily into tenure decisions, faculty raises, enrollment levels, and schools' national rankings (Johnson, Cascio, & Massiah, 2014). Factors such as the textbook, the classroom environment, the use of video during lecture, the quality of video recordings, and student-to-student interactions have been shown to influence student satisfaction (Buzzard et al. 2011; Hansen 2008; McFarland and Hamilton 2005, Johnson et. al 2014). To aid digital marketing faculty in designing courses that meet both student and industry needs, it important to consider how students evaluate the use of online lectures delivered by industry professionals as compared to those delivered by academic faculty in a more traditional setting. The preceding discussion leads to three research questions:

RQ1: How do different situational contexts (online/F2F, and industry/academic background) affect student evaluations of teaching for guest instructor SETs)?

RQ2: How do different situational contexts (online/F2F, and industry/academic background) affect student evaluations of lecture content?

RQ3: How are students' perceptions of instructor characteristics related to SET scores for instructors and lectures of commercially-produced digital marketing course materials?

Thus, to provide marketing instructors with new insights into the use of online digital marketing lectures, this research presents two studies. This research extends recent research by Johnson, Cascio and Massiah (2014) who addressed marketing student satisfaction and Ganesh, Paswan and Sun (2015) who addressed course effectiveness in traditional versus online modalities.

In the current research, we assess the role of instructor background and delivery modality on student evaluations of both teaching effectiveness and lecture content. Our work addresses the common research limitation of variability due to instructor differences by utilizing *the same guest instructor* throughout Study 1. This instructor delivered identical content via a 12-minute social media marketing lecture during the same week to 161 students in four sections of Introduction to Business, with the independent variables being only the online versus F2F modality and her background introduction which presented either her academic or industry qualifications. Specifically, Study 1 reports findings of differences in student evaluations of teaching (SETs) of the guest instructor, and student evaluations of lecture content dependent on whether students were told the lecture was delivered either by an

academic or industry professional, in either an online or face-to-face modality. Study 2 extends this analysis by analyzing variance in student ratings of six different industry practitioners delivering online lectures through a major online digital marketing course provider. This provider was used as a “digital textbook” in a face-to-face internet marketing course delivered at the same university used in Study 1.

These studies advance the scholarship of teaching in the digital marketing field. Specifically, the study addresses how instructor background and delivery modality of a digital marketing subject affects student ratings of the guest instructor and of the lecture content itself, and assesses which guest instructor characteristics may be related to positive instructor and course ratings. This will allow instructors to improve their decision-making when designing their digital marketing courses.

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## **THE BRAND PROJECT: INNOVATIVE STUDENT RESEARCH IN A PRINCIPLES OF MARKETING CLASSROOM**

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### **EXTENDED ABSTRACT**

Principles of Marketing is a business students' required introductory course in marketing when students are first exposed to the subject. For business majors, Principles of Marketing may be the only course students take in the Marketing discipline. This is typically a larger class, but important, as it helps students discern whether a marketing major or minor is of interest to them (Camey & Williams, 2004). Therefore, it is important to expose students to a broad range of marketing concepts and practices providing foundational learning that will be sustainable.

In the marketing field, experiential learning theory (ELT) is often used as a foundation for course design, research studies, and creative pedagogical techniques (Gray, Peltier, & Schibrowsky, 2012). In this model, Kolb defined learning as "the process whereby knowledge is created through the transformation of experience. Knowledge results from the combination of grasping and transforming experience" (Kolb, 1984 p. 194). *The Brand Project* was built using ELT as the theoretical foundation.

During this semester-long project, students selected a brand they had experienced as a consumer and were interested in researching from a list of industries determined by the professor (e.g. snack foods, technology, athletic apparel). Students followed the brand on social media sites and completed weekly, research-based activities aligned with the textbook chapters. In addition, students created and executed a primary research survey using the free version of *surveymonkey.com*. At midterm, each student submitted a marketing research paper on his/her brand that addressed the following sections: Marketing Strategy, Marketing Environment, Consumer Behavior, Target Market and Market Research Results. The content of this paper is similar to that of a market analysis commonly developed by marketing managers working in the industry. At the end of class, students presented a group analysis by industry comparing and contrasting each brand's marketing mix strategies within the industry.

This project benefited students by enhancing their skills in conducting research, interpersonal interactions, oral communication, and critical thinking.

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## **SUSTAINABILITY AS TEAM-BASED SERVICE LEARNING**

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### **EXTENDED ABSTRACT**

One of the greatest challenges facing our current generation of students is that of living sustainably in a world facing significant environmental challenges. Marketing in particular will play a unique role in determining how these challenges are addressed. As stated by Martin and Schouten (2012), “as the engine that drives the global economy, marketing has an enormous footprint on both the environment and society...as the interface between business and society, marketing also has great potential as a force for shaping cultural change” (p. xiii). The current paper documents a service learning project that was conducted in the context of a summer course in sustainability marketing. Sustainability marketing is “the process of creating, communicating, and delivering value to consumers in such a way that both natural and human capital are preserved or enhanced throughout (Martin and Schouten 2012, p. 10). Service learning is an educational experience that integrates classroom and real-world instruction to address real-world community challenges. Although sustainability is a global challenge, some communities are actively working toward local solutions. Food sourcing and distribution is an illustrative example. One-third of all carbon emissions are produced by the agricultural industry (Vermuelen et al. 2012). Likewise, consumers are increasingly concerned about the nutritional quality and safety of industrial food. Community gardens, farm stores, and farmers markets are all ways in which local communities have addressed these dual concerns.

Service learning courses are defined by their community partnership, which, for this course, was the local farmers market. The overarching objective of the service learning project was to create and deliver a strategic marketing plan. The contents of the course were designed explicitly to complement the service learning component. Martin and Schouten’s *Sustainable Marketing* served as the textbook for the course. The textbook addresses topics standard in the field of marketing, such as the 4 Ps, but within the context of sustainability. For instance, sustainable products may be organic foods, sustainable distribution practices may include reverse logistics channels for recycling electronic waste, and sustainable promotion may involve the study of how people respond to environmental appeals. Students are also provided a basic working understanding of the various environmental threats that will face firms in the future as well the opportunities they may present. In order to make the material as relevant to the service learning project as possible, the book *Small-Mart* was used (Shuman 2007). The book documents through both extensive economic data and qualitative case studies how small, local firms can compete successfully with big businesses through entrepreneurial spirit and strategy. The book served as a natural bridge between the work the class did for the local farmers market and the larger context of sustainability marketing.

In addition to the service learning component, the entire course utilized a team-based learning format (Michaelsen et al. 2004). In this format, students are assigned to small groups with whom they work for the entire semester to learn the material and engage in various problem-solving activities. Each class began with a team quiz over the assigned reading and ended with the application of the material to a case study or to the service learning project itself. These teams also served as project teams for the service learning project. Each team consisted of three individuals given a specific role: A marketing communications team, a primary and a secondary marketing research team, a social media team, and a sales team that interacted directly with the market manager. The communications team was responsible for developing new promotional materials and for crafting farmer profiles for each of the vendors to be used for marketing purposes. The secondary research team conducted a macroenvironmental analysis of the threats and opportunities in the local foods movement as well as an internal analysis of the local market. The primary research team designed and conducted a customer satisfaction survey of market customers. The social media team revamped the market's facebook page, created new marketing channels for the store, and made regular promotional posts based on best practices. Social media was also used to administer the customer survey electronically and to publish the farmer profiles and other materials produced by the communications team. Each sales team member served as a representative to another team. This created an efficient two-way communications channel between the market and the class. At least one sales team member was required to be present anytime the market was open, and was assigned tasks by the manager that enabled them to get to know the business, the farm vendors, and the customers. At the end of the course, the plan was presented to the market manager and farmers at their monthly vendors meeting. The plan proved instrumental in the market securing a \$50,000 grant. New promotional materials and new event programming were adopted from the plan. The following year, the market recorded the highest level of sales in their history.

Pre-test and post-test data were collected on the extent to which the course met student learning objectives and the extent to which the project fulfilled those objectives. Although there was something of a ceiling effect on the pre-test data, such that students already scored highly on measures of the importance of sustainability, there was still a 10% increase in the extent to which students agreed that “businesses should care about environmental sustainability” and “businesses should care about social justice.” There was also a 10% increase in the extent to which students saw the service learning project as relevant to the course objectives.

In this presentation, the student work on the project will be shared. Course assessment and evaluation data as well as the course syllabus will also be shared. Finally, general guidelines and recommendations for creating successful service learning experiences as well as the research evidence for their effect on student learning will be reviewed.

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## **WHAT'S IN A PROFESSOR? THE EMPHASIS OF PQ FACULTY TO COMPLEMENT BUSINESS SCHOOL OPERATIONS**

**Laura Lott Valenti, Nicholls State University**

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### **EXTENDED ABSTRACT**

Higher education as an industry is evolving, and most issues the industry is facing are due to three synergistic realities: state and federal government budget cuts, students who require a hands-on, technology-based skill set post-graduation, and accrediting bodies that are recognizing the changing academic landscape, instituting new guidelines which are now in effect.

Nicholls State University (NSU) is a four year university with AACSB (Association to the Advance of Collegiate Schools of Business) accreditation. Driven by high standards and the United States' fiscal fallout from 2008, NSU is evolving with crisis-induced decisions to hire more Professionally Qualified (PQ) faculty versus Academically Qualified (AQ) faculty. Compared to AQ faculty, PQ faculty earn less, teach more classes, and yield practical experience most AQ faculty do not possess, but lack the research rigor AQ faculty have acquired.

The relevance of the key issue's synergistic relationship becomes more palpable, realizing that in NSU's case funding has flipped from being 65% state supported and 35% self-generated to the complete opposite over the last four years. Hiring more PQ faculty to balance the budget for the foreseeable future seems like a logical response to the present macro environmental threats. All constituents connected to higher education, including the accrediting bodies that ensure quality education, the communities universities support and operate within, and the benefactors (students and faculty) must be considered in an institution's decisions.

**Accreditation.** Schwartz (2014) implies that accreditation closes the loop to higher education's accountability to the public, though no research has been conducted on the diverse 700 plus institutions to analyze their missions and common trends for consistency and collaboration. Business school accreditation is validating for many, including employers, students and faculty, serving as a benchmark for business school programming since the early 1900's. AACSB as an organization has evolved for survival in response to the environment (Stepanovich, Mueller & Benson, 2014). While AACSB is known to represent quality, value and create brand recognition (Romero, 2008), for the last 10 years, there has been discussion of whether a faculty member is academically qualified or professionally qualified, with many

administrators failing to fully understand the criteria and implications. Stepanovich, Mueller and Benson (2014) refer to the criteria as a caste system, dividing faculty on a status basis. Under the 2013 standards, there are four categories for specifying qualified faculty status, based on initial academic preparation, initial professional experience, and sustained academic and professional engagement (Krom and Buchholz, 2014). Romero (2008) references Julian and Ofori-Dankwa's (2006) claim that accreditation standards have a negative effect on strategy and schools are slow to change because the strategy would be slow to adapt.

If students are the product of what higher education institutions are delivering, we have to ask ourselves if students ultimately care about an accredited degree. In some areas of business, it can be assumed that accreditation is more heavily weighted, such as accounting. For example, accounting firms actively seek to hire graduates from AACSB accredited schools and the most prestigious accounting programs (Krom and Buchholz, 2014). As for marketing and management, experience and internships would likely pull more weight, and a certificate for human resources and maritime management (two of NSU's concentrated programs) would be ideal.

It is important to understand the nature of higher education's causal chains and effects (Southgate, Reynolds & Howley, 2013) though. It is noted that "while AACSB accreditation standards impose some restrictions on what schools can do, they are functional and reasonable, and allow for significant variance in strategy so that schools can determine how to best meet the needs of their constituencies" (Romero, 2008). PQ faculty, who do not have a research background, can add value to the functionality and real world lessons that organizations in the community are requiring of their employees.

**The Community.** Teaching and research are best tied together to make sense of the world (Ramalay, 2014) and provide an integration to the community for the benefit of one's career and an organization's needs. Schwartz (2014) recognizes that higher education has accountability to the public, and for an institution to advance and improve, its motivation is to identify and utilize outcomes data, such as the skill set a new college graduate has acquired. To hold themselves accountable, resources should be optimized in support of institutional aspirations (Schwartz, 2014), perhaps with the circumstance to hire an institution's graduates or provide funding. This relationship comes with certain levels of resistance from those primarily executing the tactical skill set - the faculty who lack a professional connection to practice. Where PQ faculty innately teach via experiential lessons and service learning projects, AQ faculty must focus on research rigor to connect practice to students.

**The Students.** Students are also contributing to the demand of higher education's evolution, and are feeling unfulfilled in many ways. Most students who enter post secondary institutions in the United States do not graduate, and this effects degree completion rates (Johnson-Ahorlu, Alvarez & Hurtado, 2013), which is another justification for the federal government to pose financial withdrawals for not producing favorable outcomes. Participants in a cross case analysis said that the decreases in state funding created a barrier to their academic achievement and inability to be successful, citing family and financial burdens of



utmost concern (Johnson-Ahorlu, Alvarez & Hurtado, 2013). Participants pointed to fee increases and the high cost of education as adversely impacting their classroom learning and their ability to remain enrolled as students as another barrier to education (Johnson-Ahorlu, Alvarez & Hurtado, 2013). Carter (2012) identified, in a survey study, six categories where students felt satisfied, including student-to-instructor ratio, maintaining staffing levels, creating new faculty and staff positions, classroom technology, and the availability of newer forms of computer technology, though Lee et al (2014) found students were unable to collaborate effectively. Improvements to what is being delivered in the classroom are suggested to meet the developmental needs of students.

Carter (2012) analyzes the perceptions of budget cuts to college students questioning whether or not the quality of education is affected. State budget cuts to education can cause higher education institutions to cut programs and services, cancel professional development opportunities for faculty and staff, delay necessary facility renovations and construction, and layoff employees (Carter, 2012). To overcome these budget issues, higher education institutions have adopted creative budget methods to balance the budget, maintain essential services, and continue to provide a quality educational product (Carter, 2012); hiring more PQ faculty is just one of the many creative solutions recently adopted, which could possibly address student concerns above that of student-to-teacher ratio and access to technology, better linking them to the communities in which they will serve and establish careers in. Ultimately, it becomes the faculty's responsibility to make this connection and teach what students will likely need to know post graduation, beyond the textbook.

**The Faculty.** The changes in higher education are inevitable because the world and landscape is changing, and faculty have become boundary spanners, crossing margins from the classroom into the community (Ramalay, 2014). Faculty roles are “emerging, and they are seeking to find their way in a world that blends the traditions of an academic culture and the knowledge, experiences, and expectations of a broader community” (Ramalay, 2014). There may be some negative consequences that exist with this change (Stepanovich, Mueller & Benson, 2014). Higher education is “exploring how it can educate students to become the kind of educated citizenry that is needed in the nation today. For example, how institutions can model informed and collaborative interactions with the broader society both locally and wherever missions and interests take them” should be focused upon (Ramaley, 2014). Many universities are examining and strengthening their relationships with communities through partnerships that are driven by teaching, research, service missions, and mutual interests (Paton et al, 2014). With workable responses and solutions to today's problems via new ways of learning, and new ways of working together, new definitions and measures of progress and success can be created (Ramalay, 2014), benefiting all stakeholders.

Faculty are only able to address one or two changes at a time though, and over the last two decades the lecture style is considered dominant (Lee at el, 2014). Further adding complexity, faculty are often autonomous in the classroom and university (Lee et al, 2014). There seems to be uncertainty in what is expected from faculty in accredited schools (Romero,

2008) and there is no dictation on how faculty maintain qualifications. Can budget-induced decisions to hire more PQ faculty be a solution to these issues?

How universities can utilize the knowledge PQ faculty produces as a marketing initiative is an opportunity NSU, and other business schools, can capitalize on. This study reviews the findings of student satisfaction perceptions to advance the teaching and research efforts of both AQ and PQ faculty to develop a student-focused connection to the 2013 AACSB four quadrant classification system. Via an interview questionnaire conducted at NSU across current sophomore, junior and senior level students, results will showcase the perception of NSU as a business school, the faculty's role in business education, and dissolves whether or not the College of Business at NSU is creating an enduring educational foundation from which to establish a career. Further, by providing insight on what students currently value in their business education, course content can be better communicated and marketed to its constituents, holistically connecting accreditation to the community, students and faculty. Both AQ and PQ faculty can use this information to make adjustments in their classroom approach.

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## **BRANDING AND BRAND MANAGEMENT**

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### **DEMOCRATIC THEORIES AND BRANDING IN THE POLITICAL MARKETPLACE**

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#### **ABSTRACT**

*This paper examines the three major theories of democracy (the classical theory of democracy, elite theory, and pluralism) and their application to developing and maintaining a successful brand in the political marketplace. Traditionally promotion is the marketing mix element most likely associated with political marketing. A case is made for the importance of the product, place, and price aspects of the political marketplace as well (Porter, 2013). The candidacies and campaigns of H. Ross Perot, William Jefferson Clinton, and George W. Bush are used as exemplars of the three different types.*

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## **GLOBAL AND CROSS-CULTURAL MARKETING**

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### **CONSUMER EXPECTATIONS OF CONVENIENCE STORES IN A DEVELOPING ASIAN COUNTRY: A CASE STUDY FROM SRI LANKA**

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#### **ABSTRACT**

*In this paper we examine consumer preferences and expectations of convenience store (CS) attributes using Sri Lanka as a case study. Surveys of current customers as well as potential customers were conducted. Results indicate that middle aged males with a medium to high income are the key consumer segment of a CS. The demand from residential neighborhoods, followed by locations proximate to private and international schools, comprises a relatively larger proportion of revenue. Both access convenience and transaction convenience are salient attributes for both male and female consumers. Possession convenience is also crucial, but is likely to be more applicable to females. Evidence from the study indicates that managers should pay more attention to access and transaction convenience, particularly location, hours of operation and faster service. Innovative methods of communication with the target audience are needed to redress cultural challenges in the country, and to maintain steady customer traffic. Cross selling and up selling with fast moving products could be an option to increase the basket value of customers.*

**Key Words:** Culture, Consumer Behavior, Consumer Preference, Attributes, Convenience Stores, Sri Lanka

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## INTRODUCTION

The convenience store (CS) refers to a retail business with the primary emphasis on providing the public a convenient location to quickly purchase a wide array of consumption products and services. The convenience store (CS) has become one of the popular formats of retail trade around the globe. The success of CS has spread from developed countries to developing countries as a result of several social trends, including an increase in women's participation in workforce, increasing income, and technological advances. Greater time pressure also makes consumers to assign value to speed and ease of shopping.

Recently, CS retail model has spread into low income countries, including Sri Lanka. The structure of the retail market in these countries was traditionally characterized by "mom-and-pop" stores. Competition was heightened with the introduction of super markets. However, with the changing social fabric, level of consumer sophistication changed rapidly. As an example, there was an increase in number of working women in the metropolitan areas, with a resultant increase in their financial strength and freedom, which in turn attracted more females to join the workforce. The growth of the new urban middle class with the expansion of job opportunities also resulted in a new breed of consumers, who are relatively strapped for time, and quick to change store loyalties due to dissatisfaction. Thus, the over-reliance on the super market industry has created a vacuum in the market for a more convenient form of providing a retail experience to the consumers. In Sri Lanka, for example, the first convenience stores, named Go-Getter, was established in 2006, with the recognition of these shifts in the consumer behavior. Today there are more than 200 outlets of the convenience stores in the country and is expected to increase more in the next few years.

Although CS in low income countries have become more popular, so far, there has been no systematic study to clearly understand preferences and expectations of consumers in these countries. Most of the studies are concentrated on developed countries (e.g. Ostrom, Parasuraman, Bowen, Patricio, and Voss 2015, Rapp and Islam 2006, Sparks 2000, Welsh et.al. 2003). In fact, consumer preferences of products and services as well as consumer expectation of CS tend to vary from country to country. Applying information from developed countries, or even from emerging countries, to low income countries could result in an unsustainable expansion of this new retail trade business in the country. Particularly, misunderstanding behavior of consumers could lead to poor marketing performance, especially in terms of picking up the wrong location, emphasizing the wrong products and target group etc.

Thus, this study aims to examine consumer preferences and expectations of CS attributes in developing countries using Sri Lanka as a case study. Both Online customer survey and External (potential customer) survey are used in this study. The survey of current consumers is mainly for different levels of customers, both male and female, who have already purchased goods from our CS, while the survey of potential consumers covers interviews with both existing customers and prospective customers of the CS. Our findings shed some lights on the proper demand management, including proper location, customer groups, and range of the products etc., of this new form of retail trade in a low income country. Emphasizing these

salient attributes is, therefore, essential for managers of CS, both local and prospective international CS chains, to have an appropriate strategy for sustainable expansion of the business.

The rest of the paper is organized as follows. Section II briefly presents literature survey relating to CS. Section III provides a picture of the retail trade, with a focus on CS in Sri Lanka. Methodology used in this study is presented in Section IV. Section V discusses the study findings, while the last section provides conclusions and practitioner implications.

## **BACKGROUND AND REVIEW OF THE LITERATURE**

Despite the growing importance of convenience concept, literature relating to this issue, especially in the retail marketing is relatively limited, and mostly focuses on developed countries. Two key areas relating to demand management in CS literature relate to the need for shopping convenience, attributes of customer satisfaction. In fact, success of CS is related to both demand and supply management. Several researchers argue that convenience covers any process in retail marketing that reduces time and effort of consumers during their shopping process, such as Reilly (1982), Yale and Venkatesh (1986), Brown (1989), and Gross and Sheth (1989). Their studies support the many factors leading to a higher demand for convenience concept in retailing market. These include an increase in the number of working women, resulting in greater income, but less shopping time; the growth of the new urban middle class with the expansion of job opportunities; complexity in the life of consumers; and smaller household size. These trends promote the establishment of CS in both developed and developing countries.

Some studies highlight factors of core competencies, including supply-side factors for success of CS, i.e. an innovative and open-minded management philosophy; optimized logistics and supply chain management; integrated information system; franchise system; location orientated expansion strategies; value categories management; strategic marketing and level of customer service, such as Chan et.al (2005). Other researchers examine the determinants of consumer satisfaction related to CSs. Quality of customer service, cleanliness of the store, product assortment, as well as the appearance of the store and its employees are crucial for providing customer satisfaction, as evidenced by Sparks (2000), Welsh et.al (2003), and Rapp and Islam (2006). Still other researchers suggest that numerous factors affect consumer expectations, including product quality, store atmosphere, store location, price level, check-out speed, hours of operation, friendliness of seller, and parking facilities (as an example, Pan and Zinkhan 2006). In addition, there are researchers who argue that there is no significant relationship between low price offering and retail store choice among discount stores, specifically Walmart (Lumpkin and Burnett 1991), while others point out that consumer perception of product and service quality is positively related to store patronage (Sirohi and McLaughlin 1998, Baker et. al 2002). Further, it is was found that all types of convenience that reduce consumer time or effort in shopping are crucial, including payment condition, credit availability, hours of operation, and parking and store access (Berry et.al 2002).

Researchers such as Seiders et.al (2000) provide broader factors indicating four key dimensions of convenience in the retailing market, namely access convenience, search convenience, possession convenience, and transaction convenience. The first refers to the concept of speed and ease of reaching a store, and covers location, parking availability, store hours, telephone and internet access. For instance, Lassak (2000) shows that inconvenient location tends to discourage customers to patronize a CS. The second set of factors refers to the concept of speed and ease of identifying and selecting products, such as store design and layout, product displays, knowledge of sellers, customer interactive system are crucial factors in ensuring customer satisfaction. Third, the speed and ease of obtaining desired products is important, and includes stock position and timely delivery as key elements in obtaining desired products. The offering of a vast assortment of goods and services under one roof, or the “one stop shopping” concept, is also crucial for store choice, and in some studies (e.g. Stassen et.al 1999), is identified as more crucial than pricing. The last dimension, i.e. transaction convenience, refers to speed and ease of affecting transaction, with dimensions such as fast checkout and professional service of employees. Well-designed payment methods, quick services, trained employees are key elements of transaction convenience.

The salience of CS across nations tends to vary. There is limited study on salient attributes of CS in developing countries. At least one study provided an explanation of consumer expectations of CS in Latin America, and indicates that CSs located in gas stations are the most preferred by consumers, especially for male consumers (Bianchi 2009). Consumers shop at CSs when they need only few things; so stores that are located close to home or workplace, easy access to the store, payment options and parking availability, are the most salient attributes of a CS.

Our study aims to support and extend current knowledge, by adding evidence of consumer behavior and CS attributes from an Asian country. As pointed out earlier, there is limited evidence of CS attributes in developing countries and a lack of clear evidence from low income countries. Meanwhile, the salience of CS attributes tends to vary from country to country due to differences in culture, economic realities, and the business environment. Thus, our study examines consumer behavior and CS attributes in Sri Lanka, a lower-middle income country.

## **CONVENIENCE STORES IN SRI LANKA: AN OVERVIEW**

Until the early 1980's, prior to the entry of super markets, the retail landscape in Sri Lanka was traditionally dominated by “mom-and-pop” stores and wholesale discount stores. The growth organized retail stores and chains was concentrated in the capital city of Colombo, until these stores branched out into suburban areas in the millennium. The opening of the first super market chain marked the first milestone of what is acknowledged today as one of the fastest growing industries. By around 2005 the industry was became highly competitive, with the five main players being Keells Super, Cargills, Arpico, Laugfs and Sathosa. These stores were varied in their brand positioning, differentiating themselves through value for money, customer service, and product range (DPJ Holdings Market Study, 2011).

The next milestone of the retail industry emerged in 2006, with the introduction of the CS concept by DPJ Holdings (DPJH), which evolved in the business-to-business (B2B) sector. There are three key reasons why DPJH wanted to enter into a new retail format. Growth opportunities in B2B in the small island country were limited, while general retail growth, especially in CS in the other Asian region and worldwide was looking up. Further, social trends in Sri Lanka were changing, and included increasing income, a growing middle class, increase number of women in workforce, and technological progress (Financial Times 2003). The potential for rapid growth in the retail sector in the country was recognized and it was likely that it would replace some of the traditional corner stores and “mom-and-pop” establishments. Another major reason for investment in CS was the low capital outlay requirement, compared to supermarkets, and gaining the first-mover advantage.

The first CS commenced operation in 2006 with the setting up of five outlets with a substantial investment in western province. The main characteristics of the CS format in Sri Lanka were five to six hundred square feet of space, one cashier, long hours of operation, small quantities per sale, limited range of products and brands, utility payment and mobile phones top up, and a high frequency of cash payments. CS and super markets differ in terms of the assortment of products offered, and the number of customers served at a given time. Although a super market is larger in size with more customers than CS, the service level and the number of customer served at a given time is normally higher in CS. In response to this format, some of the established super markets introduced the mini-super markets or “mini-marts”, established in prominent locations such as affluent neighborhoods.

At present, CS has gained competitive advantages from a spectrum of approaches such as customer services, effective information technology and systems (POS- Point of Sale, ERP- Enterprise Resource Planning, VMI-Vendor Managed Inventory and WMS-Warehouse Management System) supplier management, quick responsiveness to market, regional supply chain networks, and third party logistics services. Currently, there are eight players in the market: Go-Getter, Cargill’s Express, HelthGard, Laughfs, SunUp, Cope City, Puhulyaya Super, Cristal, and Super K. It was found that although “mom-and-pop” stores still dominate retail trade in the country (Table 1) as their share accounted for 57% of the market in 2011, followed by super markets (32%), the share of CS has improved noticeably, reaching 11% in 2011 (DTP Holdings Market Study, 2011). Today there are 240 CS outlets in the country, and are expected to increase further in future.



**Table 1: Description of Retail Trade in Sri Lanka**

Retail Trade	Key Characteristics
Mom-and-Pop stores	<p>Players: SMEs (115,000 outlets)</p> <p>Products: popular essential brands with moderate pricing and localize according to the situated environments.</p> <p>Location: Scatter, mostly in suburban and semi-urban areas</p> <p>Service time: Early morning till early evening</p>
Super Markets	<p>Players: 5 players, i.e. Keells Super, Cargills, Arpico, Laugfs and Sathosa (600 outlets)</p> <p>Products: Complete product range including imported items.</p> <p>Location: Urban cities and populated areas with more concentration to Western province.</p> <p>Service time: 8 AM to 10 PM</p>
Convenience stores (including mini-marts)	<p>Players: 8 players, i.e. Go-Getter; Cargill's Express; HelthGard; Laughfs, SunUp; Cope City; Puhulyaya Super; Cristal; Super K. (240 outlets)</p> <p>Products: Limited product range with selected brands.</p> <p>Location: Colombo district and western province; through the island in sub-urban areas</p> <p>Service time: 7 AM to 11 PM / some places from 9 AM to 9 PM</p>

Source: DJPH Market Study

## METHODOLOGY

To understand consumer preferences and attributes, both current as well as potential consumers were surveyed. The survey of current consumers was conducted mainly for different levels of customers who have already purchased goods from convenience stores, while the survey of potential consumers focused on both existing and prospective customers.

### Current Customers

The survey of current consumers was based on customers who have already purchased goods from the DJPH's CS Go-Getter. Computer Assisted Personal Interviews (CAPI) were conducted, with a special modification done to point of sales software application where specially trained cashiers entered profile data of customers based on information provided by customers as part of the checkout process. This was purely an online based analysis and the main objectives were the identification of customer purchasing patterns and identifying regular customers' buying cycles and patterns. "Convenience card" members and all customers visiting outlets at nine locations, including Chithra Lane, Baseline Road, Modara, Nanda Investment, Nawala, Niwasipura, Raddolugana, Rajagiriya, and World Trade Centre were included in the sample, which comprised of 52,527 customers. Convenience cardholders accounted for almost 20% of total customers.

Items on the survey included age group, gender, basket value, product-related details such as category and range, time frame or date of purchase, service-related issues, and cross-selling. Frequency of purchase, loyalty, and retention were also included. For loyalty

cardholders, it was easy to link the purchase patterns with income and social status. Information relating to frequency and loyalty could also be gleaned from records of loyalty cardholders. This methodology was selected given its effectiveness for both information collection and processing, with many control features added to the point of sales software so that data entry could cross checked with the items purchased.

### **Potential Customers**

The potential consumer survey was conducted to collect information relating to consumer expectations about convenience stores. Four key dimensions of customer expectations (Seiders et. al 2000) were used as a theoretical base for exploring consumer attribute salience for CS in Sri Lanka. The sample size of was 390 persons, covering some main cities, and adjoining suburban areas, was obtained through mall intercept in-depth personal interviews. These areas constituted five of the 10 main cities where CS are functioning well, including Chithra Lane, World trade Center, Nawala, Raddolugama, Niwasipura. The use of purposive sampling allowed for information-rich cases to be selected, which generated insights into key issues and into effectiveness of interventions, rather than generalization to a population. Screening criteria included persons living in apartments with a salary in three ranges- above US\$1000 per month (which compels them not to stock up their basic needs); between US\$150 and US\$1000, and less than US\$150; as well as executives in the age range of 20-50 years, mostly in living in rented apartments or boarding houses.

A structured questionnaire based on Seiders et.al (2000) scale was used to assess consumer expectations. Items covered access convenience, search convenience, possession convenience, and transaction convenience. Location, parking availability, and open hours were factors included as access convenience, while layout and employee services were used for search convenient. Offering range, product quality and price competition were used to represent possession convenience, while speed of service was included as a factor relating to transaction convenience. Survey results helped understand consumer expectations and store attribute salience of CS, to guide managers toward consumer-directed business expansion.

## **KEY FINDINGS**

### **Results from the Survey of Current Consumers**

The survey of current consumers sheds light on some interesting factors about the Sri Lankan demographic landscape, economy and purchase power of the consumers. There were four main target groups identified as regular and repeat customers. They are youth (aged less than 18), teenagers (18-25 years), the middle aged (25-50 years) and the older consumers (50 years and over). Four areas accounted for over 10% of total sales, which are Raddologama, Chithra Lane, Modara and Nawala (see Table 2). These areas are all located in high-end residential neighborhoods and in close proximity to planned housing schemes and blocks. A CS in Sri Lanka is therefore, ideally suited to consumers residing in close proximity to medium-

to high-end neighborhoods. Other outlets performed below average, since they are located close to school and offices, thus missing out on weekend sales.

**Table 2: Provincial Sales Distribution**

Province	% of total sales
Raddolugama	15.44
Chithra Lane	14.45
Modara	13.29
Nawala	12.02
Nivasipura	10.38
Rajagiriya	9.92
Nanda Investment	9.74
Baseline Rd	7.94
World Trade Centre	6.83
Total	100.00
	n=3750

On average, middle-aged people visited CS the most, i.e. accounting for 40% of total sample size, followed by teens (25%) and youth (22%) (Table 3). This showed that middle aged customers are the most profitable segment on account of their higher buying power, and the tendency toward regular card top-up cycles. The lower proportion of teen could be attributed to the fact that culturally in Sri Lanka, it is only after marriage that children leave home, in contrast to Western norms. Thus, teens and youth often do not have any disposable income for themselves, but depend on their parents to provide for living and educational costs. Providing children with an allowance is not common, and parents generally make all buying decisions. As an exception, children from affluent families receive daily pocket money; some even have access to credit and debit cards.

**Table 3: Distribution of Current Customers by Age and Gender**

Location	% of total customers			Location	% of total customers		
	Female	Male	Total		Female	Male	Total
Chithra Lane				Baseline Road			
Older	3.43	3.83	7.26	Older	6.01	6.27	12.29
Middle-aged	32.55	40.62	73.17	M	15.18	29.19	44.38
Teen	1.84	4.84	6.68	T	1.58	9.27	10.85
Youth	7.44	5.46	2.90	Youth	8.22	24.27	32.48
			n=6312				n=6902
Modara				Nanda Investment			
Older	1.33	1.84	3.18	Older	3.43	6.50	9.94
Middle-aged	2.59	7.89	10.47	Middle-aged	12.42	26.93	39.35

Teens	7.74	62.91	70.67	Teens	8.93	34.11	43.04
Youth	3.06	12.63	15.68 n=6137	Youth	1.50	6.17	7.67 n=4047
Nawala Older	0.97	1.94	2.91	Nivasipura Older	4.64	3.79	8.43
Middle-aged	11.53	29.88	41.41	Middle-aged	22.87	23.94	46.81
Teens	2.01	14.86	16.87	Teens	1.05	4.91	5.96
Youth	7.21	31.60	38.82 n= 6248	Youth	20.80	17.99	38.79 n=9022
Raddolugana Older	13.87	15.56	29.43	Rajagiriya Older	10.23	7.60	17.84
Middle-aged	25.30	24.23	49.53	Middle-aged	9.42	8.62	18.04
Teens	0.86	6.63	7.49	Teens	10.92	26.75	37.68
Youth	4.21	9.34	13.55 n=5436	Youth	13.35	13.10	26.45 n=4799
World Trade Centre Older	19.28	15.56	34.84	Total Older	6.56	6.78	13.33
Middle-aged	6.32	13.94	20.26	Middle-aged	16.49	23.48	39.97
Teens	4.41	18.41	2.82	Teens	4.16	20.35	24.51
Youth	5.07	17.01	22.08 n=3624	Youth	7.63	14.56	22.19
					34.83	65.17	100.00
							N=52527

The teen segment is predominantly seen in CS located in Rajagiriya, Nanda Investment and Modara. The Rajagiriya CS is located near a residential neighborhood within walking distance of some high-profile international schools. Similarly, the Nanda Investment CS is situated in a residential neighborhood where the most popular private schools are located. It is of note that there are almost an equal number of middle aged consumers at this CS, and these tend to be parents of teens who avoid the public school transportation systems; instead, they are picked up by their parents. Typically, these parents top up their loyalty cards when they come to pick up their children after school. In contrast, the Modara CS is located on one of the borders of Colombo City, and has a combination of homes, trading outlets and open fresh produce markets. Modara therefore, is a highly populated area, with a younger population, some of whom work in the area.

The World Trade Center (WTC) CS is located within the financial hub of the city amidst the office district. Interestingly, the profile of those who visit this outlet is almost equal in numbers, with the elderly consumer segment being slightly higher. The reason for this is the fact that the retirement age in Sri Lanka is 65 years, and workers in blue chip offices usually

comprise older and more experienced persons. The World Trade Center also has a lot of restaurants, cafes and salons, which attract patronage from teens and youth.

Further, survey results indicate the tendency of the males to visit CS more than frequently than females (Table 3). Males accounted for around 65% of total customers while females were around 35%. A higher gender difference among consumers is found among teens, followed by youth and the middle aged. This might arise from the fact that females tend to carry out planned purchases, while males tend lean more toward impulse buying. Such impulse buying of males is more common among in teens and youth. The study findings point to the average female shopper tending to buy in bulk or family pack sizes, and also carry out purchasing at regular intervals. Meanwhile, males tend to hold better job positions than females and the same is seen with a higher tendency of males patronizing the CS. Super markets tend to attract more female shoppers than CS. The equal gender split of middle aged in Rajagiriya could result from the fact that in both middle and higher-income groups, who can afford to educate their children in private and international schools, both males and females equally share responsibilities, such as picking up children from school. Thus, there is an equal split between male and female consumers in this location (i.e. around 8- 9% of total consumers). Raddolugana CS is another location where this is no gender gap of middle aged visiting CS. As most of females in this area are educated persons holding full-time positions in corporate or government offices, the behavior of planned purchases is found to be lower than in other locations.

**Table 4: Basket Value of Customer**

<b>Basket value (Sri Lanka Rs.)</b>	<b>% of customers</b>
0-49	27.61
50-99	22.56
100-199	21.73
200-299	10.13
300-399	7.73
400-499	3.32
500 – 599	1.72
600-699	1.49
700-799	0.90
800-999	1.26
1000+	1.56
Total	100.00
	n=3750

Additionally, results show that around 70% of total customers who visit CS have a basket value less than Rs. 200, while less than 5% of total customers have a basket value more than Rs. 500 (Table 4). Snacks and confectionary, beverages, and frozen foods hold among the highest demand from customers, accounting for 23%, 20% and 13% of total sales respectively (Table 5). Daily products, personal care and condiments & spices are also in high demand. However, there is a limited number of consumers who want to purchase recharge cards and other related products.

**Table 5: Sales Breakdown by Product Category and Age**

DESCRIPTION	Older	Middle-aged	Teens	Youth	Total
Snacks & Confectionary	25.18	21.32	25.57	22.05	23.04
Beverages	19.79	20.86	19.64	20.93	20.33
Frozen Food	13.67	12.68	14.58	13.61	13.13
Condiments & Spices	6.33	8.49	5.93	7.46	7.54
Dairy	7.44	6.99	5.89	6.49	6.76
Personal Care	5.36	5.63	6.62	6.93	6.07
Home Care	3.98	4.65	4.37	5.18	4.64
Bakery	3.49	4.38	3.16	3.84	3.85
Tobacco Products	3.56	3.49	2.18	2.87	3.05
Baby Needs	2.09	2.24	2.75	2.47	2.39
Pasta & Soups	1.86	2.28	1.84	2.06	2.05
Pharmacy	1.96	1.42	1.47	1.84	1.58
Vegetables	1.21	1.45	2.11	0.62	1.50
General Merchandise	1.13	0.82	0.70	0.93	0.89
Canned Foods	0.69	0.90	0.77	0.85	0.86
Breakfast Cereals	0.89	0.63	0.74	0.65	0.71
Desserts & Ingredients	0.47	0.71	0.46	0.55	0.58
Jams & Spreads	0.53	0.52	0.36	0.43	0.48
Fruits	0.23	0.42	0.67	0.14	0.43
Stationary	0.12	0.07	0.18	0.05	0.11
Recharge Cards	0.03	0.03	0.01	0.04	0.02
Total	100.00	100.00	100.00	100.00	100.00
	n=487	n=1500	n=938	n=825	100.0
					N=3750

### Results from Survey of Potential Consumers

The survey of potential consumers shows that access convenience, in terms of location and open hours, is the salient attribute for Sri Lankan consumers, both males and females. Parking availability is less important factor for consumer to visit CS. This confirms results of the survey of existing consumer, indicating a preference for CS locations close to their residential neighborhoods, offices or their schools (where typically, parking space is a problem). This finding is in contrast to findings of earlier studies (such as Berry et.al 2002), and Pan and Zinkhan 2006) which concluded that parking availability is one of the crucial factors of CS patronage in developed countries.

**Table 6: Expectations of Customers from Convenience Stores**

Income (US\$)	% of total factors					
	Below \$ 150		\$150 - \$1,000		>\$ 1,000	
Factor	Males	Females	Males	Females	Males	Females
Location	20.4	28.0	22.5	29.0	18.0	24.9
Fast service	15.3	10.5	14.2	12.0	20.0	15.7
Offering a range	10.5	21.8	13.0	14.0	9.3	12.1
Competitive pricing	6.1	10.0	10.7	12.1	7.9	10.0
Extended Opening hours	14.6	8.0	16.9	9.2	11.2	10.2
Product quality	6.1	10.1	8.2	11.4	7.4	10.5
Layout and Employee services	4.0	6.7	7.0	7.0	8.3	9.1
Parking availability	-	-	4.0	2.0	6.0	4.0
n=390						

Transaction convenience is another salient attribute as shown from the high percentage rating of the factor “fast services” (Table 6). This factor is particularly crucial for people who earn more than \$1,000 facing more time pressures than other groups. This confirms the concept of CS as serving more for time-strapped customers who value quick and easy shopping trips, and who are in relatively higher income brackets. Results indicate that those who earn over US\$1,000 have the highest scores of satisfaction levels from visiting CS (Table 7).

**Table 7: Mean Satisfaction by Income**

Income (US\$)	Mean levels of satisfaction (Out of 5 score)
> \$ 150	3.26
\$ 150 - \$ 1,000	3.92
< \$ 1000	4.28
n=390	

Possession convenience is also a crucial factor, and tends to apply more to females. It seems that female consumers tend to look for a wider range of products, as they tend to have more time for shopping than males, and exhibit less of impulse buying. Thus, offering a wider range of products and product quality could attract more (female) customers to visit CS in Sri Lanka. The survey also shows that almost three-fifths of respondents (57.63%) stated that they want to buy other products such as dairy, personal care and home care, instead of just basic products like drink/colas (35.59%), milk products (32.2%), bread and bakery (28%). Competitive price is less crucial, especially for males, compared to product range and quality. The convenience of this retail trade format can compensate for higher prices charged. Females tend to respond more to this factor than males, as they tend to carry out planned purchases and have more time for shopping.

Interestingly, search convenience is less crucial for customers in Sri Lanka. Store layout and help from employees in searching for products have lower ratings, compared to other dimensions. This finding represents a departure from literature, as this factor is found to be one of the more important ones in developed countries. The lower importance of this factor in developing countries might be due to less time pressures on consumers, as compared to those in developed countries. Thus, more time is available for product search, which means that store layout, and the need for store staff help, are of lower importance to Sri Lankan CS selection. This is particularly true for female shoppers (Table 6).

## CONCLUSIONS

Although CS has become a popular format in retail trade in developing countries, it has received relatively less attention from empirical literature. Most empirical studies focus on developed countries. This study contributes to the literature by examining consumer preferences and expectations of CS attributes using Sri Lanka as a case study. Further, both current as well as prospective consumers are covered in this study.

Our results show that CS in Sri Lanka is ideally suited to consumers in medium- to high- income ranges. Middle aged people account for the largest segment, as their buying power is higher, and they tend to have regular cycles to “top up” or replenish the store card value up to its credit line limit. However, in some locations such as Rajagiriya, teens and youth dominate, since CS are located close to private or international schools. Results also evidence the tendency of more Sri Lankan males to visit CS than females; further, this is seen across all age groups. Gender differences might arise from the fact that females tend to carry out planned purchases, while males tend to display more impulse buying. Snacks and confectionary, beverages and frozen food are among the highest demand items. However, there is a limited number of consumers that want to purchase recharge cards and other related products. The basket value of customers is relatively low.

Access convenience, in terms of location and open hours, and transaction convenience are the salient attributes for Sri Lankan consumers, and this is true among both males and females. Possession convenience, represented by a wide product range, and product quality, is also crucial, with a higher importance among female consumers, possibly due to more time available for shopping, and lower impulse buying. Parking availability and search convenience, in terms of store layout and helps from CS staffs, are less crucial for customers in Sri Lanka. Findings of this study are important for the expansionary path of CS in low income countries such as Sri Lanka. These could have implications for both local and prospective international managers who want to expand CS in relatively low income countries in Asia and elsewhere.

Among practitioner implications, it may be concluded that location is a crucial attribute for CS. Areas having a higher proportion of middle- aged consumers, residential neighborhoods, and international and private schools are preferable, as are areas having a higher proportion of males. Although location close to private and international schools is a



preferred choice, there are some challenges. These outlets tend to lose out on weekend sales. Also, sales to teenagers are expected to discontinue after they graduate from high school, and would instead be replaced by incoming students. In order to maintain consumer loyalty, and to get the children to continue patronizing CS, special schemes need to be formulated to gain their patronage as they move into a new customer group- that of youth. In this light, CS must come up with strategies to reward loyalty to consumers, and to maintain consistent service quality levels and target group-specific product lines. This would help not only to ensure consistent flow of consumers, but also to increase the weekday sales to compensate for loss of weekend revenues.

Additionally, beyond location, managers need to pay attention on services offered, as transaction convenience is another crucial attribute of CS. Well-trained cashiers, and viable payment options should be taken into account by CS management. Proper store layout could, to some extent, indirectly help to facilitate transaction convenience to CS consumers.

Further, a point of concern from the above discussion is the relatively low basket value of CS customers in this country. A steady flow of customers are needed to compensate the relatively low basket value. To ensure a steady flow of the customers, the culture barrier is needs to be addressed. This could be because there is lack of understanding about the concept of CS, as there is a segment of the society who are afraid to enter air conditioned stores, due to the impression that the CSs are very expensive places to shop. As well, people just expect the same range of services as a super market, given their lack of familiarity with this concept. There are a limited number of consumers who want to purchase recharge cards and other related products. When considering this backdrop, innovative methods of communicating to the target markets are needed to redress such culture challenges.

Finally, in addition to a steady flow of customers, increasing the basket value should also be taken into account for the sustainability of CS expansionary path. Selling very high value items seem to be infeasible, not only because it is inconsistent with the concept of CS, but also because the income level of people is relatively low. Attempts to increase the basket value are a better option. In order to increase the basket value, CS need to look at an operational model which promote cross selling and up selling with fast moving product categories such as beverages, confectionary, and bakery items. CS managers also need to increase their range of impulse category buying and examine means to promote low value items which will be bought in large quantities. This cannot be simply done through an information system *per se*. The management of CS needs to carry out data mining and promote a culture at the outlet level which looks at taking the responsibility of growing the outlet demand. In order to do so, the outlet managers need to be empowered to analyze consumer data, and to implement outlet-specific promotions, while top management takes on a monitoring role. A long-term perspective is needed for the success of the CS system.

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## **REVISITING THE ANIMOSITY-ETHNOCENTRISM MODEL**

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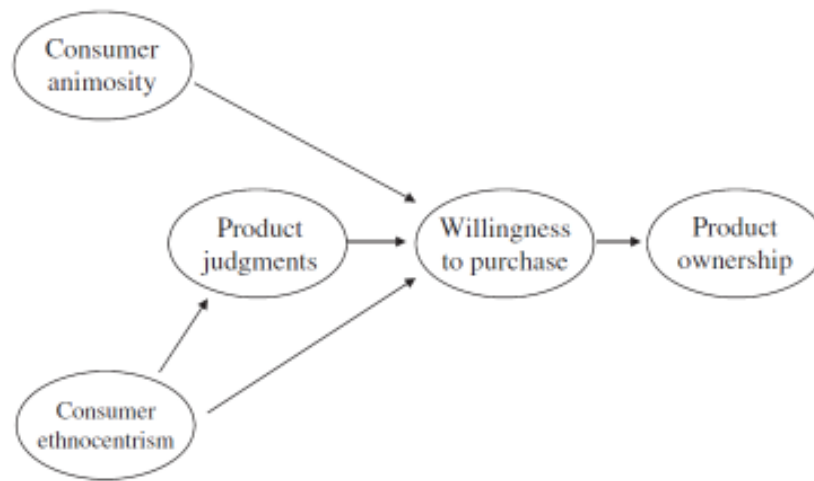
### **EXTENDED ABSTRACT**

Although quite a few research studies have examined the influence of consumer animosity on consumer behavior, it is surprising that little research has attempted to investigate the underlying dimensions of consumer animosity, let alone investigate the animosity-ethnocentrism model in a developing, post-colonial country. This study attempts to fill this gap by examining the impact of consumer ethnocentrism and animosity toward the former colonial power on consumers' judgments of products/brands made by the former colonial power, and on consumers' willingness to buy such products.

This present study examines whether findings of previous research regarding the consumer animosity and ethnocentrism model remain valid in a developing, post-colonial country. This study employed exploratory factor analysis to determine the underlying structure of the various scales investigated in this study, and the EFA outcome is evaluated with a more rigorous confirmatory factor analysis approach using a hold-out sample. Subsequently, a structural path analysis was conducted to assess the hypothesized path relationships.

Empirical findings supported the colonial and economic animosity structure and revealed that colonial animosity negatively influenced consumers' judgment of products from the former colonial master and their willingness to purchase goods associated with the former colonial master. These findings have significant implications for international companies who intend to market their products in a developing country with colonial experience in the past. The impact of partial production shifts from a colonial animosity-evoking country to an animosity-neutral country may reduce the negative impact of colonial animosity on foreign consumers' purchase intentions.

**Figure 1. Animosity model of foreign product purchase (adapted from Klein et al., 1998)**



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## **SUPPLY CHAIN MANAGEMENT AND BUSINESS TO BUSINESS MARKETING**

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### **NARROWING THE SUPPLY CHAIN BY TURNING THE DISTRIBUTOR INTO THE MANUFACTURER**

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#### **ABSTRACT**

*Outsourcing has been detailed and debated for decades. Literature refers to the theory as the “make or buy” decision, and it is necessary to focus on the economic value of the outsourcing decision. With economic slowdown a global reality, manufacturing companies are stepping up their efforts to find operating efficiencies and reduce capital requirements through any means possible. By applying pressure to distributors, OEMs are focusing on price, inventory holds and time to market. This paper will demonstrate how a distributor can grow in a down economy through partnering with OEMs in value added services as both a distributor of raw materials and finished parts. Additionally, this paper will provide an outline on vertical services that will that focus on lean supply while, defining the decision variables, key activities and performance measures as well as their combined relationship as a main success criterion for outsourcing manufacturing. This combined approach will enable the development of the conceptual framework. The framework will include start-up, operations and maintenance of the outsourcing process and help increase the competitive position and profitability.*

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#### **INTRODUCTION**

With economic slowdown a global reality, companies are stepping up their efforts to find operating efficiencies and reduce capital requirements. The name of the game is no longer grow at any cost. Now, the cost of generating sales—return on assets (ROA) and return on investment (ROI)—carry significant weight. Most industrial sectors are faced with intensified conditions in their perspective markets and within their corporate boundaries. As a result, companies are putting higher demands and constraints on their upstream linkages. Previously, the customers focused mainly on low total systems cost, high quality and good

delivery performance. Today, they also expect short product life cycles and time-to-market, innovativeness and customization. (Coyle et al, 1992; Kotha, 1995; Sanchez, 1997)

## **BACKGROUND**

Since the 1990s there has been an increasing emphasis on the buyer-distributor relationship. As companies looking at a more holistic approach to the bottom line, there is an emphasis on supply chain management, vertical alliances, lean supply, industrial networks and outsourcing. (Hill 2000) Each of these areas of focus improve competitiveness and profitability of corporations by providing different strategies, tools and techniques for how to select the right partner, establish the proper relationship and adapt adequately to the internal and external changes. One way to take advantage of opportunities is to outsource parts of the production to distributors. Production outsourcing implies change from in-house material supply to purchasing materials from a distributor; therefore, production outsourcing can affect material supply in terms of delivery reliability, lead times, and product quality.

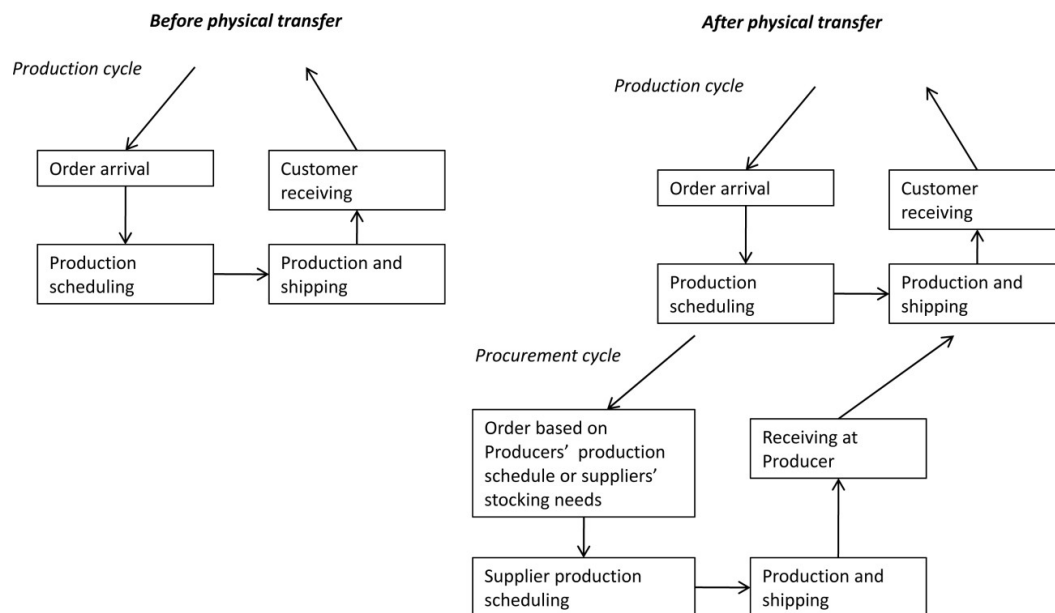
The focus of this paper is how the production outsourcing transition from making to buying a product affects material supply and how to define best practice methods and models for which an OEM can continue its growth through value added services in a down economy. To identify the best practices, this project will define the decision variables, key activities and performance measures as well as their combined relationship as a main success criterion for outsourcing manufacturing. It will also identify the key factors in outsourcing, and how a distributor of raw materials can increase products by providing value added services by providing finished parts. This combined approach will enable the development of the conceptual framework. The framework will include start-up, operations and maintenance of the outsourcing process and help increase the competitive position and profitability of an OEM as well as the distributor.

### **Outsourcing defined**

In many cases, outsourcing is seen as an opportunity for organizations to achieve cost reduction and strategic goals (Fill and Visser, 2000; Kremic et al., 2006; Bengtsson et al., 2005; Elmuti and Kathawala, 2000; Monczka and Trent, 1991). A significant strategic goal of outsourcing is to allow companies to refocus their resources on core business. (Prahald and Hamel, 1990; Lankford and Parsa, 1999) Reaching these cost and strategic goals is the motivation behind outsourcing and opens the door for a distributor to capitalize on value added services. Although there are benefits to outsourcing, there are risks involved. According to Nordin (2007), there are three types of risks: 1) the risk of only looking at cost reduction potential and not sufficiently understanding the implications of outsourcing for the company as a whole, 2) the risk of outsourcing critical activities, and 3) distributor related risks. Distributor-related risks of outsourcing relate to the risk of increased dependency on the supply of materials from a source outside the company (Nordin, 2007). Materials availability and thus materials supply is for a producing company an important issue as lack of materials can lead to delayed deliveries to customers and/or extra costs. The outcome of distributor-related risks can be an inability to meet customer requirements (Zsidisin, 2003).

In most cases, outsourcing includes both a change of location and an organizational change in terms of ownership and control of the production task or product. Obviously, this increases the number of organizations in the supply chain (Rudberg and Olhager, 2003). Most definitions of outsourcing imply that activities and products previously made in-house are now performed by an external source (Brannemo, 2006). Outsourcing makes companies less self-supporting with materials, since the responsibility of materials supply moves from in-house to purchasing from a distributor (Fraering and Prasad, 1999; Mattsson, 2002; Zeng and Rossetti, 2003; Wild, 1998). Figure 1 shows how the transitions from making to buying a product, taking place during an outsourcing process, affect materials supply.

**Figure 1: Outsourcing of production implies a shift in materials supply of the outsourced item from only including the production cycle to including both the production cycle and the procurement cycle. The picture is adapted from Chopra and Meindl (2004) p. 13-14.**



## Materials supply

Materials supply can have different meanings depending on who is dealing with the question. Materials supply is seen as a part of logistics. Logistics provides a fundamental mechanism for linking the firms of diverse supply chains in a coordinated manner in order to ensure materials supply (Fawcett, 1992). Johansson (2006) defines the materials supply system as the system that supplies materials from distributors through the focal company's production system to industrial buyers. The aim of the logistics system is to supply customers efficiently with their required products and the purpose of the materials supply system is to supply production with materials and items (Jonsson, 2008). Materials supply can be viewed in four ways (Jonsson, 2008), either with a function or process focus, or as a structure or



control decision (See Figure 2). These four ways of viewing materials supply are complementary and should each be considered to ensure efficient and reliable materials.

**Figure 2.2: The relationship between the four different ways of viewing logistics and materials supply, structure/control decision and function/process focus.**

Function focus	3 How should the functions be designed?	4 How should the functions be managed?
	1 How should the processes be designed?	2 How should the processes be managed?
Process focus	Structure decision	Control decision

A logistics and materials supply system can be described as a set of processes which transform materials into products for distribution to customers as well as in terms of its main functions, i.e., the primary output function of each subsystem (Jonsson, 2008). When the materials supply system is described as a set of processes, the different processes constitute the system. Chopra and Meindl (2004) divide the supply chain process into four cycles: the customer order cycle, the replenishment cycle, the production cycle and the procurement cycle. These functions are also responsible for carrying out the processes. Johansson (2006) includes six functions in the material supply system: materials feeding, handling, storage, transportation, packaging and manufacturing planning and control.

- Materials' feeding mainly concerns what principle to use for feeding the materials to a work station or plant (Johansson, 2006).
- Handling includes movements within facilities, where lifting and putting down as well as packaging the material is included (Johansson, 2006).
- Storage is the storage of raw materials and items at or near a manufacturing or assembly process, partially completed products along a production line as well as finished products (Johansson, 2006).
- Transportation refers to the movement of a product from one location to another as it makes its way through the supply chain; there are several transport modes by which the movement can take place, such as air, truck, rail, water and pipeline (Chopra and Meindl, 2004).
- Packaging has many functions. To enable efficient handling and storage, to protect the materials and environment during handling, and to identify the material in

question, it is generally enclosed in some sort of packaging or put into a load carrier (Jonsson, 2008).

- The manufacturing planning and control system is defined by its task – to manage the flow of material, the utilization of people and equipment, and to respond to customers' requirements in order to meet their demands but also to provide planning information upon which the planning staff can make accurate decisions (Gustavsson, 2008). The manufacturing planning and control system make decisions that differ with regard to precision and time-horizon, which is handled by planning materials flows and production successively in a hierarchical structure of planning levels (Jonsson and Mattsson, 2009).

### **Materials supply in existing outsourcing processes**

To be successful with outsourcing it is necessary to prepare for the physical transfer, the distributor production start-up and the characteristics of the new supply chain. When the materials supply system required to coordinate global operations is not given adequate consideration in the initial design of a supply chain, the effectiveness of the supply chain performance is reduced (Fawcett, 1992). Wasner (1999) argues that previous research within outsourcing has mainly focused on the strategic considerations of outsourcing (i.e., what and why), although the process of carrying out the transfer (i.e., to whom and how) is equally difficult because of interdependency on an operational level.

There exist several outsourcing frameworks in the literature (e.g. Cánez et al., 2000; Franceschini et al., 2003; McIvor, 2000; Momme, 2002; Platts et al., 2000; Probert, 1996; Zeng, 2003; Moses, 2009). The frameworks consist of factors to consider and processes, including phases in which activities are to be executed. The activities within the phases aim at helping the company establish and manage the outsourcing process on the basis of criteria such as quality consciousness, cost potential, reliability of delivery, innovativeness and geographic location (Momme, 2002; Momme and Hvolby, 2002). Even though several frameworks exist, Kremic et al. (2006) conclude from a literature review that although possible benefits, risks and strategic issues of outsourcing were abundantly discussed, additional work designing tools and guidelines in terms of decision support are needed, especially based on empirical work. Further, outsourcing frameworks of today do not include standardized processes to ensure materials supply. Today, materials supply aspects such as on-time delivery are considered first when the actual supply begins (Kumar et al., 2010). The lack of materials supply aspects and a heavy focus on core competences when formulating outsourcing strategies—as is the case with present outsourcing frameworks—make decision makers risk forgetting that components are still vulnerable to supply failure (Nordigården, 2007).

## **Supply chain performance**

To decide what actions to take to ensure materials supply, it is necessary to measure supply chain performance. Reliable and efficient materials supply is to have the right items, in the right quantity available at the right place at the right time at the expected cost (Jonsson, 2008). When outsourcing, it is important that the measures of supply chain performance cover the supply chain of materials from one organization to another.

There are many suggestions as to what supply chain performance measures to use and how they should be organized. One model is the SCOR model (Supply Chain Council, 2006; Stewart, 1997), which includes metrics focusing on reliability, responsiveness, flexibility, cost and assets within the supply chain processes of plan, source, make, deliver and return. Gunaskeran et al. (2004), following the supply chain processes of the SCOR model, suggest that supply chain performance should be measured at strategic, tactical and operational levels. Also following the supply chain processes of the SCOR model, Shepherd and Günter (2006) categorized supply chain performance measures into cost, time, quality, flexibility and innovativeness, and whether they are quantitative or qualitative. According to Shepherd and Günter (2006) measures of time and quality reflect the ability of a supply chain to deliver high customer service, while flexibility and innovativeness indicate the ability to cope with rapid changes in demand or supply. Beamon (1999) said that the use of resources, desired output and flexibility (how well the system reacts to uncertainty) should be used as a basis for deriving supply chain performance measures. According to Beamon (1999) resource measures are usually measured in terms of the minimum requirements, and output measures include: customer responsiveness, product quality and the quantity of final products produced (capacity). Flexibility measures a system's ability to accommodate volume and schedule fluctuations from distributors, manufacturers and customers.

The question to start with when developing performance is, —Who are the stakeholders and what do they want and need? (Neely et al., 2001). Measuring the supply chain performance from the viewpoint of the distributor is the purpose of the supply chain performance measures used. The purchasing department of the focal company will have a relationship and exchange information with the distributor, and the operations department of the focal company depends on the distributors' performance in the form of product quality, delivery reliability, delivery flexibility and lead times (Slack et al., 2007). The supply chain performance measures used should capture the efficiency and reliability of materials supply from the distributor to the arrival at the operational department within the focal company. Several authors suggest that performance measures should cover issues related to reliability; time, cost, flexibility and quality see Table 2.1. The performance measures used will be found among these performance measures, as these measures capture the effect on the operations and the relationship of the physical and information exchange between the distributor and the focal company.

**Table 2.1: Performance measures**

Performance measures	Examples of what to measure
Reliability	Order fulfilment (Supply Chain Council, 2006), mean time between failures, on-time delivery (Beamon, 1999), lateness complaints and schedule adherence (Slack et al., 2007)
Time	Lead times (Beamon, 1999), and purchase order cycle time (Shepherd and Günter, 2006)
Quality	Percentage of defects per unit (Gunasekaran et al., 2004), level of customer complaints and scrap level (Slack et al., 2007)
Cost	Cost of tied-up capital (Beamon, 1999), transportation cost, administration costs and risk and damage costs (Zeng, 2003)
Flexibility	Delivery flexibility, i.e., the ability to change planned or assumed delivery dates (Slack, 2005)

Platts et al. (2000) have developed an outsourcing framework that start in the production strategy of the company. The aim of their framework is to create a holistic understanding of the outsourcing process. An outsourcing decision process is triggered by things such as cost reduction, lack of capacity, and investments. The make-or-buy process is performed in three steps: 1) the preparation phase, where a project team is selected and the items or processes to be outsourced are identified; 2) the data collection phase, where data needed for the decision is specified and gathered; and 3) the analysis and result phase, where weightings and ratings are combined to give a single figure that indicates the merits of the options. Platts et al. (2000) mention four areas that should be compared and evaluated during the outsourcing process. They are: technology and production process, cost, supply chain management and logistics and support systems.

The McIvor (2000) framework aims at including a value chain perspective, core competence thinking, supply base influences and a transaction cost view into the outsourcing decision. It is based on interviews with senior managers in 12 companies and a literature review. McIvor's (2000) framework starts with the company defining their core activities, since customers consider this as adding value and therefore it is a major determinant of competitive advantage. The next step is to evaluate relevant value chain activities by benchmarking each selected core activity against the capabilities of potential external providers and identifying the costs associated, either by retaining the activity in-house or by outsourcing it. After the evaluation, a total cost analysis of the core activities should be done; it should encompass all costs associated with the acquisition of the activity throughout the supply chain. The final step is to do a relationship analysis.

The Zeng (2003) framework aims to combine global sourcing processes with logistics and is based on literature studies and a case study. The Zeng (2003) framework includes the whole outsourcing process from identification of core activities to after transfer. It has five steps:

1. Investigation and tendering
  - a. Core activities
  - b. Analysis of company, customer and competitors
  - c. Sourcing strategy
2. Evaluation
  - a. Selection criteria
  - b. Pre-screening
  - c. Estimate of economic and operating benefits
3. Distributor selection and development
  - a. Negotiation
  - b. Technical assessment
  - c. Savings identification
  - d. Implementation schedule
4. Implementation
  - a. Team, strategy and schedule
  - b. Agreement on supply and logistics terms
  - c. Measurement of actual performance
  - d. Progress report
5. Performance measurement and continuous improvements
  - a. Monitoring of distributors' performance
  - b. Relationship analysis
  - c. Continuous improvement opportunities
  - d. Maintaining a dynamic and flexible procurement process.

Franceschini et al. (2003) present a framework that aims at developing a generic outsourcing framework in accordance with total quality management principles; it is based on literature studies and a case study. The framework consists of four steps. The first step, internal benchmarking, helps the outsourcing company evaluate its processes, analyse their efficiency and evaluate what to outsource. A company-specific core competence definition is made, possible relationships with distributors are identified, and finally, a stratification of activities is created. Steps two through four consist of an external benchmarking with the aim of distributor selection, followed by contract negotiations and finally managing the outsourcing process.

The framework by Momme and Hvolby (2002) aims at linking operational and tactical considerations to strategic planning by combining core competence thinking with an outsourcing process. The framework was developed from a case study of a strategic outsourcing program used by Aalborg Industries. Momme and Hvolby (2002) introduce an outsourcing decision process in six phases and include activities to be executed during the phases:

1. Competence analysis
  - a. Strategic analysis
  - b. SWOT analysis
  - c. Core/non-core competence mapping

2. Assessment and approval
  - a. Defining critical assessment criteria
  - b. Distributor assessment
3. Contract negotiation
4. Project execution and transfer
  - a. Establishing basis for distributor integration
  - b. Defining workflow interfaces
  - c. Adapting organization to distributor performance
5. Managing relationship
  - a. Establishing communication, information and monitoring systems
6. Contract termination

## **RESEARCH METHODOLOGY**

In the early stages of any research, exploration is needed to develop research ideas and questions (Voss et al., 2002). The pre-study set out to identify what problems related to outsourcing and logistics were the most troublesome. In parallel with the pre-study, a literature study covering outsourcing drivers, decision factors and processes was performed. The literature review showed many practical problems in how to utilize the supply chain. Conceptual ideas existed in the literature, upon which such allocations in supply chains could be made (e.g. Fisher, 1997; Christopher and Towill, 2001).

A final conclusion from the project was that it was necessary to focus on the parts of the outsourcing process where actual materials supply started to really grasp how outsourcing and materials supply were linked and how this could be most beneficial to the distributor. In all the studies, the companies experienced trouble achieving their goals of outsourcing because it was much more complicated than thought when making the decision to outsource to reach steady state.

### **Research strategy**

The research tries to understand the dynamics of how to ensure materials supply in the setting of the outsourcing process. The research questions are “how” questions.. The research attempts to capture a rather wide and to some extent new problem area; the research process has been a process where the research questions have evolved as deeper knowledge of the phenomenon studied has been gained. Furthermore, there was seldom one person that could provide all the necessary information. To be able to understand the dynamics and create a detailed description, information had to be collected from several different people and sources. Therefore, case studies were the most suitable way to get the knowledge needed to answer the research questions.

## **Literature studies**

Through the literature studies, a knowledge base was built on the subject, by reading textbooks and theses in appropriate areas. Also, searches were conducted in databases such as Google Scholar and Texas A&M Libraries to identify relevant papers. The search was not limited to logistics, purchasing, supply chain management and operations management-related journals because the areas covered are diverse, and relevant papers were found in journals of a diverse nature.

To achieve the objective, a general outsourcing process was derived from the literature. Most frameworks follow a similar structure, so the derived general outsourcing process includes common parts from frameworks in the literature reviewed with the addition of a number of more specific parts from individual frameworks. A theoretical framework describing the sourcing characteristics was developed. The theoretical framework was based on theory within outsourcing and sourcing decision factors, materials supply, supply chain design and production strategy.

## **Data collection techniques**

There are two main groups of data collection techniques (Arbnor and Bjerke, 1994)—the use of already collected data (secondary data) and new data (primary data). According to Arbnor and Bjerke (1994) new data can be collected in three ways: observations, interviews and experiments. Case studies usually combine several data collection techniques such as archival documents, interviews, questionnaires, and observations (Eisenhardt, 1989). In the research presented, interviews, documents, and observations have been used as data collection techniques.

## **Documents**

For case studies, documents are used to corroborate and augment evidence from other sources (Yin, 2002). Documents used in the studies were internal process descriptions, calculations preceding decisions, distributor evaluations and ERP records.

## **Sourcing characteristics framework**

To develop a sourcing characteristics framework based on which the supply chain performance effects sourcing from a specific distributor can be evaluated, it is necessary to detail the sourcing characteristics categories. Because it is not possible to link supply chain structure, supply chain relationships and sourcing country characteristics directly to any consequences that can affect the supply chain performance, to do that a greater level of detail is necessary

## RESULTS

When analyzing possible supply chain structures in the first phase,—Competence analysis and internal benchmarking, it is possible to evaluate what possible supply chain structures implies for the supply chain based on location of nodes, length of links, transport modes and lead times. This analysis of supply chain structures shows which of the structural options are aligned with company strategy. For example, if the company has a strategy for JIT deliveries, it is hard to combine with long links and long lead times; the management should carefully consider an alternative of outsourcing to a distant distributor (Svensson, 2001). In the second phase, —Distributor assessment, external benchmarking and approval, logistics becomes integrated in the distributor evaluation and selection, enabling the companies to foresee how the relationships in the supply chain will change and what customer service to expect. It is also important to highlight for the management that there are more logistics costs than transportation costs. Including supply and logistics terms in the contract negotiations makes all parts aware of what is expected from the relationship, in the form of, for example, delivery reliability. It can be seen that integrating the logistics categories in the derived general outsourcing process allows companies to improve their analysis of how logistics and manufacturing operations are affected by outsourcing early in the outsourcing projects.

There are several outsourcing processes in literature today, but few include any focus on how to facilitate logistics considerations during the decision making process. Brannemo (2006) presents a list of logistics factors that should be considered when outsourcing, but does not relate them to an outsourcing process. Platts (2000) also says that supply chain management and logistics should be considered, but not how. Momme and Hvolby (2002) present an outsourcing process that links operational and tactical considerations to strategic planning, but do not focus on logistics and materials supply aspects. Other well referenced frameworks (e.g. McIvor, 2000; Franceschini et al., 2003; Greaver, 1999; Schniederjans and Zuckweiler, 2004) focus on the strategic aspects of outsourcing such as identifying the core competencies of the company, identifying possible relationships with distributors and deciding on the governance structure of the outsourcing relationship. However, they do not focus on operational aspects, such as how to ensure materials supply.

Several authors have pointed to the importance of fit between the company strategy and the manufacturing planning and control system (e.g. Berry and Hill, 1992; Olhager and Rudberg, 2002). For example, by considering how customer order fulfillment strategy and materials planning methods are affected by longer lead times (which is common when outsourcing to low cost countries), companies can determine whether the materials planning strategy and materials planning methods have to be changed in such a way that it conflicts with the company's strategy.

The aim of the materials planning process before the physical transfer is to accomplish failure prevention by taking preventive actions to avoid material shortages and decreased delivery flexibility. Input to preventive actions, such as safety stock and safety lead times, are



lead time and quantity uncertainty (Chopra et al., 2004; Eppen and Martin, 1988). Quality uncertainty is not taken as an input in earlier descriptions of safety stock calculations. However, during production transfer and start-up there is an uncertainty related to the quality of the goods received, because the production process has not yet reached steady state (Almgren, 1999b). This means that the outsourcing company can receive the expected quantity though it can show that the quality of the received quantity is not sufficient and the whole batch has to be scrapped and new components ordered. This creates lumpiness in supply. Earlier researchers have recommended the use of over planning when lumpiness is in demand (e.g. Verganti, 1997) and perhaps this should be used to complement safety stocks during production transfer and start-up in order to handle the lumpiness in supply. One important issue when deciding upon preventive actions is to estimate that the time supply chain capacity will be less than customer demand, i.e., how long it will take to reach steady state. What has to be taken into account when deciding upon preventive actions is not only the lead time and quantity uncertainty as in established safety stocks and safety lead time calculations? It is also necessary to include estimations of quality uncertainty and the time to reach steady state.

The contribution to the materials supply research area is how existing processes and methods within the materials supply research area have to be adapted to fit with the specific conditions of outsourcing. The research helps to answer the question of how companies should respond to changes in conditions of their operations that come with outsourcing, and using an existing distributor as a resource for finished parts can decrease the total number of supplier's thereby decreasing logistics. This is used to further develop an existing framework, describing the materials planning environment during engineering change, into a framework by which the materials planning environment during production transfer and start-up can be described. Through this framework, the input to the materials planning process needed to take the right preventive measures to ensure materials supply during production transfer and start-up are identified. Furthermore, the research contributes by combining already existing frameworks for evaluating sourcing decisions to develop a framework by which the consequences and supply chain performance effects of sourcing from a specific location and distributor can be identified. It is also seen that supply chain performance is improved by having a sourcing strategy for how sourcing alternatives should be combined and utilized.

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**BEST PRACTICES OF SALES FORCE COMPENSATION WITHIN**  
**SMALL, TO MEDIUM SIZED ENTERPRISES: THE METRICS**  
**ASSOCIATED WITH PERFORMANCE APPRAISAL**

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**INTRODUCTION**

Guardian Industrial Supply, LLC is a small, medium-sized enterprise (SME) that specializes in electrical distribution. Human capital has been an issue since company inception. In regard to human capital, Guardian is focusing on the aspect of their sales force. A firm's human capital is believed to be an important source of sustained competitive advantage (Barney, 1991). Our sales force is knowledgeable, hardworking, and for the most part experienced in their field of electrical distribution. However, they are not motivated to be the best they can be, when it comes to sales or customer relationship management. The primary factor in this dilemma is compensation and the fact they make a set salary. Why should they go above and beyond their current work description in there is not an incentive? Thus, how can a SME be enabled to properly compensate their sales force, based on employee and employer metrics to enable both sides to be inspired and gratified?

According to the U.S. Small Business Association, firms with fewer than 500 employees account for 99 percent of all employers and 39 percent of the gross national product (Williamson et al., 2002). SMEs are a driving force behind the U.S. economy as these numbers prove. Yet, SME's struggle with all types of constraints including increased competition, finance, skilled labor, and marketing and sales skills. See table 1 below (Bridge et al., 2012). This is the essence of Guardian Industrial Supply. A small business in a world filled with constraints, with the limited daily capacity to get done what truly needs to be done.

As a SME with less than fifteen employees, Guardian's management has not had a high level of sales force compensation education, in depth HR analysis, or the basic metrics to define how to grade an employee. In the past, Guardian implemented simple compensation packages based on internal ideas, industry feedback and limited research that paid commission simply on net profit. When performance cannot be assessed easily, using markets can be 'inefficient' because it is not known what to reward and how (Anderson, 2008). This has been a primary concern for Guardian. Some prior compensation strategies have been successful, while others have failed which led to the exit of our sales force for higher pay or other associated royalties. This new vision would create a large value proposition for Guardian to have a clear, and concise understanding of sales force compensation policies. These metrics would include varying inputs and outputs to grade performance and compensate based on the relativity of their performance. In essence, they would institute key performance indicators (KPIs) based on

input, and use the output from these KPIs to compensate. Furthermore, it would create a competitive advantage for Guardian as a SME.

**Table 1 - SME Constraints**

Constraint	Nature	Ranking	
		1997	1990
Increased competition	External	1	4
Availability and cost of finance for expansion	External	2	1
Marketing and sales skills	Internal	3	5
Availability and cost of overdraft finance	External	4	2
Growth of market demand	External	5	3
Management skills	Internal	6	6
Skilled labour	Internal	7	7
Acquisition of new technology	?	8	8
Difficulty of implementing new technology	Internal	9	9
Availability of appropriate premises	External	10	10
Access to overseas markets	?	11	11

Within SMEs, they generally have limited resources (Chen et al., 2014) thus causing this to be an industry wide issue within the realm of wholesale distribution. Although SMEs tend to be portrayed in the literature as important backbones of healthy economic growth and vitality (Jamali et al., 2015), there is still ample research to be completed to build a best practice in the field of a SME sales force compensation plans. Guardian is in a strategic expansion and maturity business cycle on the verge of hiring their initial outside sales force. A solid sales force compensation blueprint with the employee, and employer in mind is the heart of this research. Timing is critical with this study, as the results will make an immediate impact on the sustainability of a SME.

## LITERATURE REVIEW

A small to medium-sized enterprises' (SME) ability to implement a successful sales force compensation plan is based on two components: understanding what to measure within their sales force, and how to compensate accordingly per those identified metrics. A sales force is a crucial part of the United States economy. Fifteen years ago, nearly 12% of the U.S. total workforce is employed in full-time sales occupations (Zoltners et al., 2001). Currently, the industry is looking at a slight drop at just under 11% with office and administrative support leading the way at 16% (BLS, 2015). In order to properly motivate a sales force, the right techniques must be applied. Compensation is the most important reward used to motivate sales people (Churchill et al., 1979). A sales force is expecting a remuneration for a job they perform. The key to this statement is, "for a job they perform." What does a sales force need to perform in order to be compensated accurately? How does a SME compensate them accordingly? In general terms, compensation practices that firms offer generally include bonuses, salary increases, promotions, stock options, and perquisites (Tomczyk et al., 2013).

Typically, plans emphasizing incentive compensation are based on output measures, whereas plans emphasizing salary use a combination of input and output measures to evaluate and control sales activities (John et al., 1989). These inputs and outputs could also be classified as key performance indicators or KPI's. Based on these two primary drivers, we can now define the sales force compensation strategy within our SME classification of the industrial distribution industry. However, the path to sales force success for any business is a complicated one. For SMEs, the most effective sales compensation plans are ones that are the easiest to measure and implement. Thus, a company's ability to implement its strategy successfully is a result of its ability to overcome obstacles leading to poor strategy implementation (Muh et al., 2013). These obstacles, or lack thereof necessary resources, are what prevent many SMEs from having best practices in the field of sales force compensation. The necessary condition for developing a competitive advantage and reaching company's strategic goal is the availability of resources (Barney, 1991).

According to the United States Small Business Administration (SBA), small business size standards define the largest that a business concern, including all of its affiliates, may be and yet qualify as a small business concern for SBA and most other federal programs (SBA, 2015). Small and medium-sized enterprises are reasonably considered the backbone of the economy (Altman et al., 2007). Within this framework of the SBA, there are many varying classifications to be identified such as wholesale trade, retail trade, manufacturing, transportation, and warehousing and numerous other sectors. For the purpose of this study, we will focus on wholesale trade of SMEs in wholesale distribution. Industrial distributors are usually small, independent and owner-managed firms that provide many services for both suppliers and customers (Shipley, 1988). Although the big box industrial distributors (i.e. Grainger, MSC Direct) have taken over much of the market share, the SMEs still play a major role. They are recognized as the engine of national economies' growth (Spicer et al. 2006). The size of a small business is determined on two factors in the US: average annual receipts or average employment of a firm (SBA, 2015). According to the latest U.S. Census results, of the estimated 5,726,160 businesses with less than 500 employees, 5,130,348 have less than 20 employees (Census, 2012). This is the realm focused on for our study. However, it is understood that data without compromise may be difficult to obtain. Thus, we will keep our focus limited to firms with less than 500 employees. Although, the larger firms may be used as a comparison of styles. The annual receipts factor will not be of importance for matters of this study. From the aforementioned numbers, we can dial deeper and realize that 640,055 firms are in construction, 312,074 are involved in wholesale trade, 252,737 in manufacturing, 21,780 in mining, quarrying and oil and gas and 5,774 in utilities (Census, 2012). In general terms, this dynamic number should allow us ample opportunities to define best practices on a sales force compensation plan.

Identifying KPIs of a sales force to measure for purposes of this study is essential. The majority of SME owners simply do not have the time, or finances to spend on solving this equation. Shortage of financial resources is one of the most commonly used justifications for the problems and failures of SMEs (Rakićević et al. 2016). Without adequate compensation plans, employee loyalty and retention is low. Salesperson loyalty is one of the main drivers of firm loyalty (Palmatier et al. 2007). This study will base a layer of KPIs that are suitable for

the SME, yet enticing enough to drive the sales force towards rewarding results and loyalty. First and foremost, we should define two characteristics of successful salespeople: expertise and trustworthiness (Echchakoui, 2015). With these traits as a sales force's foundation, credibility is sure to follow and raise our levels of customer service. Measuring performance is a task that can be too complicated at times. Many of them are complicated and difficult to use in real business settings (Banomyong, 2011). For example, SME's in Thailand suffer from low competitive advantages compared to the larger sized enterprises (Naim et al., 2002) due to the complexity of these scorecards. With SMEs, simpler is more cost efficient and generally easier to utilize.

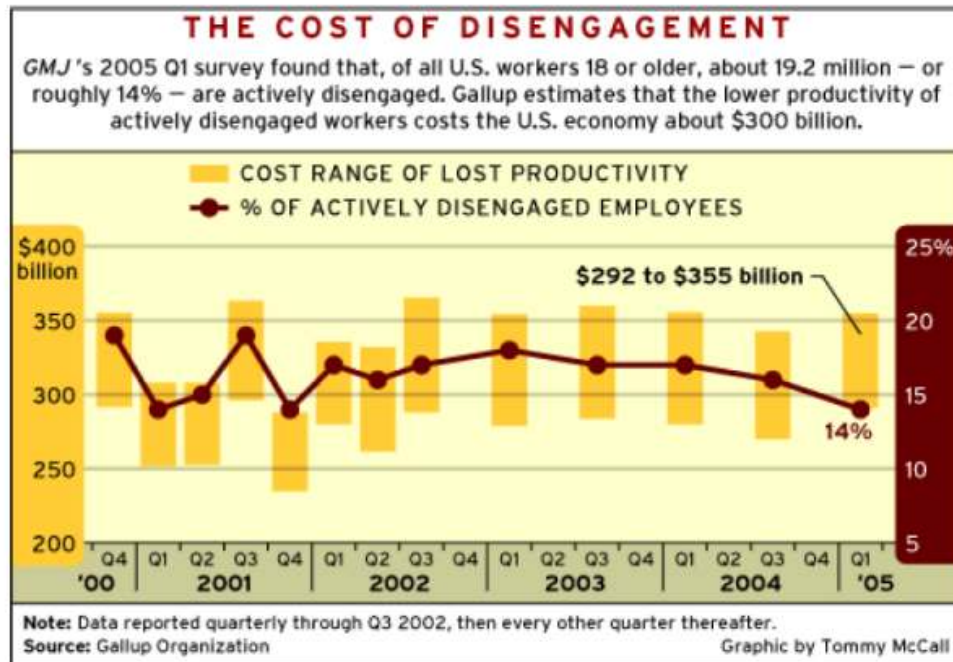
Performance metrics for the sales force can be complicated for SMEs. The fact that it is simple to use is important for SMEs, which often do not have the expertise required to implement complex or sophisticated performance measurement systems and to use them (Hussein et al., 1998). However, there are still various metrics to effectively measure performance. For example, orders are driven from customer interaction and positive customer service. The first activity could be the sales staff developing knowledge of the product or service and creating awareness to potential customers through marketing efforts. This can shorten the sales cycle. For most firms, the first activity to begin with is to procure orders (Gunasekaran et al., 2001). These factors shown can have varying levels of flexibility. By defining flexibility as a metric and by evaluating it, companies can achieve what was previously impossible: rapid response to meet individual customer requirements (Gunasekaran et al., 2001). This is mission critical. Advancing forward, the sales force should be compensated on growth goals, results, and other performance metrics that fit within the SME's strategic fit of their growth objectives and customer needs (Gunasekaran et al., 2015). Within the methodology of this study, we will push farther into the segmentation of the key performance indicators. Again, focusing on the simplicity for the sake of the SMEs.

Sales force retention is at the heart of many SME's problems. This environment forces firms, particularly small and medium-sized enterprises, to be innovative and to constantly review their processes and practices in order to survive on the market (Bahri et al., 2011). Compensation in the form of salary, bonus, commission or sometimes total compensation plans can be a determining factor if an employee will remain loyal. A firm can also use pay level to increase the retention of employees that possess superior skills (Way, 2002). SMEs should monitor compensation cost to remain competitive in this era of globalization and stiff competition (Madhani, 2012). Fixed pay is a non-contingent reward, not tied to the completion of a specific task or a specified level of performance. Variable pay is a performance-contingent reward, wherein the amount is variable and its delivery is uncertain, as it requires a specified quality of performance to obtain the reward (Madhani, 2010). Obviously, SMEs have a more difficult time in this spectrum competing with larger, highly educated and more funded ventures. One common factor that we will discuss more in the methodology is an effective compensation strategy focuses on providing a pay mix of enough fixed pay to attract best sales talent, and sufficient variable pay to motivate them (Madhani, 2010). This holds true in both SMEs and large distributors.

The life cycle of a company is an important concept to understand. With an SME, the various stages may come and go much faster than a large business. A newly formed, or mature

SME both deal with motivating managers and employees and measuring their performance (Denton et al., 2000). This is an interminable task. It is currently estimated that 14% of U.S. workers 18 or older are actively disengaged in their profession. This costs the U.S. economy about \$300 billion annually (Gallup, 2006) as shown in figure 1 below.

**Figure 1 - Cost of Disengagement (Gallup, 2006)**



These thoughts develop the confidence that an employee scorecard type of approach may be the most optimistic and mutually beneficial tool for the SME, and its sales force. A scorecard on a sales force can be implanted at any stage of a business lifecycle. Earlier in our review, we discussed inputs and outputs. The balanced scorecard (BSC) approach can simplify the number of measures to four types including activity, input, output, and outcome (Niven, 2003). Quite simply stated, the BSC is a management tool that provides a framework for translating strategy into action (Gumbus et al., 2006). This instrument could be a SMEs roadmap to a sales force compensation line of attack. Furthermore, a scorecard evaluates work and non-work, encompassing their personal mission, vision, key roles, critical success factors, objectives, performance measures, targets and improvement actions, divided along four perspectives: internal, external, knowledge & learning, and financial (Rampersad, 2006). The four critical areas may be examined simply, or as complex as needed for the SME to have attainable success. The key for a successful BSC is the willingness of the SME to align their goals with the personal commitments of the employee, and the combined sales force. Research has shown that when an individual has some input regarding the shared ambition that affects his or her work, the person will be more supportive, motivated, and receptive towards organizational change (Rampersad, 2006). This is an essential element to gain support, rather than pushback from the sales force when addressing the BSC approach. With the employees on board, the next phase is defining the metrics that will be measured and putting them into

action to define your results. One benefit of a measurement and analysis program is that it can provide management with a basis for factual decision making (Leister et al., 2015). The balanced scorecard will help establish a framework for success for the combined growth of the SME and the employees.

## METHODOLOGY

As previously mentioned, this study was designed to help small to medium sized enterprises (SME) acquire the ability to implement a successful sales force compensation plan based on two components; understanding what to measure within their sales force, and how to compensate accordingly per those identified metrics. In order to define a general solution to the study, two principal mechanisms were identified for success. First, a thorough historical data review was performed on SMEs past sales force compensation plans, associated quantifiable metrics, and the validity behind a balanced scorecard for employees. Second, a survey was developed that would generate real time data for the study. Combined, these processes should optimistically allow the study to present best practices within SMEs to enable the creation of our employee balanced scorecard (EBS).

**Figure 2**



### Historical Data

Background research was the initial foundation for the study. The Texas A&M University Digital Library provided the necessary resources including journals, articles, books and other relevant information to begin the review. The purpose of the historical data was to generalize an idea behind the study to generate the opportunity to gather an unbiased opinion from historical data in the sales force compensation arena within the SME environment. Although there is historical data from around the world to generalize a very broad spectrum, the intent of this study is to focus on SMEs in North America. From the initial broad search, the concept of benchmarking would be established to help understand past results. According to Chan et al. (2006), good practices are usually contrasted with basic performance criteria so as to perform pre-identification of KPIs that can lead to the identification of possible best practice.

Once the large spectrum was identified behind the success or failures of SMEs within sales force compensation and associated metrics, a formalized idea to base the study's foundation on was shaped. Furthermore, based on the historical data, a notion behind what was important and relevant to the study was incorporated into the base level. Eliminating the concepts that were not needed for this study enabled the formation of a unique study with a



“real time” survey to help ascertain a model that was custom tailored for Guardian Industrial Supply.

### **Survey Sample**

The sample population that has been established for the survey is the class of small, to medium sized businesses according to the SBA which generally fall within the range of 1-500 employees (SBA, 2015). Within this size classification of businesses, it was further narrowed down to specific industries including wholesale distribution and manufacturing including electrical, industrial, HVAC, oil and gas and plumbing. Targeting this sector will enable similar data to be collected which will allow real time benchmarking of like industries. This is the goal of the survey.

The targeted population for the survey includes suppliers and distributors/wholesalers within the North American region of the globe. Member lists include contacts from the Industrial Supply Association (638 contacts), Texas Central Master Bidders List (224 contacts), and the Women’s Business Enterprise National Council (514 contacts). Again, it should be noted that the vast majority of these contacts fall within the SME definition. If by chance a large business is included into the survey, it will be utilized as a comparative analysis. With an estimated 1,376 businesses available for the survey, this sample population will provide the size and scope needed to establish a best practices framework for the model.

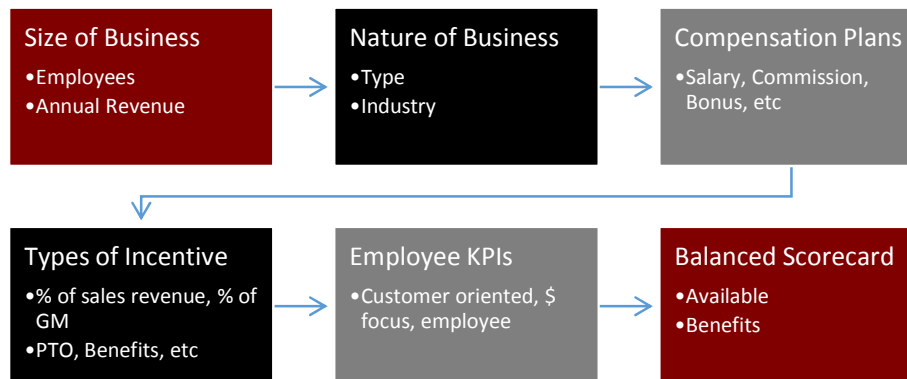
From the collected samples, the primary point of contact (POC) was typically the business owner, senior leadership, or some form of upper management. This POC is a very important piece of the survey due to the nature of the questions. If the survey was by chance sent to an incorrect POC, it could allow corrupt data to be collected. Thus, it was noted in one of the initial survey questions to the position held by the survey responder. This would allow for continuity within the survey responses and data validity.

### **Survey Measures**

Establishing a framework for a survey can be a very difficult process. Identifying the correct metrics, questions, topics and underlying efforts can either make or break the survey. The array of possible elements of sales force compensation is limited only by the imagination of managers setting sales compensation plans (Coughlan et al., 2012). Having an imagination is important, yet it needs to be aligned with the goals of the company. The nature of the study will truly be defined by the survey questions and the assigned metrics that are tied to the root. This survey was established with the common goal of aligning company objectives with employee aspirations to implement a combined scenario with best practices in play.

The survey questions were generated from six strategic components including business size, nature of business, various compensation plans, types of incentive, employee key performance indicators and balanced scorecard. (See figure 3 below.) From these six categories, eighteen relevant questions were designed that would have a direct impact on the study. Questions were created based off of historical data, current study demands, and the overall usage factor for the industry and SMEs involved. The survey was broken into three sections of six questions each with a total overall respondent time of no more than ten minutes.

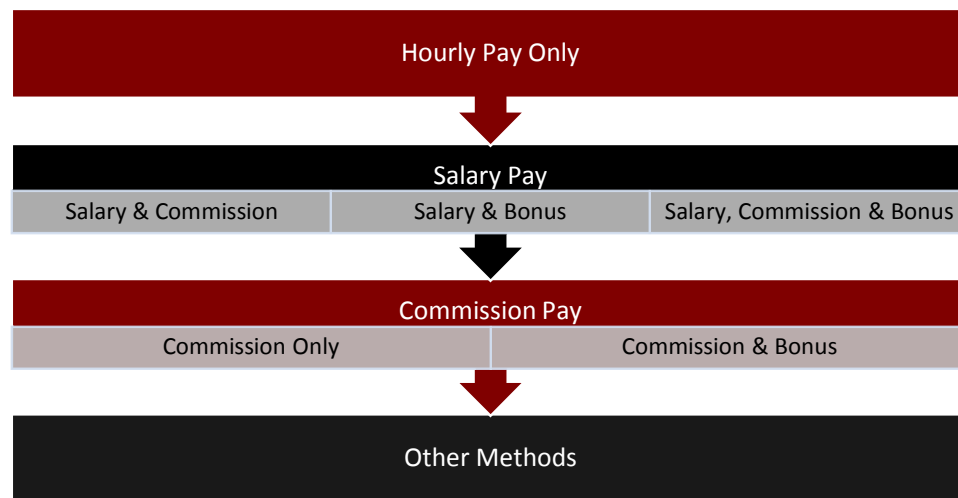
**Figure 3 - Scope of Survey Questions**



The questions all have a shared focus: SMEs. If the SME is not the focal point of the survey, results may not be effective. Keeping in mind that larger businesses have more options, resources, and employees. These are contributing factors that separate the SME from the large business. The qualitative questions that have been identified for the study are very specific for the respondents and easily answered. There are a few questions based on the size of business which allows for the identity of the “true” business size to correlate with our supported contact lists. This provides the much needed accuracy of the study for the SMEs. The nature of the business enquires on two questions that allow us to filter the survey down to respective industries and specific types of businesses. The third category places a bit of detail into the questions for the respondents in regard to the actual compensation methods currently used by their businesses. The samples in Figure 4 display these types of compensation methods/plans. These plans were implemented into the study based on historical research and current market demands. Trends and historical research seem to point in the direction of salary, or salary with bonus for small businesses (Shipley et al., 1994). In comparison, the medium and large sized businesses seem to allocate a commission and bonus piece into their compensation plans. The survey will uniquely define what structure is more prominent and suited for the SME.

Within the compensation methods, respondents were asked to further describe compensation factors in regard to types of compensation rewards including possible % of revenue, % of gross margin, bonus structures, and the availability of employee benefits offered to employees. These are all contributing factors to building an accurate compensation plan.

**Figure 4 - Compensation Methods/Plans**



On the performance side, this is where hundreds of varying key performance indicators (KPI) that can identify what, who, when and where you want to evaluate your employee's true worth are noted. For the sake of the study, KPIs have been limited to 12 with an option for respondents to add their unique options as noted in figure 5 below. The quantitative side of the questions play a critical role as they measure the percentages of incomes, and thus may be a little more time consuming when measuring collected data. Again, falling back on the thought that SMEs do not have the expertise required to implement complex or sophisticated performance measurement systems and how to use them (Hussein et al., 1998) may hinder SMEs in their data collection for KPIs. KPIs are a personal preference of the business owner. The study will identify the most widely used KPIs and suggest best practices for the SME business owner.

With key performance indicators in mind, examining data that are both quantifiable and quantitative is critical to the success of the study. An enterprise resource planning software (ERP) is a helpful tool in gathering this necessary data. Unfortunately, many small businesses either do not have sufficient resources or are not willing to commit a huge fraction of their resources due to the long implementation times and high fees associated with ERP implementation (Malhotra et al., 2010). Understanding what data is attainable in this study by Guardian Industrial Supply through their ERP will help define the metrics, or KPIs incorporated into the balanced scorecard. It is senseless to try and insert metrics that cannot yield good data for the BSC.

The final area of the survey is the topic of a balanced scorecard. Two simple questions posed ask if a BSC is currently used and if they feel that a BSC is a viable option. The fact is, a balanced scorecard is part of a bigger process that starts with a strategy (Richardson, 2004). Most SMEs are limited with employees, or have financial constraints which in turn make it hard enough to define their strategy, yet alone try and create a BSC. These two questions simply identify how many SMEs are currently using a balanced scorecard as a measurement for compensation and the importance behind a BSC. This is very

relative as a balanced scorecard may not be currently used as a tool for compensation policies.

**Figure 5 - Key Performance Indicators**



With the survey completed and approved by the TAMU Human Research Protection Program, the next step in the methodology is to distribute the survey via secured email with the aid of Qualtrics Online Survey Software. The survey will have a shelf life of 30 days for respondents to answer their questions. Results will be tabulated and statistically evaluated thru histograms to determine the usefulness of the acquired data. Once the data is analyzed and accepted, a best practices framework will be structured with survey data and historical data to create the sales force compensation configuration for SMEs with the associated metrics for performance appraisal. This in turn will be a roadmap for SMEs in their search for an industry, and size specific compensation planning tool. That unique tool is the employee balanced scorecard (EBS).

### **Employee Balanced Scorecard**

As stated earlier, the key for a successful employee balanced scorecard is the willingness of the SME to align their goals with the personal commitments of the employee, and the combined sales force. With this theory in mind, it is important to stay strategic with the goals and focus on four key areas. Past research has provided the four perspectives that include internal, external, knowledge & learning, and financial (Rampersad, 2006) aspects to isolate the key performance indicators of the EBS. These four perspectives are typical in most all balanced scorecards for businesses. Therefore, these same common principles will be implemented into the employee balanced scorecard.

Incorporating past research aided in developing a standard to define the metrics associated with employee performance. From the research, a SMART concept was identified that was very accurate, and to the point on what was needed when choosing a metric.

Therefore, this SMART goal for defining a metric was interleaved as the main identifier of the study's metrics. A SMART goal addresses the following criteria: 1. Specific: targets a specific area for improvement 2. Measurable: quantifies or at least suggests an indicator of progress. 3. Assignable: specifies who will do it. 4. Realistic: states what results can realistically be achieved, given available resources. 5. Time oriented: specifies when the result(s) can be achieved (Leister et al., 2015). See figure 6 below.

**Figure 6 – SMART Concept**

<b>S</b>	• Specific
<b>M</b>	• Measurable
<b>A</b>	• Assignable
<b>R</b>	• Realistic
<b>T</b>	• Time oriented

The employee balanced scorecard now has the foundation for sustainability. The manufacture of a process to develop a unique “scoring system” for Guardian Industrial Supply to implement within their personnel has been established. Not only is it designed for the salesforce, but it can be distinctively tailored for varying sections of the operations. For example, the EBS can be modified for warehouse, purchasing, administration and all facets of the operation. Again, keeping in mind the SMART concept when addressing the chosen criteria for the key performance indicators is central. The KPIs will be identified and elected based on feedback from the survey, past industry trends, Guardian Industrial Supply's management and selected employees. The collected responses will provide an inclusive perception of best practices in sales force compensation and the metrics associated with performance appraisal.

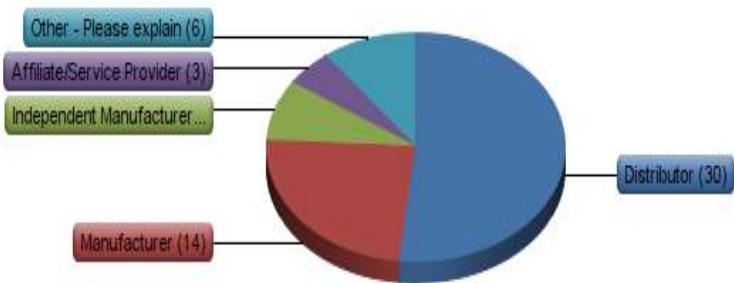
## RESULTS

On January 8, 2016, 1,197 emails were sent out to potential candidates for the study on sales force compensation and the metrics associated with performance appraisal within small, to medium sized enterprises. The survey has concluded and the results have been analyzed. Of the total surveys distributed, just over 11% of the respondents provided positive data for the comparison of the past literature review and current real time survey statistics to perform the study. The figures collected provided information on SME business sizes, breakdowns of industry served, number of employees and annual revenues, types of compensation plans, metrics associated with performance, and the usage of balanced scorecards. Overall, the feedback will be very beneficial in designing a true and unique compensation plan for SMEs.

From the survey results, 58 total SMEs have been identified as the primary contributors for the study with clean data as noted in table 1 below. Of this list, the largest percentage of the business types was distributors with 52% with a total of 30. Currently, Guardian Industrial Supply currently operates as a distributor. The second highest percentage were the

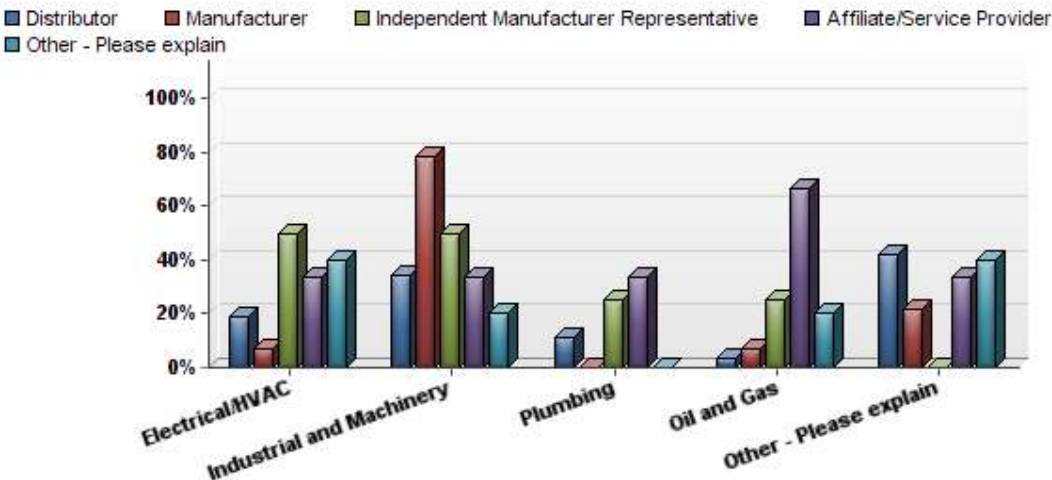
manufacturers at 24% with a total of 14. There were other responders such as independent manufacturers’ representatives, service providers, 3<sup>rd</sup> party procurement, combinations of both manufacturer and distributor and retail.

Table 1 - SMEs Business Types



The various segments of the markets served that were primarily targeted were those of wholesale distribution and trade among electrical, industrial, HVAC, oil and gas and plumbing. Guardian is an electrical distributor that falls in the category of wholesale distribution within electrical and industrial sales. From the results, it was noted that 46% of the survey showed industrial and machinery as the largest segment followed by electrical at 21%. Plumbing and O&G combined for 11% of the survey. Other fields covered were wire and cable, engineered services, chemicals, construction, office supplies and janitorial supplies. See table 2 below for a complete breakdown.

Table 2 - SMEs Breakdown

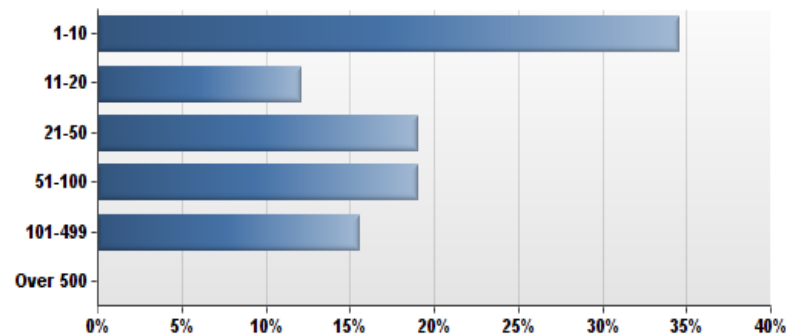


Again, the main focus of the survey and study is centered around SMEs. The SMEs that completed the study were completed by an overwhelming 55% of either owners, or presidents of the companies. Another 22% of the point of contacts responding were senior-level management or board of directors. This confirms the point of contact completing the

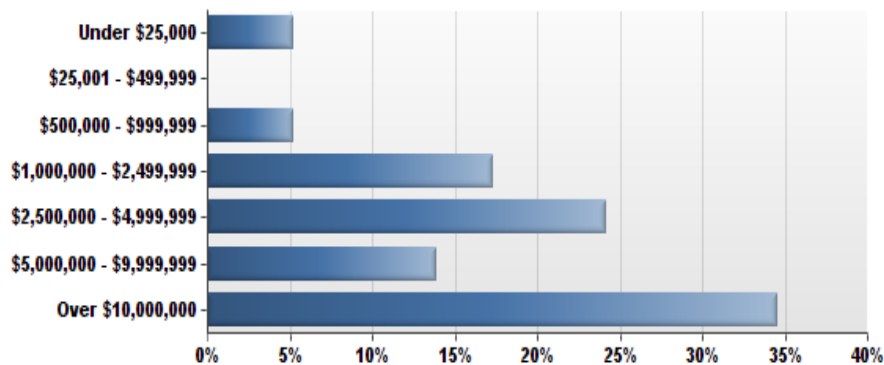
survey as an individual that completely understands their company. This helps verify the study facts.

Two other key areas of an SME are number of employees and annual sales revenue. Earlier in the study, it was noted that number of employees was the central factor in size determination. However, we collected statistics on both size and sales volume. See table 3 and 4 below for the employee size and annual sales for the SMEs surveyed.

**Table 3 - SMEs # of Employees**

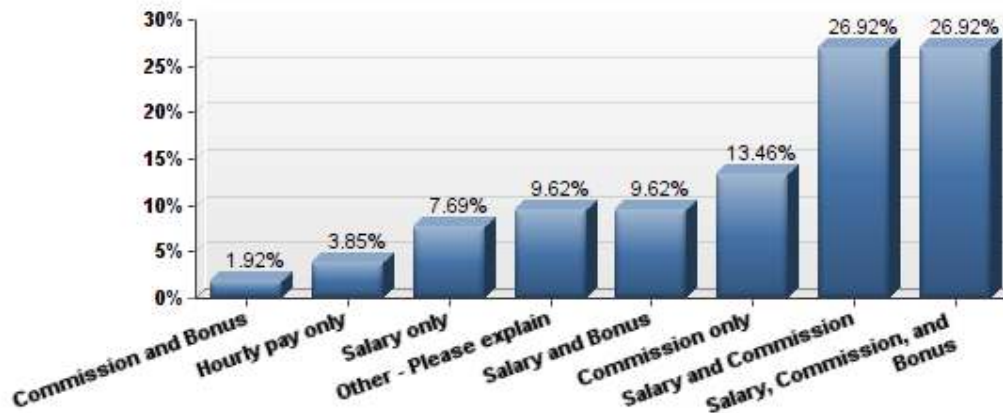


**Table 4 - SMEs Annual Sales Revenue**



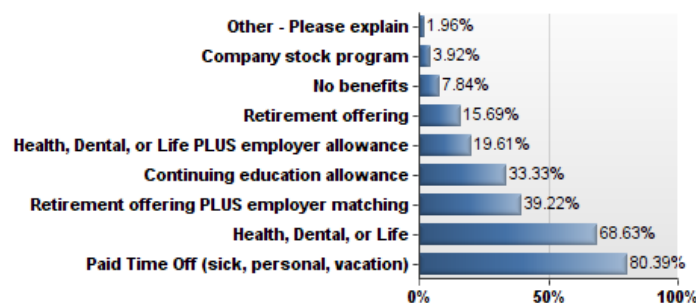
Once the survey identified the sizes of the SMEs for accuracy and filtered the numbers, it was then time to start identifying the compensation plans and metrics to begin structuring the employee balanced scorecard. Based on the prior research completed, numerous compensation plans were inserted into the survey to garner feedback and ideas from the responders. Tremendous advice was generated with more than half of the responses utilizing some form of salary, commission and bonus as their primary compensation component. Currently, Guardian is practicing a salary only plan, which according to the survey is less than 8% of what the SMEs are implementing. Other options selected were hourly and commission, hourly and bonus, and a professional fee guarantee and commission. See table 5 below for the list of plans.

**Table 5 - SMEs Compensation Plans**



Now that the various types of compensation plans have been acknowledged, it makes it less complicated to optimize the structures used for bonuses and commission. Some variation of salary, commission and bonus seems to be the most widely used option for SMEs. Furthermore, there are ample types of employee benefits offered including paid time off (81%), some form of health, dental and life insurance plan offered (69%), and a retirement offering with or without matching (56%). These incentives may make a solid impact on the employee's decision to stay with a firm. The one large business comparison made was that medium to large size businesses have the option of company, or employee stock option plans. Unfortunately, only 4% of SMEs offer this luxury.

**Table 6 - SMEs Optional Benefits**

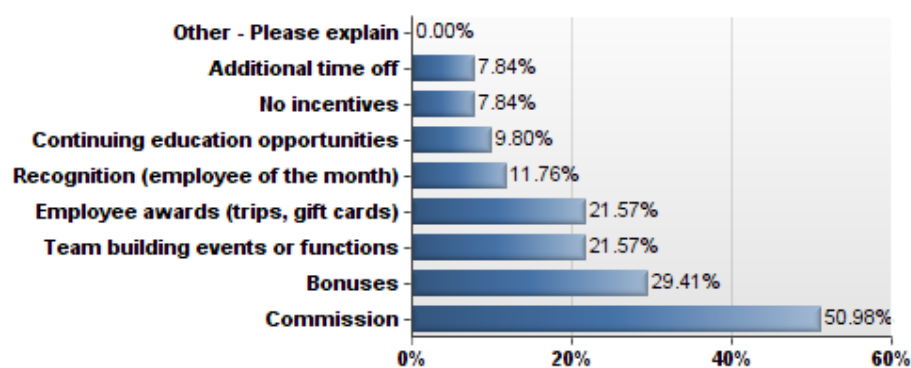


Conversely, with commission and bonus, companies have varying opinions on what and how to compensate. Close to 35% of the companies feel that a 1-5% of gross margin bonus should be based on company performance at quarter, and or year-end financials. Interestingly enough, the survey did generate some results that stated that some sale force receives up to and beyond 25-35% commission on gross profit margin. These type of numbers were primarily seen by the medium sized businesses that are generating over \$10M annually. On the other



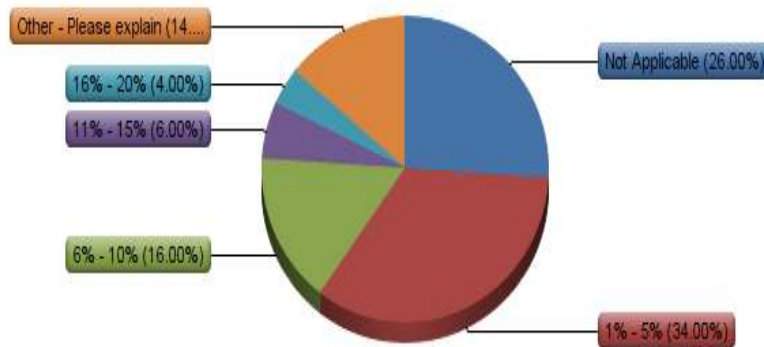
hand, 31% of the companies felt that a bonus should not be given if commission is paid. These ideas were generally from the SMEs with less than \$5M in annual sales. This falls back on the past research that might point to the SME business owner not having the necessary financial capital to pay these bonuses. SME business owners have to be very mindful of how much they compensate for the sake of their own personal growth strategies and company lifeline. Yet on the other hand, they need to keep their employees motivated. According to the survey (table 7) and past research, compensation is the most important reward used to motivate sales people (Churchill et al., 1979).

**Table 7 - SMEs Sales Force Motivational Factors**



In relation to commission, it was noted that 1-10% of employee sales revenue was the standard commission rate with close to 50% of the survey agreeing with this number. Although, it was once again seen that commission numbers of 18-30% of employee sales revenue were not uncommon for your medium sized businesses. These type of numbers were seen at the request of an experienced sales force with established territories. Commission is a factor that based on the survey results should be a part of a sales force compensation plan. It leads to a successful strategy in the growth and sustainability of the sales force, which ultimately will maintain the viability of the SME. Table 8 shows the percentage of revenues paid for commission.

**Table 8 - SMEs % of Sales Revenue for Commission**



Moving forward with the survey, key performance indicators (KPI) are the next segment in compensation strategy. The primary purpose of this study's KPI is to help understand how well an employee is performing compared to the strategic goals and objectives of the company. In general terms, there are hundreds of KPIs that are used for measuring performance and some are difficult to decipher. This was a very important piece of the strategy in designing the employee balanced scorecard. The fact here was that the KPIs selected for the survey needed to be relative to the employee and employer, and more importantly; quantifiable and easily measured. With that stratagem always in sight, the survey approached 12 KPIs based on past research and Guardian's company history.

**Table 9 - KPIs Importance in SMEs**

Key Performance Indicators		% of Usage
Employee customer sales history growth / decline (previous year, current year, 3-year history)	<div></div>	65%
Employee sales (gross margin %)	<div></div>	59%
Employee new business growth (items, customers, lines)	<div></div>	59%
Employee customer satisfaction	<div></div>	43%
Employee product knowledge	<div></div>	35%
Employee customer loyalty	<div></div>	33%
Employee sales (net profit before tax)	<div></div>	29%
Employee quote conversion ratio	<div></div>	20%
Employee sales calls per week / follow up	<div></div>	20%
Employee absenteeism (days available / unavailable)	<div></div>	18%
Employee order error	<div></div>	10%
Other - Please explain	<div></div>	10%
Employee customer returns	<div></div>	8%

The sales aspect for the employee harvested the most attention within the KPIs showing employee customer sales history, growth, decline over a period as the most frequently measured (65%), followed by employee sales on gross margin % (59%), employee sales NPBT (29%) and employee new business growth (59%). This response suggests that sales and return on investment are some of the most frequently measured performance indicators in SMEs.

Prioritizing the customer follows directly in line with customer satisfaction (43%) and customer loyalty (33%). These two KPIs are aligned with employee product knowledge (35%), quote conversion ratio (20%) and sales calls per week/follow up (20%) which combined will help aid in customer retention. Other KPIs that show importance are employee absenteeism (18%), employee errors (10%), customer returns (8%) and a few that were inserted with responses such as targeted product growth and employee targets on new customer growth. Overall, the responses have aided in validating the primary KPIs that should be integrated into the employee balanced scorecard. The measured results will be categorized and presented for identification within Guardian Industrial Supply and their ease of identification.

The final measure of the survey dealt with the balanced scorecard. SMEs do not necessarily understand the component of an employee balanced scorecard. Most employees are measured on one or two performance indicators per the survey and past research. Yet, those KPIs may not have been accurate, or detailed enough to truly understand the value of their sales force. From the survey feedback, only a small percentage (10%) of the responders were currently using an employee balanced scorecard based on KPIs; with the vast majority (47%) not using one and a large percentage (37%) not familiar with the term. This fact proves that an employee scorecard is foreign to most SMEs. The good news is that based on the survey, more than a quarter (27%) of the SMEs felt that an employee balanced scorecard with measurable KPIs would be beneficial to their company. One respondent noted, "it provides greater company profit." Indeed, it would. The EBS empowers the organization to distinctively define their own set of KPIs to in turn help form a strategy for mutual growth on both the employee, and employer segment. The framework of the four perspectives of the BSC (financial, customer, operations, and competence) help to translate strategy into objectives and measures (Gumbus, 2005). The EBS could be exactly what is required within Guardian Industrial Supply to facilitate future growth and possibly create a new business process for employee compensation.

## **RECOMMENDATIONS**

Appraising an employee is a difficult process. However, the employee evaluation process can be used to ensure that each employee understands his or her individual role in the strategic plan as well as ensure that each individual's work is moving the organization towards its overall objectives (Woodford et al, 2002). This fact embeds the idea of an employee balanced scorecard as an approach that will streamline this daunting process. For simplicity of the SME, it is recommended that four performance indicators be incorporated into the scorecard with an equal balance of 25% for each KPI. This will aid in the initial ease of transition into a EBS. The recommended KPIs including employee/customer sales history, new business growth, employee sales based on gross margin %, and employee motivation which includes self-controllable assets including absenteeism, customer loyalty and employee

effort are based on survey feedback, Guardian’s response, and past research. The grading scale again for straightforwardness would be based on a 1-5 ranking, with 5 being the best.

Figure 7 - Suggested KPIs



With the KPIs identified and the ranking established, the study can now turn into an actual scorecard. With the scorecard, there are two options to select from: an actual scorecard or a dashboard. The scorecard is a tool that is estimated in a timely fashion such as every six weeks or quarterly, where as a dashboard updates continually. In Guardian’s case, they are looking at a measurement tool such as the scorecard. The actual design and implementation of a scorecard can be as simple or complicated as the SMEs financial capital will allow. A simple model has been designed for Guardian Industrial Supply with the associated KPIs in figure 8. This model integrates primary KPIs with sub-categories as needed such as current and prior years and various areas for employee motivation. Once more, the simplicity of the EBS is seen with simple values of 1-5, targets of 100%, and percentages towards the end goal. This could be a very manageable tool for most SMEs.

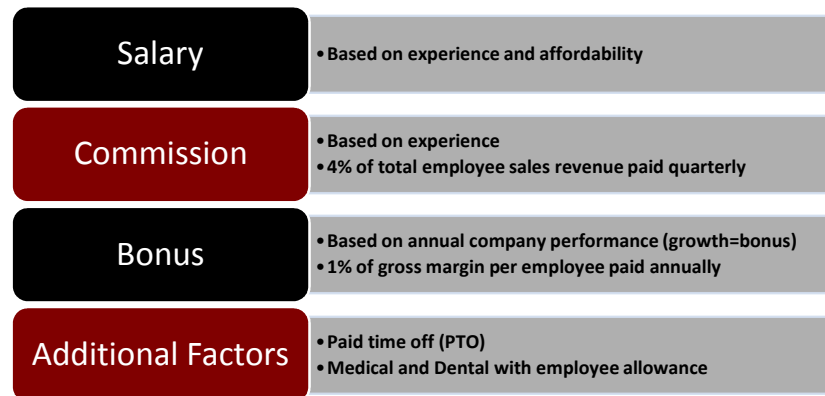
Figure 8 - Guardian Sample EBS

Name	Performance	Performance (Chart)	Progress	Value	Target	Measure	3/1/2018	3/1/2019	3/1/2020	Update status
Employee Balanced Scorecard	72.50 %		72.50 %		100	%			72.50 %	
Customer Sales History	70.00 %		70.00 %	3.5	5	Score	3.5	5	70.00 %	No update inter...
Current Fiscal Year	80.00 %		80.00 %	3	5	Score	3	5	60.00 %	On schedule
Prior Fiscal Year	80.00 %		80.00 %	4	5	Score	4	5	60.00 %	On schedule
Employee Sales - Gross Margin %	90.00 %		90.00 %	4	5	Score	4	5	90.00 %	No update inter...
Current Fiscal Year	80.00 %		80.00 %	4	5	Score	4	5	80.00 %	On schedule
Employee New Business Growth	70.00 %		70.00 %	3.5	5	Score	3.5	5	70.00 %	No update inter...
Current Fiscal Year	80.00 %		80.00 %	4	5	Score	4	5	80.00 %	On schedule
Prior Fiscal Year	80.00 %		80.00 %	3	5	Score	3	5	60.00 %	On schedule
Employee Motivation	70.00 %		70.00 %	3.5	5	%	3.5	5	70.00 %	No update inter...
Motivation	100.00 %		100.00 %	5	5	Score	5	5	100.00 %	On schedule
Customer Loyalty	80.00 %		80.00 %	3	5	Score	3	5	80.00 %	On schedule
Work Ethic	80.00 %		80.00 %	4	5	Score	4	5	80.00 %	On schedule
Self Education	80.00 %		80.00 %	2	5	%	2	5	80.00 %	On schedule

The final aspect of the compensation plan is the recommendation of motivational factors. Based on industry feedback and past research that have now been termed, best practices for SMEs, the study suggests the following compensation plans be placed into action with Guardian Industrial Supply. Centered on the EBS scores, the total percentage should be

calculated against the associated commission and bonus and paid both quarterly, and annually. This allows the accountability to be in the hands of the employee. When a financial opportunity exists, there tends to be a motivational component that will enlighten the employee. Guardian Industrial Supply now has that tool to sanction the employee to be motivated, guided, and enabled to gain additional income.

**Figure 9 - SMEs Recommended Compensation Plan**



## CONCLUSION

This study began with an idea to concrete a plan to help small, to medium sized enterprises compete with your larger businesses for human capital. Human capital in the form of a sales force. Past research has proven that SMEs do not have the financial or intellectual capital to compete with large business. Thus, this study was developed to gather data about SMEs past performance through historically proven trends, current best practices through real time statistics, and the actual combination of the two information pieces to exclusively create a tool for SMEs to manage their human capital. This tool is the employee balanced scorecard based on the primary performance metrics associated with SMEs.

The results of the survey suggest many differing thoughts and opinions. Collectively, these outcomes can combine to help create what is designated as a balanced scorecard. The EBS is fair and just for both the employee, and the employer. Earlier it was noted that the importance of a successful BSC is the willingness of the SME to align their goals with the personal commitments of the employee, and the combined sales force. With this EBS, that concept has been achieved.

With this study's findings and interpretations, it is understood that these recommendations are based on the findings of North American businesses solely. The study could have been expanded globally to gain more varying opinions. However, the paper remained strategic with North American businesses based on industry classifications. This held true to the fact of keeping the data uncorrupted and clean for the sake of continuity throughout the study. Furthermore, it enabled the filtering of the analysis to make the paper rare in the aspect of how the survey was conducted and the results assessed. Finally, there are

other opinions and detailed thoughts that may or may not have been inserted into this research; yet, the study remained true to the SMEs and kept it clean and simple.

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**MAKE OR BUY - A DECISION TO DEVELOP NEW PRODUCT OR TO**  
**CONTINUE A BRAND LABEL INITIATIVE FOR**  
**MURRELEKTRONIK FOR THE NORTH AMERICAN MARKET**

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**ABSTRACT**

*Make or Buy decisions remain a common topic in research. Properly applying limited assets and resources in order to achieve or sustain growth is a constant dilemma in business operations. The make or buy decisions faced by business today is no different than that of the past however the data available for decisions is far greater so application of the data is key to the result. Research into the topic has introduced multiple mathematical equations, theorems on competency, problems in contract arrangements, vendor selection criteria and countless other topics.*

*This research will be considering the impact of make or buy decisions of a specific low sales volume product family along with the impact of sales on core products from the development of ancillary products that establish a full product portfolio. Research reviewed to date does not specifically address make or buy decisions for brand labeled items or slow growth items that prevent market penetration due to either pricing constraints, market constraints, or technology constraints of the source company. This paper will look at existing methods in the decision criteria and establish a path that will outline how to evaluate products, competencies, vendors and ROI in order to provide a better understanding for the make, buy, or blended decisions of ancillary products to the core product family.*

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**INTRODUCTION**

This paper is written to evaluate the make or buy decision of “D” level products (low revenue, little volume) based upon their impact on “A” level components (high revenue, high turning) in commodity conditions. Many firms are comfortable with the sales and expansion of products associated with “A” level products but lack the understanding of the impact that D products have “A” items. Make or buy decisions for “D” level products are often analyzed based on volume in sales and overall costs but often fail to understand the impact of the contribution margin obtained from the “A” items sold as a result of offering the “D” level items in the sale. The company being used as a model in this paper receives approximately 50% of its revenue from a core group of “A” level items in their product portfolio accounting for approximately 30,000 different SKU’s. The “D” Level items in their portfolio are similar in function, but are larger in physical size and derive from a different market space, such that

assembly technologies are different. The SKU count for the “D” components to be competitive in the market is less than 400 total items in three variants. Currently, “D” level components are most often not produced by the company and are branded from competitive sources including direct market competitors.

A lack of investment and market adaptation has placed significant pressure of the core “A” items to maintain the growth of the company without a broader portfolio of solutions that will include the “D” items as a defined subset. In order to achieve the broader portfolio, significant investments are needed to develop, test, certify, produce, and market the lower turning items. This re-allocation of resources will impact available growth resources for other projects and delay other revenue streams. Failure to provide the complete product portfolio of products will impact future sales with the company’s largest customers. Additionally, market space differentiation shows that the lack of development is derived from the lack of interest in the company’s main operational market space of Europe, whereas the product demand for the “D” product is much higher in the North American markets where the product derives from the automotive markets.

This paper will consider the impact of investment into D level products and the projected outcome the investment will have on “A” level items. The make or buy decisions will evaluate a company’s core competency, investments risks, and return alternatives based on the decision to make, buy or some combination of both.

Current research on the overall make or buy decision is extensive as it relates to outsourcing, company purchases and new segment growth (Anil Arya, 2014) (McIvor, 2000) but appears limited on this subject matter and the relationship between “A” & “D” product assignments. This paper will propose a framework for the decision making process to assist managers with the make / buy decision based on the inputs received from sales departments, cost departments, and manufacturing departments. (McIvor, 2000)

The desire to maintain intellectual property and the need for flexible manufacturing techniques will likely preclude most available sources to purchase the product. Furthermore, the need to offer the product through existing distribution channel and still provide for an acceptable return for both the manufacturer and the distributor will apply additional pressure for the company to maintain control of the product and limit the buy solution.

## **LITERARY REVIEW**

### **Core Competencies**

Research on the topic of core competencies shows that this variable in the make or buy decision is core to the beginning of the process. (McIvor, 2006) The data suggests that decisions that fall outside of the core competencies of a company are far more difficult to complete in a favorable manor and often should be avoided to reduce the distractions of core business competencies. (Chris Fill, 2000) Core competencies are evaluated as known technologies to the company, market specialties, logistics capabilities, established sales force, customer contracts, perceived competitive advantages and more. Decisions in the make or buy (M/B)

dilemma that fall within these other known and well established core competencies will likely push companies to make rather than buy and to limit the sharing of proprietary knowledge to third parties, to protect their own core knowledge base, and to maintain competitive advantage. (Chris Fill, 2000) (L.E. Canez, 2000) However, the lack of available investment funds, time, or personnel may force companies to look outside and to engage in the M/B decision.

One trend that reinforces the core competencies argument is presented by Charles Fine and Daniel Whitney with MIT, in their position on automotive manufacturing differences between Japanese and American automotive companies. (Charles H. Fine, 1996) Japanese facilities control the infrastructure design and supply chain design keeping the competency to produce in house while American automotive companies largely do the opposite with the competency to design components used in manufacturing as their core and outsources the manufacturing systems of the development. (Charles H. Fine, 1996) This can, in some ways, give Japanese automotive a more flexible platform to enhance production while American automotive enhances product over process. Fine (Fine, 1996) summarizes the findings by stating American automotive manufactures are in the business to make cars while the Japanese are in the business of making systems.

### **Stratification**

Customer and product stratification is a method used to rank items by importance whether the importance is defined as profitability, turns in inventory, profit margin, or other measurable categories the process allows for an understanding of the importance of the item or customer to the company doing the analysis. (F. Barry Lawrence, 2011) The technique of stratification in the process creating a M/B decision is lacking in the research reviewed. This step begins to apply metrics to the process of understanding leading products, leading vendors, and defining sales impacts. The step assigns weights to criteria that can often go unmeasured in the decision process and allows for those reviewing the data to draw conclusions based on equations versus assumptions in the markets. (Sousa, 2014) (Huan-Jyh Shyur, 2006)

Research found that the application of weighted criteria is beneficial in the selection of vendors or other single factors and introduced models that would support the frame work of the stratification process. (Huan-Jyh Shyur, 2006) Stratification models are efficient in looking at the top tiers of decisions, however, the process often disregards activities around the bottom tiers of the stratification matrix. The bottom tiers of the process are those that most companies wish to remove or replace with better performing customers, service or products. This paper looks at the interdependence of the bottom tier items to the upper and seeks to find ways to push the lower performing items higher while also increasing the overall performance of the higher tiered items. The lacking issue in research is the application of stratification techniques to product families to determine the impact of gross revenue based on the lack of supporting products.

## **Vendor Selection**

Vendor selection criteria in the gathered data is noted to be quite useful. A paper by Mr. Shyur and Shih (2006) proposed a framework for measuring the vendors evaluated in this research and proved to be relevant in the decisions. (Huan-Jyh Shyur, 2006) The framework suggested gave use the following parameters to consider in setting up the evaluation matrix: (Huan-Jyh Shyur, 2006)

1. Identification of necessary criteria for vendor selection
2. Recognition of the interdependence between criteria
3. Eliciting the weights of criteria
4. Evaluating the vendors
5. Negotiation of the purchase

By applying the appropriate weights to and scoring to each category, the research reviewed validated the findings and would be an appropriate method to employ. The scoring criteria can change and adapt as needed to meet the needs of the occasion. Further research established some additional criteria to be considered when evaluating vendors: (L.E. Canez, 2000)

1. Technology and Manufacturing Processes
2. Cost
3. Supply Chain Management
4. Support Systems
5. Performance Measures

These factors and more are brought together in various matrix to re-inforce the various evaluation methods for vendor selection. (Huan-Jyh Shyur, 2006) (McIvor, 2006) (L.E. Canez, 2000) (Sousa, 2014) This paper only encourages the use a selected method and does not attempt to validate one of the cited ones.

## **Value**

Because of the amount of data and research tied to the general assumptions around make or buy decisions this paper will focus on tying together the impact of small investments to increase the whole. Market identification, voice of the customer activities, CRM data, and customer interaction need to be a part of the ROI decision even as a weighted percentage of the equation.

Working Definitions:

- MINI: Industrial Round Connector: 7/8" threaded power cables
- M12: Industrial Round Connector: 12mm diameter connection style for power and sensor connectivity
- OEM: Original Equipment Manufacturer
- CRM: Customer Relation Management Software / System

## **METHODOLOGY**

### **Purpose of the Study**

The purpose for this study is to determine a best course of action for Murrelektronik, Inc., in their consideration of entering into a new product development project within a well saturated market. The reason for this project is that Murrelektronik is seeing considerable market pressure globally from customers who demand single source location for their projects resulting in loss sales of core M12 products as well as accessory items. The decisions to be considered in this study are make or buy as it relates to the new product – MINI Type A. Which products are to be developed first? Vendor selection for both raw materials and / or finished goods? Is their ample market to justify the development? Can the target price point be met during the development to offer a competitive product line?

### **Data Gathering**

Data for this project is gathered from multiple sources including point of sale information from Murrelektronik, SAP product sales reports, Customer Relation Management system from Murrelektronik, vendor visits in Illinois, Pennsylvania, New Mexico, Mexico, California and Georgia. Additional data regarding the likelihood of purchases will be gathered from customer interviews and surveys to key accounts. Market competition reviews are used to better understand the product platform needed to enter the market. Data gathering continued from approximately September through December of 2015 with final decisions on the course of action taken in January 2016. A task list for this purpose is available with a global team of six associates to gather the data. Progress meetings occurred monthly with additional meetings as needed to discuss problems and concerns in the development stages.

One of the initial steps on the data gathering is to perform a product and customer stratification to determine relationships between high volume and high revenue products to the MINI Type A products currently offered by Murrelektronik. Establishing a link in sales between the core M12 connector products and the MINI products will likely benefit the ROI analysis and payback period of any investments. This data is gathered primarily from Murrelektronik SAP ERP system and analyzed internally to determine customer links in purchasing patterns, lost opportunities, future business opportunities and to assist in the development of a new product range by examining notes on lost orders and open opportunities.

To maintain consistency in the data gathering process a vendor evaluation report is developed to keep record of all answers and to determine a common core set of questions to be asked in the interviews. This will keep data similar on all responses regardless of who is deemed responsible for the interview. The data is subsequently consolidated and placed into a vendor score card to determine the best candidates for the branding portions. Raw material data gathering is similar to vendor scorecards but includes a set of cable specifications to be developed and sent to the cable vendors for quotation purposes. Nine different vendors for production and raw materials were analyzed in the research to determine best possible matches.

A thorough competitive products analysis including four leading manufactures in the market was completed to establish product specifications. The major points of the analysis included: product specifications, approvals, features, differentiating features, pricing analysis and manufacturing locations. This data is tabulated for the major competitors to Murrelektronik for future analysis and consideration in determining the course of product development and for creating a list identifiable features that could be unique to Murrelektronik.

### **Data Analysis**

Data gathered in the initial phases of the project is analyzed and verified for validity against existing market study reports purchased in 2007 by Murrelektronik. The result is then used to determine a best course of action and to develop a time line for project completion and implementation if deemed achievable.

Additionally, based on the responses from the finished goods and raw material vendors an internal study for manufacturing tooling and development costs is completed to establish minimum investment costs for the ROI calculation to be included in the project. Project costs will consider tooling, approvals, and initial engineering hours to develop the product portfolio for MINI Type A connectors.

The results of the studies are presented to the management teams in the company for further review and decisions on the process to proceed. The decisions to be determined are a.) whether to proceed as a new project, b.) which products are to be developed, c.) determine the best production method: in-house development, outsource and branded products, or mixture of production.

### **Implementation**

Based on the outcomes of the data and the research discovered during the initial phases of the project, a time line of projected next steps is used for the managerial review at Murrelektronik. The time line consist of gate ways and next steps for production, product development, sales launch and marketing plans as well as recommendations for unique features in the product development to help differentiate Murrelektronik in the market for MINI Type A products.

### ***Data Gathering***

Data for this research is attributed to the information systems of Murrelektronik, Inc., USA. Access to their ERP system, SAP, allowed for the use of product and customer stratification practices to determine rankings and some correlation between products to be discussed in subsequent sections. Murrelektronik also gathers point of sale information from about 90% of their distributors allowing further analysis into product sales. Additionally, the use of a privately funded market research paper from 2007 provided a basis for a market analysis to be discussed in an additional section. A developed timeline in the initial phases of the project to assigned responsibility and accountability to major steps in the project due to the global team assembled to finish the project.

### ***Product Stratification***

Product stratification allows for the research to determine product rankings based on revenue, volume of pieces sold, and the number of customers per item. This data provided the following key points:

1. M12 round plug connectors dominate the Murrelektronik sales volume, revenue contribution, pieces per customer and are classified as “A” level items
2. MINI connectors represent less than 3% of their connector global product volumes, less than 4% of connector revenue and have the fewest customers
3. Less than 100 USA customers purchasing both MINI and M12 connectors ranking them as a “D” level product

Type	QTY Sold	% of Qty Sold	Sales	% of Sales 2015
7/8	20,809	3%	\$ 226,803.00	4%
M12	521,758	66%	\$ 4,001,965.00	70%
M8	246,839	31%	\$ 1,460,618.00	26%
Total	789,406		\$ 5,689,386.00	

### ***Customer Stratification***

A customer stratification was performed to determine the number of customers using round connectors, using only M12 connectors, using only MINI connectors, and using a combination of connectors, as well as a look at additional items purchased that are possible to be used with MINI connectors and are not purchased from Murrelektronik.

1. 68% off the Murrelektronik customers use M12 connectors
2. 7% use MINI connectors exclusively without M12 connectors
3. 2% use a combination of M12 and MINI connectors from Murrelektronik
4. 43% of the customers in the POS data purchase items that can be used with MINI style connectors including Field Bus Products and Receptacles and Field Wired Connector Heads from Murrelektronik. Of the 48% less than 5% purchase the MINI product from Murrelektronik

### **Data Analysis of Current MINI Product Offering from Murrelektronik**

Understanding the current product mix from Murrelektronik is important to determining the best course of action for development in a make or buy situation. The product range from Murrelektronik needs to be viewed from a standpoint of core competency in development and sales or as a purchased product with little relation to their existing product capabilities and know-how. Developing a clear picture of the items needed for proper success in the market requires the establishment and building of knowledge of this new line of products. The M12 production lines for Murrelektronik are extensive and consist of 2-3 shifts of production based over multiple production lines. The current MINI products from Murrelektronik consist of one production line on an as needed basis with little to no development investment made in the past 5 years to improve or add to the product line.

Defining the current products offered from Murrelektronik in the MINI product ranges can be shown as the following:

**Figure 2 ME MINI Product Portfolio**

Style	Range	Production	Approvals	Revenue
<b>MINI A</b>	5 pole Female	Internal - CZ	none	€ 3,200,000.00
<b>MINI A, C</b>	2,3,4,5,12 Male and Female	External - Brand Labeled	UR	\$ 297,000.00

The current product range from Murrelektronik consists of a manufactured single style MINI A with variants in length, and head shapes and only one cables style of PUR jacket materials. The product is manufactured by Murrelektronik in Czech Republic with product support and management out of their German Headquarters. This product is designed and sold by Murrelektronik primarily for the European markets and lacks full industry approvals to be fully sold in the Global market space. Examples of the barriers include lack of Underwriters Label (UL) approvals and an incomplete range of cable types specific to the USA markets like TPE which is widely used in automotive plant installations.

The majority of pieces sold in the USA are derived from variants of the MINI Style A 3 and 5 pole connectors. MINI style C in the USA is dominated by five customers and is not a high priority for customer growth as these are special components as defined by Murrelektronik. All styles sold by Murrelektronik in the USA are brand labeled from a competitor currently with the exception of 4 SKU's. Murrelektronik USA supports the product range with their own product manager and inventory in the USA. They also provide all market and sales supporting collateral. The current brand label program has been in place since 2009 and can be shown to be diminishing in both sales and opportunities due to difficulties involved with sourcing the product from a competitive source.

### **Current Market Analysis for MINI products**

Accessing data for specific product types in this industry proved to be extremely difficult as no known sources of public data are known to exist. Many of the products sold in this market come from privately owned companies who do not report this information to public sources. The basis of this analysis is derived from a market study purchased from Murrelektronik to determine market potentials and ranking in 2007 (Keller, 2015). Additional conclusions are derived from market surveys sent to customers and from market intelligence gained from product management and gathered from industry trade show visitations. Because this projects focuses on slow selling products from Murrelektronik a market study is needed to determine the feasibility of the market. Determining the current competition, market volume, and growth expectations will be a factor in determining if Murrelektronik can or should enter this product market space and what the potential for sales could look like. For the project to be successful.



**Figure 3 MINI Global Pieces Sold**

Year	Annual Market Change	Mini Conn.	Murr (Global Totals)			
		Global Market (# PCS)	Calc. Qty.	Market Share	Actual Qty.	Market Share
2007		1,449,500	32,000	2.2%		
2008	3%	1,493,000	37,500	2.5%		
2009	0%	1,493,000	42,000	2.8%		
2010	-5%	1,418,000	44,000	3.1%		
2011	10%	1,560,000	53,000	3.4%		
2012	4%	1,622,500	60,000	3.7%	53,281	3.3%
2013	2%	1,655,000	66,000	4.0%	63,087	3.8%
2014	2%	1,688,500	72,500	4.3%	60,287	3.6%
2015	2%	1,722,500	80,000	4.6%		
2016	2%	1,757,000	84,000	4.8%		
2017	2%	1,793,000	88,500	4.9%		
2018	2%	1,828,500	93,000	5.1%		
2019	2%	1,864,500	98,000	5.2%		

Figure 3 shows the estimated totals of MINI pieces sold in the global market and a calculated market share held by Murrelektronik as well as the actual pieces sold by Murrelektronik from 2012 through 2014. The comparison validates the estimated market share and potential based on industry growth percentages.

Further market analysis can be computed to break down the product growth patterns if the current sales and market conditions are left unchanged and trends are allowed to continue. Figure 4 shows the trend should it continue only for the USA. Growth would likely not exceed 1% year over year and would likely decline due to market pressures from competition and lack of customer interest.

**Figure 4 Market Share ME USA**

Year	Annual Market	Mini Conn.	Murr (US Totals)			
		US Market(# PCS)	Total Sales(# PCS)	Market Share	Typ. Growth Share	Typ. Growth Sales
2007		1000000	2497	0%	0%	2497
2008	3%	1030000	3324	0%	0%	3324
2009	0%	1030000	7677	1%	1%	7677
2010	-5%	978500	7070	1%	1%	7070
2011	10%	1076500	5948	1%	1%	5948
2012	4%	1119500	5230	0%	0%	5230
2013	2%	1142000	3716	0%	0%	3716
2014	2%	1165000	6138	1%	1%	6138
2015	2%	1188500	6420	1%	1%	6418
2016	2%	1212500	9000	1%	1%	7275
2017	2%	1237000	11350	1%	1%	7793
2018	2%	1261500	14600	1%	1%	8830
2019	2%	1286500	17660	1%	1%	11578

The following table shows correlated market revenue potentials and market share for Murrelektronik both in the USA and globally based on the assumed variables from Figure 5. The establishment of assumed variables is an important step in creating a baseline for

comparison and for market potential of such a widely variable product. For this project the assumed variable was limited to exchange rates, average purchased length of current products, and average cable cost for head assembly.

**Figure 5 ME Global Market Share**

Year	Annual Market Change	Mini Conn.			Murr (Global Totals)		Mini Conn.		Murr (US Totals)	
		Global Market(€)	Total Sales	Market Share	US Market(€)	US Market(\$)	Total Sales	Market Share		
2007		€ 58,000,000.00	€ 1,276,000.00	2%	€ 40,000,000.00	\$ 50,000,000.00	\$ 71,588.01	0%		
2008	3%	€ 59,740,000.00	€ 1,493,500.00	3%	€ 41,200,000.00	\$ 51,500,000.00	\$ 97,668.02	0%		
2009	0%	€ 59,740,000.00	€ 1,672,500.00	3%	€ 41,200,000.00	\$ 51,500,000.00	\$ 109,704.95	0%		
2010	-5%	€ 56,753,000.00	€ 1,759,500.00	3%	€ 39,140,000.00	\$ 48,925,000.00	\$ 122,839.36	0%		
2011	10%	€ 62,428,500.00	€ 2,122,500.00	3%	€ 43,054,000.00	\$ 53,817,500.00	\$ 150,460.38	0%		
2012	4%	€ 64,925,500.00	€ 2,402,000.00	4%	€ 44,776,000.00	\$ 55,970,000.00	\$ 186,209.56	0%		
2013	2%	€ 66,224,000.00	€ 2,649,000.00	4%	€ 45,671,500.00	\$ 57,089,500.00	\$ 164,499.05	0%		
2014	2%	€ 67,548,500.00	€ 2,904,500.00	4%	€ 46,585,000.00	\$ 58,231,500.00	\$ 257,644.90	0%		
2015	2%	€ 68,899,500.00	€ 3,199,500.00	5%	€ 47,516,500.00	\$ 59,395,500.00	\$ 297,000.00	1%		
2016	2%	€ 70,277,500.00	€ 3,369,000.00	5%	€ 48,467,000.00	\$ 60,584,000.00	\$ 483,000.00	1%		
2017	2%	€ 71,683,000.00	€ 3,544,000.00	5%	€ 49,436,500.00	\$ 61,795,500.00	\$ 745,000.00	1%		
2018	2%	€ 73,116,500.00	€ 3,724,500.00	5%	€ 50,425,000.00	\$ 63,031,500.00	\$ 1,129,500.00	2%		
2019	2%	€ 74,579,000.00	€ 3,911,000.00	5%	€ 51,433,500.00	\$ 64,292,000.00	\$ 1,283,000.00	2%		

**Figure 6 Variables**

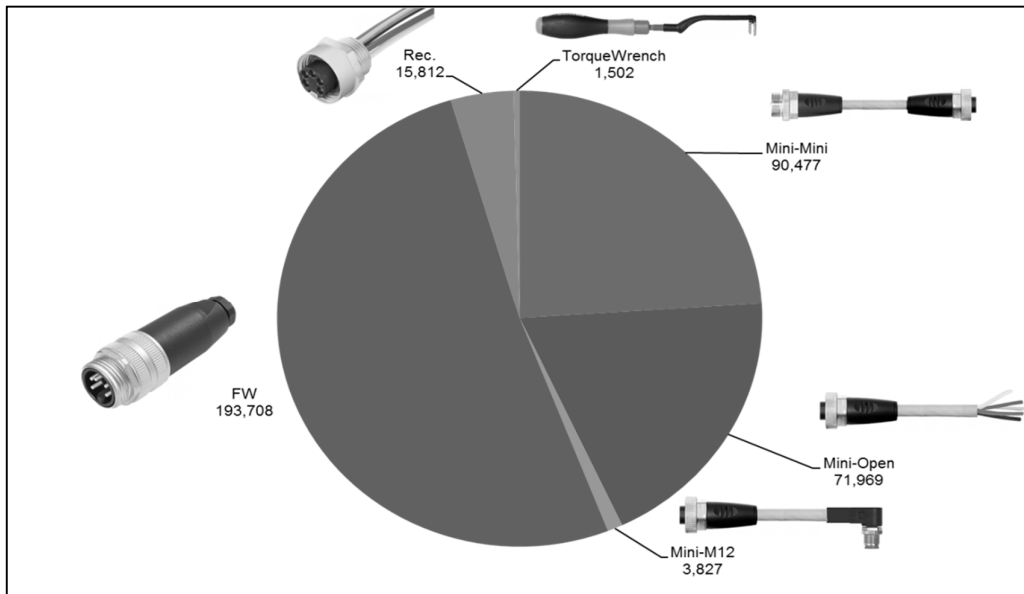
Variables & Assumptions:					
Exchange Rate	1.25	\$/€			
Avg. List	\$135.20				
Avg. Net Sale	\$48.75				
Avg. PL28 Cost	\$40.57	from GPM w/o Cu			
Avg. SNP	\$18.91	from GPM w/o Cu			
Avg OPP Mfg.	\$15.17	from SAP w/o Cu			
Avg. Length	5.1	M per Assy			
Avg. Qty. Heads	1.6	# per Assy			
Avg. Cable Cost	\$5.12	per Assy			
Avg. Copper	\$2.48	per Assy			
Avg. Head Cost	\$8.22	per Assy	\$5.14	each	
Total w/ Cu	\$17.97	per Assy			
Total w/o Cu	\$15.19	per Assy			

Murrelektronik current market share is approximately 4% globally and approaching 1 % in the USA market space. These numbers establish a baseline for estimating the current condition for Murrelektronik and to help validate the report from Murrelektronik's own research (Figure 6). For the purpose of this research a calculate cable cost is based on a 5-meter assembly with one MINI A connector head attached. The estimated cost to produce this connector is \$17.97 ea.

Breaking down of unit sales for Murrelektronik of MINI related products reveals the following current global sales in pieces:

Market potential and lost opportunities were analyzed through the Murrelektronik Customer Relation Management system (Figure 8). The following projects were lost or delayed in 2015 due to the lack of product offering and the inability to provide both M12 and

**Figure 7 ME Product Portfolio**



MINI style connectors at the same time of order. This point was a repeating theme in the research as many customers now expect a certain level of commodity style products from their suppliers and would choose one supplier over the next based on one stop sourcing.

The following is an excerpt from the lost opportunity report for Murrelektronik:

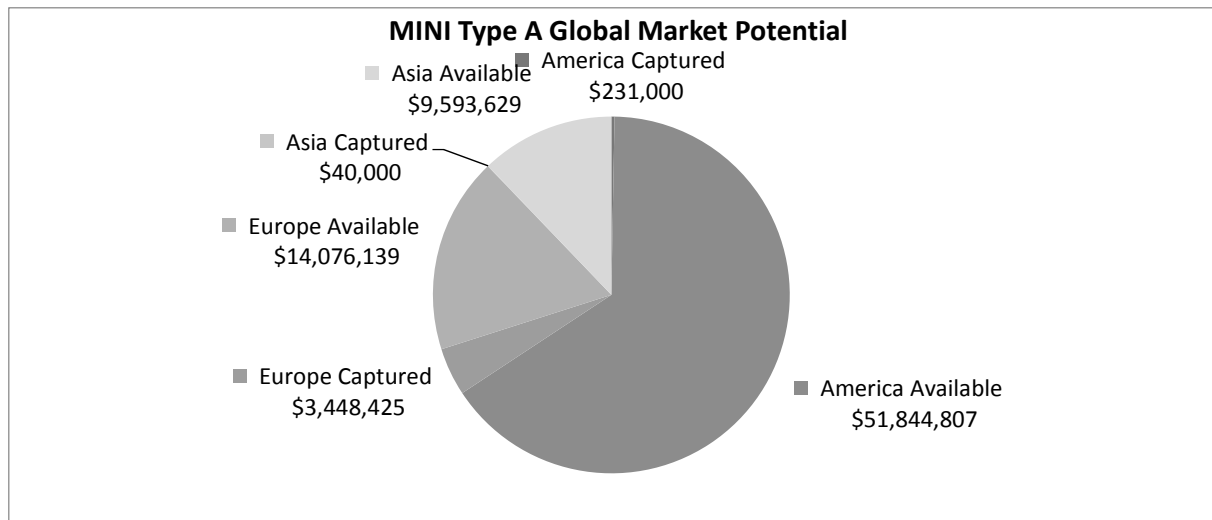
**Figure 8 CRM Pipeline**

<b>Market Opportunity Year 1 – MINI Type A</b>	
• Hirotec	\$250,000
• ASI	\$250,000
• Fanuc	\$150,000
• Thyssen	\$100,000
• ATS	\$100,000
• Harry Major	\$100,000
• COMAU	\$100,000
• MAG	\$100,000
• Intelligrated	\$50,000
• Chrysler - Kokomo	\$25,000
• C&M Conveyor	\$25,000
• GROB	\$25,000
• Veeco	\$25,000
• Vanderlande	\$25,000
1.6 Million in lost opportunity for 2015 without full MINI type A program in place.	

Based on current market analysis the largest potential for growth resided in the market potential for the USA market with an estimated market size of \$51,844,807 compared to a market potential in Europe of just over \$14 million. Figure 9 shows the dominance of the MINI Style A 7/8” product in the American market place. Market growth potential exists for Murrelektronik with a proper product mix and pricing strategy.

## Competitor Analysis

**Figure 9 Global Share MINI Type A**



Current competition for Murrelektronik comes from a variety of sources. The MINI product range is a predominantly USA based product and has been available for over 20 years from a variety of manufacturing companies. The primary competition is from Turck, Molex, and Lumberg brands. The MINI range of products is extensive, but the primary connector range of interest in the market is considered to be the MINI Type A form. This form is, by itself, extensive with variations in the number of conductors (poles), cable types, pin configurations, wire diameters, and more. The only consistent part of MINI Type A connectors is that they all use a 7/8" connecting thread design that is universal. Nothing else is standard. Automotive manufacturing companies demand certain items to be available to enter the market like cable type TPE and wire diameters (18 AWG) but general industrial accounts view the product offering completely differently and will typically adapt a need to an application.

Competitors were evaluated on their product offering of MINI Style A products. The main reason for this decision is that the market analysis and customer surveys showed that the most product potential for Murrelektronik is based in the MINI Type A configuration.

Additional competition comes from the companies Mencom, Balluff and Amphenol. Each offer a similar product offering to the main competitors depicted in Figure 10. Murrelektronik is the only leading manufacturer of round plug connectors to not offer a full range of MINI style connections. Competition is evaluated primarily on product offering and variations due to the lack of data to support market share held by each competitor. It is

Figure 10 Competition Review

 <i>stay connected</i>			  		
5 Pole			Turck	Molex	Lumberg
Connector	Female Straight	Yes	Yes	Yes	Yes
	Female 90°	Yes	Yes	Yes	Yes
	Male (Male) Straight	Yes	Yes	Yes	Yes
	Male (Male) 90°	Yes	Yes	Yes	Yes
	Male (Female) Straight	No	Yes	Yes	Yes
	Male (Female) 90°	No	Yes	Yes	Yes
Cable	TPE (TC-ER, FT4), 600v, 16awg	No	Yes	Yes	Yes
	PVC (STOOW), 600v, 16awg	No	Yes	Yes	Yes
	PUR (Halogen Free), 600v, 16awg	Yes	Yes	Yes	Yes
4 Pole					
Connector	Female Straight	No	Yes	Yes	Yes
	Female 90°	No	Yes	Yes	Yes
	Male (Male) Straight	No	Yes	Yes	Yes
	Male (Male) 90°	No	Yes	Yes	Yes
	Male (Female) Straight	No	Yes	Yes	Yes
	Male (Female) 90°	No	Yes	Yes	Yes
Cable	TPE (TC-ER, FT4)	No	Yes	Yes	Yes
	PVC (STOOW)	No	Yes	Yes	Yes
	PUR (Halogen Free)	No	Yes	Yes	Yes
3 Pole					
Connector	Female Straight	No	Yes	Yes	Yes
	Female 90°	No	Yes	Yes	Yes
	Male (Male) Straight	No	Yes	Yes	Yes
	Male (Male) 90°	No	Yes	Yes	Yes
	Male (Female) Straight	No	Yes	Yes	Yes
	Male (Female) 90°	No	Yes	Yes	Yes
Cable	TPE (TC-ER, FT4)	No	Yes	Yes	Yes
	PVC (STOOW)	No	Yes	Yes	Yes
	PUR (Halogen Free)	No	Yes	Yes	Yes
UL Listing		No	Yes	Yes	Yes
CSA Listing		Yes	Yes	Yes	Yes
Country of Origin		Czech Republic	Mexico	Mexico	Mexico

believed that Turck holds the largest market and is estimated to be at greater than 20% based on their presence within the industry and position of specification within the automotive supplier market for new plant projects.

**Figure 11 Raw Material RFQ**

		US '16 EAU	ME.DE	N	L	C
5p	TPE (TC-ER, FT4)	55,000 m		\$1.661		\$2.250
	PVC (STOOW)	30,000 m		\$1.526	\$2.775	\$2.960
	PUR (Halogen Free)	15,000 m	\$1.680	\$1.725	No Quote	\$2.250
4p	TPE (TC-ER, FT4)	15,000 m		\$1.451		
	PVC (STOOW)	6,000 m		\$1.581	\$2.305	\$1.880
	PUR (Halogen Free)	3,000 m	\$1.410	\$1.517	No Quote	
3p	TPE (TC-ER, FT4)	15,000 m		\$1.189		\$1.650
	PVC (STOOW)	8,000 m		\$0.988		\$1.200
	PUR (Halogen Free)	5,000 m	\$1.160	\$1.239		\$1.400

### Vendor Analysis

Vendor analysis for this research is broken into two categories to properly cover the make or buy decision. The categories are raw material and finished goods. For the purpose of evaluation, a cross functional team was assembled to properly decide on the evaluation topics for each decision criteria. The teams were assembled from representatives within different functional departments from Murrelektronik: product management, production, quality, purchasing and planning. Each representative was encouraged to offer the questions and evaluation points for each category and these were assembled and weighted for evaluation

**Figure 12 Vendor Scorecard**

	Murrelektronik		Amphenol		Binder		iCONN		Mencom		C&M	
Supplier Scorecard												
Price	10		4		6		7		3		0	
Mini A (7/8")	5		5	Developed Product UL Listed	5	Developed Product UL Listed	4	Final Development, UL required	5	Developed Product UL Listed	2	Willing, Requires Development, and UL
Mini C (1-1/8")	5		3	Possibly w/ Mold from China, UL required	2	Willing, Requires Development, Molds and UL	4	12 Pole in Final Development, UL required	5	Developed Product UL Listed, Full Series	2	Willing, Requires Development, and UL
ME Design Standard	5		4	Black Overmold, Option Green Contact.	5	Hex Coupling, On Cable Printing, Black Overmold, Option Green Contact	4	Aesthetic Contour Design, Black Overmold, Option Green Contact, Hex.	3	Turck Style Features	2	Generic Molds (non Mini)
Corporate Alignment	5		5	Top Mgt. Relationship (JZ and Arndt)	5	Strong Existing Partnership in Germany	3	Neutral, no existing relationship	2	Existing Brand Label Partner Weakening Relationship	2	Strong Partnerships with Our Biggest Competitors
Direct Competition	5		4	Mini not a focused product	4	Mini not a focused product	5	Contract manufacturing only.	2	Easy Interchange MUR -> MIN	5	Contract manufacturing only.
Indirect Competition	5		3	Phoenix	3	Balluff	5	None	3	Balluff	1	Turck, AB, Molex
ME Product Expansion	5		3	Deutsch, Molded Rect. (Harting)	4	Receptacle, PCB, Fwire	2	Custom Assy	2	ILME, Armored Cable	4	Deutsch, MIL, Cable
Potential for ME Sales	5		1	Undetermined	4	Valve Plug, M23	2	Conn. For Harnesses	1	Declining Relationship	0	None
Rating Total	50		32		38		36		26		18	

purposes. Figure 11 represents the vendors selected for purchase of finished goods in an enhanced partnership to produce products for Murrelektronik under a new brand label

agreement. Scoring for each vendor is related to how they would best satisfy the requirement in relation to how Murrelektronik would perceive their own quality or initiative as best.

Vendors were individually visited to be further evaluated on the equipment used in production, labor rules, ISO compliance, UL listings, ability to serve, warehousing and inventory systems, and typical production lead times. Raw material vendors were addressed in a similar way with a request for quote for 9 different cable types base on annual consumption estimates (Figure 12). Cable specifications were delivered with each quote to keep some similarities between the different cable vendors and to establish a minimum expected level of performance.

Company N was selected from the raw goods vendor selection analysis and Binder is the selected company for the finished goods vendors.

### **Product Roadmap**

With vendor selection complete, the task of defining the actual product mix to be developed is underway. The MINI Type A product range is a large range of general products with multiple cable styles and connector head configurations. The data gathered from customer analysis and opportunity reports suggested a primary focus on male and female 3 and 5 pole connector variants for general industrial machine usage, 4 pole male and female configurations for automotive applications and 3 cable types for each configuration with up to 2 wire gauges needed for 4 and 5 pole variants (Figure 13).

Unique and identifiable product properties requested by customers based on lost opportunity report analysis are summarized as following:

1. Hex nut like the M12 product line is needed
2. Green contact carrier – unique to MURR
3. Cable selection – colors, wire gauges, TPE, PUR
4. Cable printing for customer part numbers

### **Investment Analysis**

Investments into developing the MINI Type A product line are split into two categories: Internal development and External development. Internal development consists of assigning engineering time, machinery costs, testing and approval costs, and tooling costs to internally develop and manufacture the products. External development considers the investment costs of purchasing the product from a third party. External costs for this project could include areas like tooling, packaging, storage and approvals as well as engineering costs if needed. Some elements can be shared by both methods because regardless of the choice the costs remain constant like raw material and shipping costs.



**Figure 13 Proposed Product Development**

		
5 Pole		
Connector	Female Straight	Yes
	Female 90°	Yes
	Male (Male) Straight	Yes
	Male (Male) 90°	Yes
	Male (Female) Straight	Yes
	Male (Female) 90°	Yes
Cable	TPE (TC-ER, FT4), 600v, 16awg	Yes
	PVC (STOOW), 600v, 16awg	Yes
	PUR (Halogen Free), 600v, 16awg	Yes
4 Pole		
Connector	Female Straight	Yes
	Female 90°	Yes
	Male (Male) Straight	Yes
	Male (Male) 90°	Yes
	Male (Female) Straight	Yes
	Male (Female) 90°	Yes
Cable	TPE (TC-ER, FT4)	Yes
	PVC (STOOW)	Yes
	PUR (Halogen Free)	Yes
3 Pole		
Connector	Female Straight	Yes
	Female 90°	Yes
	Male (Male) Straight	Yes
	Male (Male) 90°	Yes
	Male (Female) Straight	Yes
	Male (Female) 90°	Yes
Cable	TPE (TC-ER, FT4)	Yes
	PVC (STOOW)	Yes
	PUR (Halogen Free)	Yes
UL Listing		Yes
CSA Listing		Yes
Country of Origin		USA

### ***Internal Development Investment***

Investment analysis for internal development are broken down as follows:

Tooling Costs: \$232,625.00

Includes - New press tools, Pin insertion equipment, Manual Pin insertion tools, testing apparatus

Labor / Engineering Costs \$88,750.00

Includes - 960 Engineering hours, 160 testing hours, test center costs and UL certification costs

Total Investment – Internal Development \$321,370.00

Advantages: ground up development – creates engineering knowledge for further development

Disadvantages – Resources blocked for additional development, 18-24 month development cycle from start of project, cost overruns, missing time from market, lost sales of core products related to sale of MINI Type A

ROI – 16%

ROS – 3%

Payback – 3.5 years

Initial Raw Material Cable Purchase: \$90,000

### ***External Development Investment***

External Development is made possible through a brand label arrangement for Murrelektronik by either a competing company or by a company with the means to produce a specified product under contract. In this study it is determined that company Binder is the best choice for the consideration of finished goods purchasing. Binder has offered a unique solution maximizing the return possibility for Murrelektronik by allowing Murrelektronik to control purchase cost of the raw materials and contracting the final assembly to Binder. Finished goods would be fully tested, labeled assembled and bagged in accordance with Murrelektronik corporate guidelines and will look and feel like any product fully produced by Murrelektronik. Unique to this arrangement is the ability to control the cable costs for Murrelektronik. This allows them to maximize purchasing and take advantage of global bulk purchasing to keep costs low.

Investment analysis for external development are broken down as follows:

Tooling Costs: \$20,000.00

Includes- adapting Murrelektronik Logo to existing tooling

Labor / Engineering Costs \$35,000.00

Includes - 100 Engineering hours, 10 testing hours, test center costs and UL certification costs

Inventory - finished goods: \$35,000

Total Investment – Internal Development \$90,000.00

Advantages: Limited capital expenditure, 4-6 month develop time, control over cable costs

Disadvantages – Core development knowledge not gained, manufacturing not in control of Murrelektronik, production scheduling and adaptation limited, larger finished goods inventory required

ROI – 25.4%


ROS – 11.4%

Payback – 1.1 years

Initial Raw Material Cable Purchase: \$90,000

Figure 14 ROI External

ROI - Project calculation



Project

Mini Connector (ME Design) v4.0

Responsible

Craig Fox

project manager

Internal number

Deadlines

Planned project start

Jul/ 15

planned project duration

18

month

	2015	2016	2017	2018	2019	2020	Total
<b>Project exp. (USD)</b>							
Internal development exp.	56,250	75,000	18,750				150,000
External development exp.		25,000	25,000				50,000
Material exp.		2,500	2,500				5,000
Other exp.		5,000	5,000				10,000
<b>Total expenditure</b>	<b>56,250</b>	<b>107,500</b>	<b>51,250</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>215,000</b>
Tools	185,000						185,000
Machine & Equipments		225,000					225,000
Test equipment		15,000					15,000
<b>Total capex</b>	<b>185,000</b>	<b>240,000</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>425,000</b>
<b>Total project expenses</b>	<b>241,250</b>	<b>347,500</b>	<b>51,250</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>640,000</b>

<b>Cost of goods manufactured (USD)</b>							
Material costs	7.93	8.02	8.13	8.29	8.30	8.29	
Materials overheads	0.95	0.96	0.98	1.00	1.00	0.99	
Production cost	5.50	5.50	5.50	5.50	5.50	5.50	
Machine costs							
<b>Total cost of goods manufactured</b>	<b>14.38</b>	<b>14.48</b>	<b>14.61</b>	<b>14.79</b>	<b>14.79</b>	<b>14.78</b>	
Gross list price	135.00	135.00	135.00	135.00	135.00	135.00	
manufacturing - coefficient	9.4	9.3	9.2	9.1	9.1	9.1	

<b>Project revenues</b>							
sold units	82,750	92,000	101,250	115,000	121,500	127,500	640,000
net sales price per unit	21.34	22.67	24.22	26.50	27.31	28.08	
<b>Revenue</b>	<b>1,766,000</b>	<b>2,085,750</b>	<b>2,452,536</b>	<b>3,047,966</b>	<b>3,318,677</b>	<b>3,580,356</b>	<b>16,251,285</b>
Contribution Margin	575,805	753,190	973,411	1,347,266	1,521,607	1,695,406	6,866,685
CM ratio %	33%	36%	40%	44%	46%	47%	42%
<b>Product result</b>	<b>75,923</b>	<b>193,515</b>	<b>352,178</b>	<b>632,972</b>	<b>766,838</b>	<b>903,727</b>	<b>2,925,153</b>
(total production cost)	4%	9%	14%	21%	23%	25%	18%

<b>ROI calculation</b>							
Annually Cash Flow	-165,327	-153,985	300,928	632,972	766,838	903,727	2,285,153
Discounted Cash Flow	-165,327	-146,653	272,951	546,785	630,880	708,094	1,846,729
Accum. discounted Cash Flow	-165,327	-311,979	-39,029	507,756	1,138,635	1,846,729	

Ø ROI = 25.4%

p.a.

ROS = 11.4%

target > 10.0%

Payback = 1.1

target < 2.5 Years

notes

A third possibility to continue the brand label arrangement from the current supplier was explored and deemed too costly to continue. In this arrangement, Murrelektronik has only the choice of part numbers to be assigned to the products of the existing company and no control of the product quality, materials or lead times. This limitation and competing with the vendor in the same market space makes margins on the products unacceptable and existing customers are able to easily recognize the branding, allowing them to easily switch vendors and to realize that Murrelektronik is not the true manufacturer and may lack the support mechanisms to properly support their initiatives.

## Framework for Future Product Projects

Figure 15 Cost Analysis Raw Materials

		US 16 DDU	Internal Target	Auto Target	Amphenol	Binder	ICONN	Mencom
	Mix	Unit			Unit Price	Unit Price	Unit Price	Unit Price
<b>3 Pole</b>								
<b>Mini A (7/8") Connector</b>		32,000/needs						
Female Straight	54%	5,400	\$9.00	\$7.72	\$7.31	\$5.66	\$7.87	\$9.15
Female 90°	18%	1,800		\$7.72	\$7.64	\$6.80	\$7.87	
Male (Male) Straight	28%	2,800		\$7.72	\$11.87	\$5.66	\$7.90	\$7.44
Male (Male) 90°	5%	500		\$7.72	\$12.46	\$6.80	\$7.90	
Male (Female) Straight	2%	200		\$7.72	\$13.25	\$5.66	\$7.90	
Male (Female) 90°	1%	100		\$7.72	\$13.90	\$6.80	\$7.90	
<b>Cable, 60%, 16awg</b>								
TPE (TC ER, FT4)		55,000/m	\$1.70	\$1.86		\$2.190	IME Suppl level	\$2.590
PVC (STOOW)		30,000/m			\$2.430	\$2.430	IME Suppl level	\$2.490
PLR (Halogen Free)		25,000/m	\$1.70			\$2.580	IME Suppl level	IME Suppl level
<b>4 Pole</b>								
<b>Mini A (7/8") Connector</b>		2,000/needs						
Female Straight	54%	1,080		\$6.92	\$6.47	\$5.40	\$7.21	\$6.24
Female 90°	18%	360		\$6.92	\$6.83	\$6.51	\$7.21	
Male (Male) Straight	28%	560		\$6.92	\$10.92	\$5.40	\$7.08	\$7.22
Male (Male) 90°	5%	200		\$6.92	\$11.80	\$6.51	\$7.08	
Male (Female) Straight	2%	40		\$6.92	\$11.99	\$5.40	\$7.08	
Male (Female) 90°	1%	20		\$6.92	\$12.61	\$6.51	\$7.08	
<b>Cable, 60%, 16awg</b>								
TPE (TC ER, FT4)		25,000/m	\$1.43	\$1.99		\$1.860	IME Suppl level	\$2.300
PVC (STOOW)		6,000/m			\$2.190	\$2.190	IME Suppl level	\$2.010
PLR (Halogen Free)		3,000/m	\$1.43			\$2.390	IME Suppl level	IME Suppl level
<b>5 Pole</b>								
<b>Mini A (7/8") Connector</b>		2,000/needs						
Female Straight	54%	1,080		\$6.20	\$5.53	\$5.23	\$6.54	\$7.05
Female 90°	18%	360		\$6.20	\$5.87	\$6.24	\$6.54	
Male (Male) Straight	28%	840		\$6.20	\$9.56	\$5.23	\$6.36	\$6.48
Male (Male) 90°	5%	250		\$6.20	\$10.25	\$6.24	\$6.36	
Male (Female) Straight	2%	40		\$6.20	\$10.33	\$5.23	\$6.36	
Male (Female) 90°	1%	20		\$6.20	\$11.01	\$6.24	\$6.36	
<b>Cable, 60%, 16awg</b>								
TPE (TC ER, FT4)		25,000/m	\$1.25			\$1.530	IME Suppl level	\$2.070
PVC (STOOW)		8,000/m			\$1.980	\$1.530	IME Suppl level	\$1.690
PLR (Halogen Free)		5,000/m	\$1.25			\$2.720	IME Suppl level	IME Suppl level

Figure 16 depicts the decision tree created for the project. The framework allows for gates to prevent advancement to the next stage without satisfactory completing a section and providing visibility to difficulties found throughout the project. The graph was developed to establish a basis for future development decisions in a way that could be adapted to Murrelektronik products regardless of product family.

Figure 16 Decision Matrix

Input Sources				Voice of the Customer Projects			
Customer Stratification		Product Stratification		CRM Input			
				Product Correlation			
				Sales Review			
				Product Definition			
				SKU Definition			
				Cost / Price Targets Defined			
				Scopes Needed			
Core Competency				Not A Core Competency			
Development 1 (Pre)				Development 2 (Post)			
Advantage	Disadvantage	Advantage	Disadvantage	Advantage	Disadvantage	Advantage	Disadvantage
Resource Allocation		Product Knowledge		Customer Review		Customer Review	
Human Capital Assignment		Tooling Review		Market Review		Market Review	
Vendor Evaluations		Machinery Review		Sales Channel Eval		Sales Channel Evaluation	
Investment Costs Study		Product Definition		Competition Review		Competition Review	
Timeliness		Approval Review		Revenue Review		Revenue Review	
Technology review		Testing Parameters		Lost Opportunity Study		Lost Opportunity Study	
Proprietary Property		Location / Logistics					
		Capital Investment					
Internal Development				External Development			
Market Analysis				Development 2 (Post)			

## SUMMARY

Throughout the process of this research, the goal for Murrelektronik remained constant – gain market share, establish a center of excellence for MINI production, and develop products for the North American market. As a result of this research, Murrelektronik is on a path to accomplish most of its stated intentions. The decision to move forward in development of the “C” class MINI product to augment the primary “A” level products is approved. The decision to manufacture the product is made with a cooperative contract with a supplier to outsource part of the construction process while Murrelektronik remains in control of the major cost driver for the products in the raw materials. MINI product production and future development will allow Murrelektronik to become a center of excellence for the organization and offer the product as a global solution to Murrelektronik customers and subsidiaries. The decision to manufacture in North America using their own tooling and production location is on hold pending customer sales volume however, a plan exists to transition the products to Murrelektronik’s own in-house production when volume goals are met.

The projected revenue impact to Murrelektronik by year three is forecasted to be an increase of between five and seven million dollars with the increase in revenue from the main selling products (“A” Level inventory items) to exceed ten million dollars annually with the new ability to penetrate new customers and old with a full complement of products instead of allowing for second and third sources to take market share.

Full implementation of this research is expected to take up to two additional years.

In addition to the topics in this research paper additional opportunities lie in the study of pricing of C level products, margin impact of loss leader products and various other topics related product introduction into a saturated market.

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**INVESTIGATING THE IMPACT OF FACEBOOK AS AN EFFECTIVE  
BUSINESS-TO-BUSINESS PROMOTIONAL TOOL FOR SMALL  
BUSINESSES IN THE OPTICS AND PRINTING MARKET**

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**EXTENDED ABSTRACT**

Started in 2004, Facebook is commonly used as an online social networking website that enables users to connect and share with family and friends (Phillips, 2015). In 2007, Facebook started business pages targeted at business-to-business and business-to-consumer commerce to allow users to attract customers to their website and enhance their online presence. However, most of the early Facebook demographics was business-to-consumers (Richmond, 2007). A recent trend for Facebook is to branch out to business-to-business pages using the *Facebook for Business* tool. This paper explores whether Facebook is an effective business-to-business promotional tool for small businesses, specifically in the printing and optics industry. The printing and optics industry was chosen given the large cluster of companies that match a certain demographic within a small geographic area in close proximity of the researchers. This is a proposal for empirical research to determine the efficacy of Facebook as a promotional tool by small business owners.

Recent research on the topic of social media as a business-to-business tool indicates that 54% of small businesses are using social media as a means of promotion and advertising (Broekemier, Chau, and Seshadri, 2015.) Other business-to-business topics include using Facebook as a means to support and promote global brands as well as the qualitative factors of a brand's social media message that are most likely to facilitate a response (Kim and Spiller, 2015). Research shows that “93% of social media users believe that companies should have a social media presence, while 85% of them think that companies should interact with customers via SNS” (Cone, 2008, cited in Michaelidou, Nikoletta, Siamangka and Christodoulides, 2011). The creation of the message strategy for promoting “word-of-mouth” activity for business-to-business customers through Facebook was explored for Fortune 500 businesses (Swani, Milne, and Brown 2013). However, research on the effectiveness of Facebook in Small business-to-business enterprises, particularly in the optics and printing industry, is deficient. Furthermore, the method of measuring social media effectiveness in this context, particularly for Facebook, has not been thoroughly demarcated.

This particular research is in the infancy and conceptual stage presently. The percentage of small businesses utilizing Facebook as a promotional tool suggests that there is



some benefit to the businesses. However there is little research to support this, and little which actually empirically measures the efficacy of Facebook as a promotional tool. The research will focus on both, the paid as well as the un-paid presence of a business on Facebook. Facebook has a free presence where all users, both business and personal can post content. Facebook also has a fee-based presence for businesses who can post content, and gather statistics on activity related to their content. This study will measure effectiveness as well as a method for determining a return on investment for both paid and un-paid promotional modes. Efficacy of Facebook will be measured through the number of impressions, clicks, and conversions over a specified period of time. Hypotheses relating increased spending on Facebook to clicks, conversions, and impressions will be proposed for this study. Moreover, the margin of diminishing returns related to Facebook spending and effectiveness will also be explicated.

This will be a quantitative study in that data will be gathered through a survey approach. The participants will be small printing companies with 20 to 50 employees. The demographic will be restricted to printing and optics companies whose customers are businesses. The number of respondents is expected to be between 150 and 250. A pilot study will be conducted consisting of 4 to 6 respondents within our target demographic. A structured survey will be sent to the respondents and the data will be analyzed to judge the validity of the study. This pilot is expected to be completed by the end of Spring 2016.

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## **STUDENT RESEARCH**

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### **MARKETING ENVIRONMENT RESEARCH - GOPRO, INC.**

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#### **INTRODUCTION**

GoPro, Inc. is a company that specializes in mountable cameras and other accessories to help extreme sports enthusiasts, world travelers, and adventurers capture their feats. I examined the marketing strategy of the California based company and found a few interesting facts about that strategy. While the company grew quickly and is still climbing in sales and exposure, their plan to conquer the camera market was not a plan for world takeover. GoPro is a company dedicated to creating mountable, portable, and great quality cameras for ordinary people to use on their extraordinary adventures (GoPro).

#### **MARKETING STRATEGY**

GoPro has built its platform off of the quality of their cameras. With thirty frames per second at 4K30, the quality is four times better than 1080p HD. Their latest camera model, Hero 4 Black, has built in WiFi and Bluetooth with the ability to post photos and videos directly to social media. This feature is linked with the GoPro app, which is included with the purchase of a camera. The camera performs in sunlight with 4K Ultra HD, and has a setting for night photo and night lapse in low light (GoPro Store). Between these and other features GoPro has created a precedent for portable cameras.

The quality of the cameras can be seen by using them, but without the desire to walk into a store and try them out, consumers will not open their wallets. That is why GoPro does a '*photo/video of the day*' on of each their social media platforms. People who are using GoPro's cameras will send in photos and videos of their adventures. Each day the company chooses a photo and a video to display on Twitter (@GoPro, 2009), Instagram (@gopro), Facebook (GoProFB, 2009), and YouTube (GoProYT, 2009). This allows followers to see the potential of the tiny camera. After seeing some fans comment that getting the perfect GoPro shot was not as easy as point and shoot, the company decided to switch up their '*photo a day*' model. Every few days GoPro uploads a photo with detailed information on how the shot was captured (@gopro, 2015). This allows followers to see the potential, purchase the camera, and recreate the magic on their own.

The hottest features of the camera include quality, durability, and efficiency. The most recent model costs approximately \$400. When a customer spends that amount on a piece of

technology they expect it to perform well and last for years. To ensure the product durability and satisfaction GoPro offers a warranty. There is a thirty-day money-back guarantee and if anything happens to the camera, send it in for repairs within the first year (GoPro Support). The efficiency of the camera comes with the ability to mount it on helmets, surfboards, backpacks, cars, and almost anything. This allows the consumer to use GoPro on a daily basis, no matter what activity is being performed.

Based on the BCG Matrix, GoPro's cameras are stars. There is a high-market share (Parker, 2015) and high-growth (Grewal & Levy, 2014). In 2010, the annual gross profit was \$32,745. During 2014 that number was \$627,235. The profit nearly doubled each year from 2010 until 2014 (GoPro, 2014).

As of 2015 GoPro is known as the mounting camera because it goes with the user everywhere (Clifford, 2014). The official tagline from the GoPro website is "Be a Hero." The tiny camera goes with the consumer on their "most meaningful adventures (GoPro)." It helps them capture their passions, and allows them to relive the excitement.

The strengths GoPro has to offer are their distinct target market (GoPro) and versatile mounting capabilities (GoPro Store). Their weakest area is price (see Market Research Results). They have an opportunity in a new market segment. GoPro is currently aimed at people who lead active and adventurous lives. However, with their market development strategy they could reach the middle-age sector of the population. With multiple models to fit budget and productivity needs GoPro could be a small, portable camera for family gatherings. Instead of whipping out the disposable camera, Mom could pull out the GoPro and get the whole family in a high-definition quality picture. While disposable cameras are not competing with GoPro, there are several companies trying to take over the growing empire. Japan has created the Bikkurisurukurai Kireini Toreru Bosui video camera, which is similar to GoPro with its mounting abilities, and it is being offered for approximately \$148 USD (Japan Today, 2013). The quality of the camera is 1080p HD, which still does not meet GoPro.

Polaroid recently debuted a new camera model similar to GoPro in size and quality. It can be mounted on nearly any surface, but the options for actual mounts is not as wide as GoPro's (Polaroid). Although Polaroid is expected to come up as a strong competitor, GoPro makes up almost 50% of the action camera market share. Polaroid has the lowest share, trailing behind Sony and ION (Parker, 2015).

GoPro's quality is not untouched by other companies. There are plenty of larger, cinema-style cameras with similar quality capabilities (Full Compass). These cameras are usually more than double the cost of a GoPro. The Canon EOS C300 shoots with impeccable movie-theatre quality. The camera, while fairly compact for a cinema-style, retails for nearly \$16,000 (Full Compass). Most cameras of this quality tend to be bulky and are not mountable without a tripod. Thus, GoPro's sustainable competitive advantage is the combination of their quality, size, mounting ability, and price. This package cannot be found in its entirety anywhere else.

## MARKETING ENVIRONMENT

The three macroenvironmental factors that most heavily impact GoPro are demographics, social, and technology. Demographics come from the target audience (Grewal & Levy, 2014). GoPro's market is specific. They are surfers, skateboarders, and other athletes who want to capture their greatest accomplishments. They are targeting amateur daredevils who do not mind strapping on a camera during their adventures (Wingfield, 2014). These adventurers go out, film with their GoPro, and post the final product on social media. Other adventures and other ordinary people see these posts and get sucked in to the idea of owning a GoPro (Forgie, 2015). The social aspect of the marketing environment has to do with what is happening in the world around the company. What are the latest trends and how are people following them (Grewal & Levy, 2014)? GoPro fits well into the technology centered twenty-first century. With six different camera models, each more powerful than the last, the company is constantly updating and improving what they have to offer (Shop GoPro). The best comparison for their updates is Apple. New iPhones, iPads, and iPods are hitting the shelves every year. GoPro is keeping up by making new generations and versions of their Hero series cameras (Shop GoPro). This leads into the technology factor. Software, aesthetics, and functionality of tech products constantly need updating (Grewal & Levy, 2014). For GoPro this means better quality and customizable functions. The Hero 4 Black is the most recent and most complicated of the six camera models. It records in Ultra HD and allows users to customize the frame rate, color, exposure, white balance, and other features. It also has a *Quikcapture* feature for when users do not have time to waste. This feature uses only one button and allows users to turn on and immediately start recording video. In addition to this feature, GoPro also has *HiLight Tag*. This gives the videographer the opportunity to mark specific pieces of a clip while recording. They become easily accessible while editing in the GoPro software (GoPro Store). These are a few of the features that GoPro has implemented to keep up with technology advances. With each passing year another feature will need to be added in order to keep the models fresh.

## CONSUMER BEHAVIOR

The needs consumers recognize before purchasing a GoPro are generally functional. The consumer needs a camera that can capture their vacation, sport, or other activity. It needs to be portable and mountable. The quality needs to be good enough to capture the details of the event. The search for information can begin online with a search like, "mountable camera." It could also start with the potential customer asking a friend for advice. When a few options are available, it comes time to weigh them. If the consumer is looking for something inexpensive, GoPro will be ruled out almost immediately. If the main focus is quality the potential customer is more likely to lean toward GoPro, because the cost matches up with the benefits of the cameras. The biggest risk involved is financial. With \$300+ on the line, consumers need to think about whether or not a GoPro is the camera for them. The other risk is performance. With reviews on websites like Best Buy, consumers can find out whether or not the camera generally performs well. With an average of 4.7 stars, those potential customers will likely perceive the performance risk as low (Best Buy).

In addition to the functional needs, consumers may need to support their psychological needs. When the name 'GoPro' is listed on a package or item, consumers can immediately recall the phrase, "Be a hero." Consumers are not just purchasing a camera. They are purchasing the opportunity to be an photographer, videographer, and adventurer (GoPro).

GoPro, Inc. can use each of the marketing mix variables to their advantage. While the price is high, they can turn skeptics toward the product itself. The quality has earned it almost five stars on Best Buy (Best Buy) and can be seen in their promotional '*photo a day*' posts on social media. In addition, it is also a product that is easily accessible. It is sold in sporting goods stores (Scheels), electronic stores (Best Buy), and online (GoPro Store).

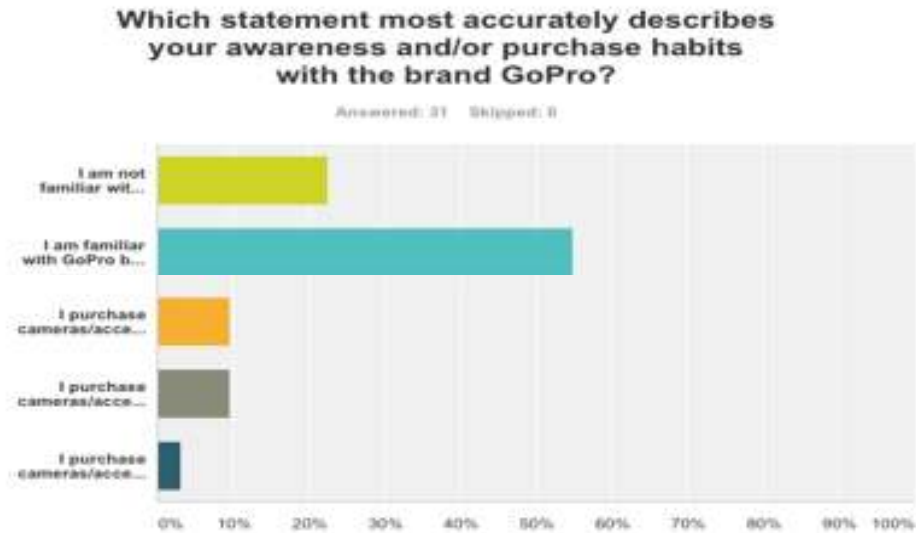
### **TARGET MARKET**

GoPro is targeting amateur videographers and photographers and, more specifically, adventure seekers. Within the adventure seekers category GoPro targets both genders. The age-range falls between 16 and late-twenties with a few outliers on both sides of the spectrum. Many of the consumers are involved in an extreme sport like skateboarding. They may live in or travel to exotic islands or other countries with photo-worthy scenery (@gopro). These are people who love the adrenaline rush of riding a wave or climbing to the peak of a mountain. They choose quality over price and want something they can throw in their bag for a last-minute adventure. Whether they are on the rugged trails or deep-sea diving, they need something that can withstand falls, inclement weather, and other mishaps. While they want a great finished product, they are not overly familiar with editing software and need something they can upload their footage into and quickly cut together the shots from their surfing heats or skateboard runs. For convenience, they want something they can shoot and upload on the spot.

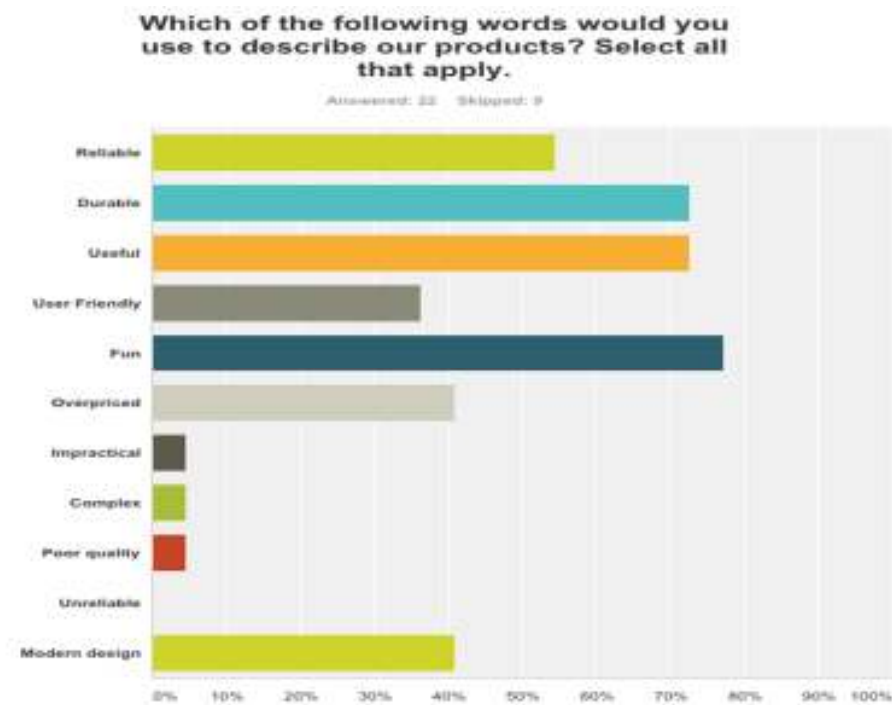
By looking at GoPro's Instagram, Twitter, Facebook, and YouTube it is clear that the target consumers need and want a camera that can show their passion. The proposition from the company to the consumer is 'GoPro captures the moment, no matter what you do.' It is a promise the portable camera can keep, no matter which model is chosen (Shop GoPro).

### **MARKET RESEARCH RESULTS**

The goal of this primary research survey was to develop a deeper understanding of the level of customer awareness, purchase habits, and feedback on GoPro. I completed an online survey from October 6-12 using Survey Monkey. It was posted to my Facebook page and messaged to family and friends. I received a total of 31 responses, and the results are detailed on the proceeding pages.

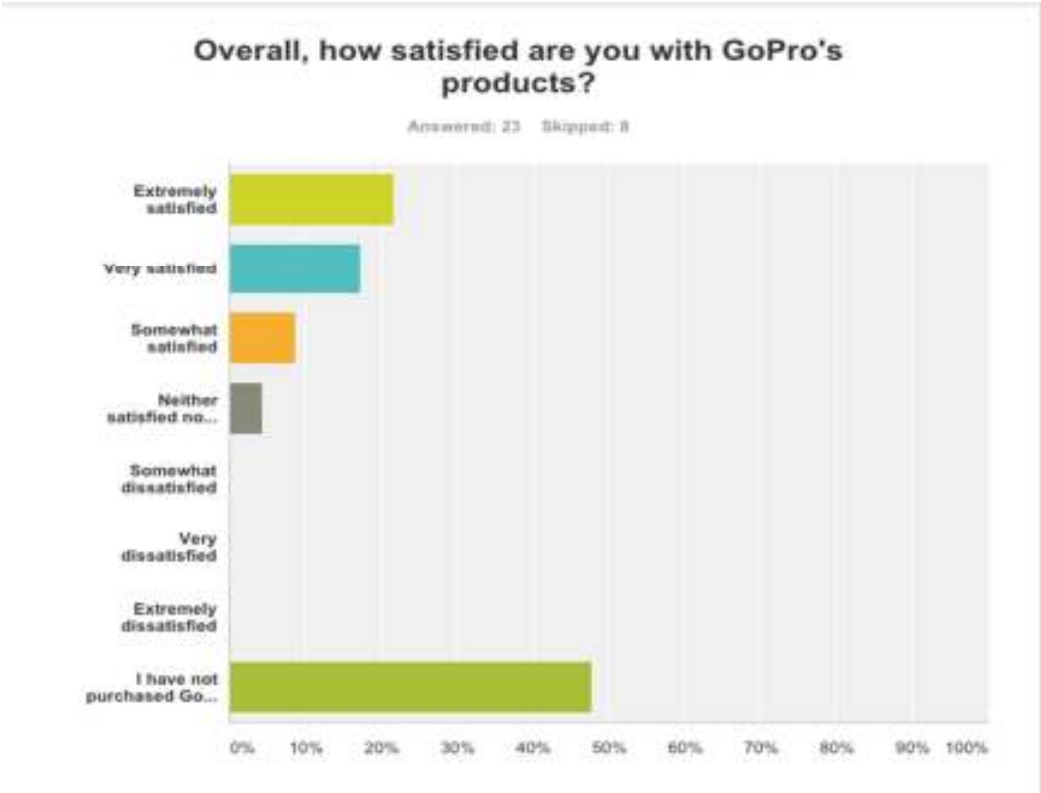


GoPro's brand recognition is 77.43%. The majority of respondents, while aware of GoPro, purchase products infrequently or not at all. Those who have purchased from the company 1-2 times in the past year or two years make up 19.36%. Only 3.23% purchase from the brand frequently.



The most popular word to describe GoPro is 'fun'. Coming in at second place are 'durable' and 'useful'. 'Overpriced' makes up 40.91% along with 'modern design'. Nearly half of the respondents labeled the brand as 'user-friendly', and more than 60% said it was 'reliable'. None of the respondents described GoPro as 'unreliable' while only 4.55% said it

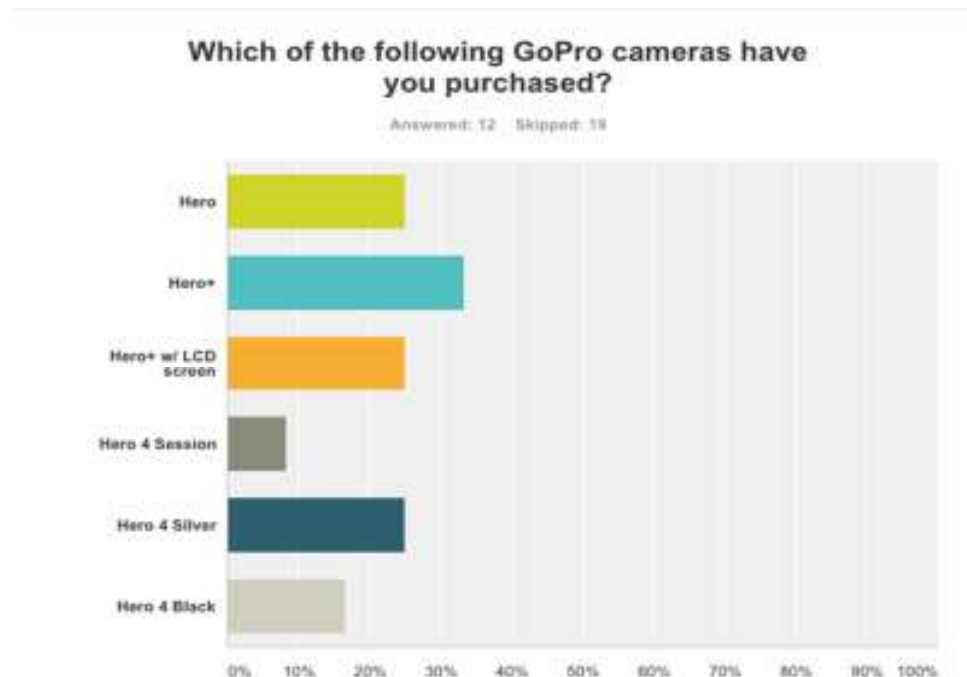
was ‘impractical’, ‘complex’, or of ‘poor quality’. This indicates the value is perceived as high, but for many it does not outweigh the cost.



The majority of respondents (47.83%) have not purchased any GoPro products. Of those who did, most were either extremely or very satisfied. Only one person was on the fence and no one was dissatisfied with the product.

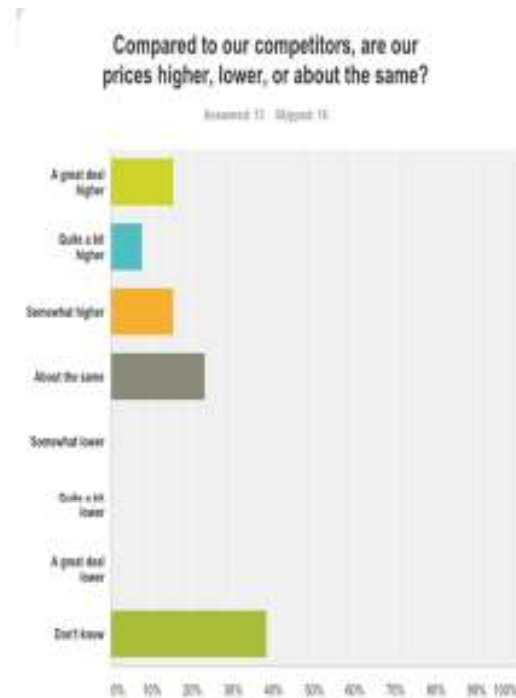


With a net promoter score of fourteen, 43% of survey respondents would recommend the GoPro brand to a friend or colleague. Twenty-nine percent said they may or may not and 29% listed it as unlikely.

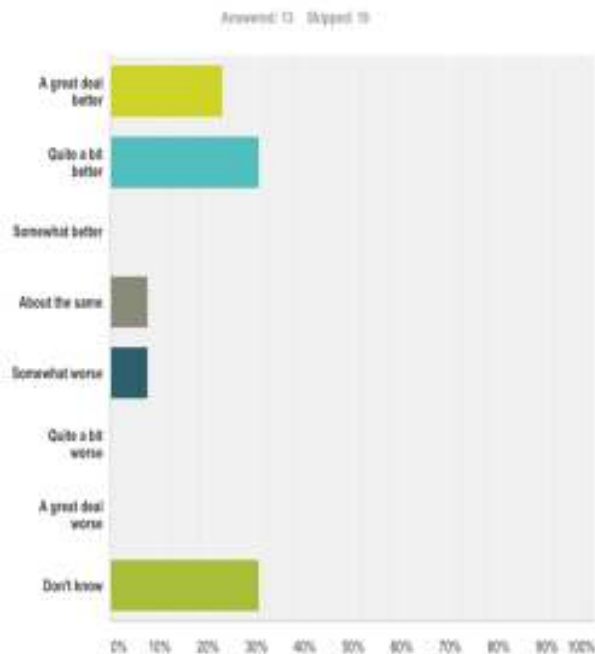


The most common camera was the second-generation, Hero+ model. This is one of the few generations that can be found for less than \$300 and in some cases less than \$200. The quality is not as high as the Hero 4 Black, but it seems that consumers want more of a balance. They are willing to sacrifice a little bit of quality for a less expensive base model.



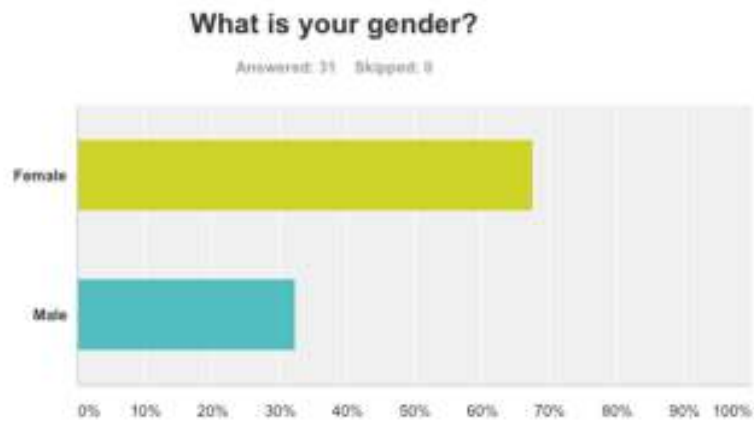
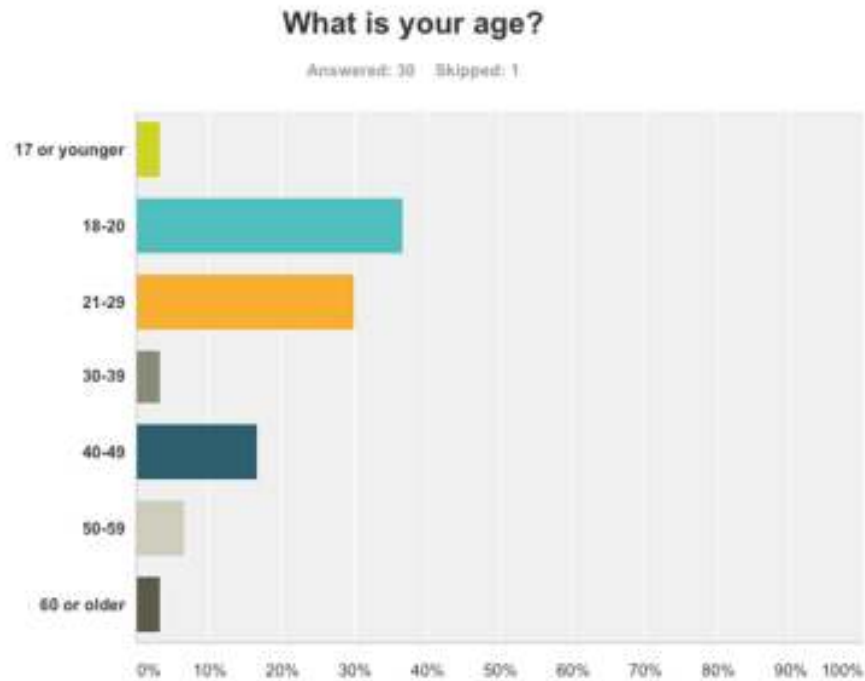


Compared to our competitors, is GoPro quality better, worse, or about the same?



Compared to their competitors (according to the respondents who answered something other than ‘I don’t know’), GoPro’s quality is quite a bit better, but the prices are about the same. One person believes GoPro’s quality is somewhat worse, while three say it is a great deal better. On the price spectrum, 23.08% say it is about the same as the competitors but 15.38%

say it is a great deal higher or somewhat higher. Based on the majority opinion, GoPro has better quality for about the same price as other companies.



Almost 70% of those who took the survey were women, while only 32.26% were men. The majority of those who answered the questions were between the ages of 18 and 29 with the next age-range being 40-49.

## Conclusions from Survey

The brand awareness is fairly high, but the purchase frequency is not. The cost is perceived as 'overpriced' but is rated consistently with competitors. Consumers rated the quality as high and the number one word to describe the brand was fun. Although the purchase frequency was low, consumers were likely to recommend the brand to a friend.

## CONCLUSION

Based on the information presented, GoPro has created significant value for their consumers. They take their products to social media and allow real consumers to market them by taking pictures and videos of their adventures. By seeing the cameras and accessories in action, people can see the quality without reading a spec sheet.

The price of the product is what seems to turn most people away. According to the survey results, most believe the product itself is better with a price about equal to competitors. Even though the survey showed 'overpriced' as a problem area, the annual reports show GoPro's profits at a steady incline. The value created with the strategic competitive advantage should continue to be enough as long as another company does not come up with a camera of lower price and equal quality.

As of now, GoPro has created value and a strong social media presence for its target market of amateur adventurers.

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**MAKING PRODUCTS SCARCE THE RIGHT WAY: THE  
MODERATING EFFECT OF THE SOURCE OF SCARCITY AND  
BRAND IDENTITY ON CONSUMERS' VALUATION**

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**ABSTRACT**

*Companies strategically control the availability of products to create a perception of scarcity to enhance consumers' valuation for their products. This study investigates the underlying mechanism of this relationship by exploring the moderating effect of the source/type of scarcity on perceived value. Specifically, we study how different types of scarcity—i.e., one created by restricting the distribution versus the other by limiting the quantity— differentially affect the relationship between scarcity and perceived value of consumers. Further, we extend our study to investigate how brand identity, i.e., private brands versus popular brands, moderates the aforementioned relationship. We test our hypotheses by using experimental design and discuss our findings along with the managerial implications.*

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**INTRODUCTION**

Companies make their products available to consumers to generate sales. However, in many instances, they strategically control the availability of their products and explicitly communicate this message to consumers (e.g., “supplies are limited”; see Rodriguez 2013). While restricting the availability of products may negatively affect sales, this tactic results in a perception of scarcity, which eventually increases consumers' valuation and willingness to pay for the product. The literature has provided the insights into the direct effect of scarcity on valuation and consumer behavior.

However, it is unclear how this effect may differ when a product is scarce because (1) only a limited quantity is available, versus (2) it is selectively distributed to some specific customers. For instance, prior to launching the iPhone 6 Plus, Apple brought to the attention of consumers that this 5.5-inch version of the iPhone 6 would be available with a limited quantity (Hughes 2014). In another example, the Texas limited edition of the Ford F150 truck is not available to customers at dealerships in Florida or California (Sanchez 2013). This research fills in that gap by investigating the moderating effects of (1) the source/type of scarcity and (2) the type of brand identity on the relationship between scarcity and perceived

valuation. Specifically, we address two research questions: (1) How does the source/type of scarcity affect consumers' perceived value of the product? (2) Does the brand identity, i.e., private versus popular brand, change the overall effect of scarcity on valuation?

First, when consumers compete to purchase a product, they are willing to pay more and the firm can earn higher profits. Therefore, it is not surprising to see firms creating a perception of scarcity to induce such a competition and urgency to buy among buyers (Aggarwal et al. 2011). Research has shown that in-store scarcity in the form of relative stocking depletion significantly affects consumer preferences (van Herpen et al. 2009) and provides the rationale for limiting the quantity. In contrast, when a product is scarce because the firm selectively and officially distributes it to specific locations, the competition between "local" consumers may not exist. Further, the limited distribution negatively affects the public's awareness of the product and the lack of awareness may eventually suppress the psychological effect of scarcity on valuation. This implies that the source/type of scarcity moderates the effect of scarcity on perceived valuation, which is formalized in the first hypothesis of this study.

From another perspective, research has shown that the magnitude of perceived scarcity depends on the brand itself. As a result, the effect of scarcity on valuation also varies, contingent on the specific brand. In other words, we suggest that the identity of a brand, i.e., whether it is a popular brand (e.g., Nike) or a private brand (e.g., Diamond Supply, which manufactures footwear; see <https://www.diamondsupplyco.com>), moderates the effect of scarcity on valuation in our second hypothesis.

We develop two experiments to test these hypotheses. In the first experiment, we use four hypothetical scenarios, wherein the respondents are considering buying a ticket to a concert performed by a famous artist. These four scenarios differ with respect to the locations where the tickets are sold (i.e., online versus at brick-and-mortar stores) and the quantity of tickets that is available to purchase. In the second experiment, we hypothetically ask respondents to purchase a pair of sneakers. Here, there are also four scenarios, which differ with respect to the brand under consideration (i.e., the popular Jordan brand versus the private Hamilton brand) as well as the quantity available for purchase. We administer the survey randomly on the body of students at a metropolitan university. The collected data are then analyzed and the result is discussed in the paper.

The rest of the paper is organized as follows. The following section briefly reviews the related literature and highlights the hypotheses. Next, we describe the methodology and data collection, followed by the sections presenting the result of our statistical analysis and discussing the limitations of this study. The conclusion section wraps up the paper.

## **LITERATURE REVIEW AND HYPOTHESES**

Companies need to make their products available to consumers to generate sales. However, in many instances, they strategically restrict the availability of products and explicitly communicate this message (e.g., "supplies are limited"; see Rodriguez 2013) to consumers. This project explores the rationales for adopting this strategy by addressing two research questions: (1) How does the type of scarcity affect consumers' perceived value of the

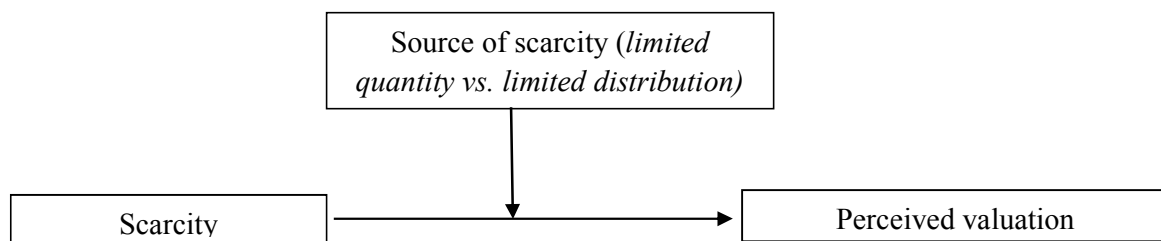
product, and (2) Does brand identity (i.e., private vs. popular brand) change the overall effect of scarcity on valuation?

Specifically, companies limit the availability of their product to create a perception of scarcity, which may eventually increase consumers' motivation to buy. This effect arises since consumers must/want to satisfy their needs (Rodriguez 2013) and the perception of scarcity raises their desire for the product. Lynn (1991) shows that possessing a scarce product creates a feeling of distinctiveness and uniqueness, which eventually enhances the desirability for the scarce product. Further, the literature also shows that scarcity enhances consumers' perceived value for the product (Aggarwal et al. 2011). These insights from the literature are useful for understanding the general effects of scarcity on consumer behavior.

However, it is still unclear how different types of scarcity may affect consumers' perceived value and subsequently, their willingness-to-pay for the product. In practice, companies can create scarcity either by restricting the distribution of the product, (i.e., making it available only at a limited amount of stores/outlets), or by limiting the quantity (e.g., limited editions). Limited distribution also restricts the general public's awareness for the product, and the lack of awareness may eventually suppress the psychological effect of scarcity on valuation as identified by Lynn (1991). In contrast, when the product is available everywhere but only with a limited quantity, consumers' awareness is unaffected, and more importantly, the uniqueness feeling of ownership may be enhanced. Accordingly, I suggest that the type/source of scarcity effectively has a moderating effect on the relationship between scarcity and consumers' valuation for the product as formalized in the following hypothesis and illustrated in Figure 1.

**Hypothesis 1** *Scarcity enhances consumers' perceived value for the product. However, the magnitude of this effect is moderated by how scarcity is created. Specifically, limiting the quantity of products to create scarcity enhances consumer's valuation more than limiting their distribution.*

**Figure 1: The moderating effect of the type/source of scarcity on product valuation**

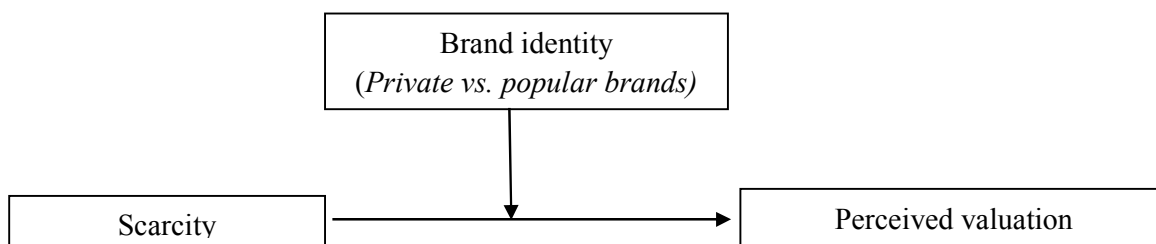


Now, consider the role of brands on the relationship between scarcity and valuation. Research has shown that the effectiveness of scarcity messages depends on how consumers perceive the specific brands. Aggarwal et al. (2011) refers to this as the “brand concept” and explores how a restricted offer affects purchase intention differently for a symbolic brand

versus a functional brand. (The former emphasizes social and hedonic aspects of a product, while the latter focuses on the product's performance.) Their explanation is based on consumers' value for belonging to an exclusive aspirational group (Gierl and Huettl 2010). However, this effect arises differently for popular brands (e.g., Nike) versus private brands (e.g., Diamond Supply; see <https://www.diamondsupplyco.com/>). Specifically, consumers who consider a private brand are more likely to derive a stronger bond with the associated exclusive group than those interested in a popular brand. This suggests that the identity of a brand, (i.e., private vs. popular), may interact with scarcity to affect consumer's perceived value of the product. I formalize this in Hypothesis 2; see also Figure 2.

**Hypothesis 2** *Brand identity moderates the effect of scarcity on consumers' valuation for the product. Specifically, the positive effect of scarcity on consumers' valuation for the product is stronger for private brands than for popular brands.*

**Figure 2: The moderating effect of brand identity on the relationship between scarcity and product valuation.**



## METHODOLOGY

We develop two 2X2 experiments to test these hypotheses. In the first experiment, the two dichotomous independent variables include (1) Scarcity (with versus without scarcity) and (2) Source of scarcity (i.e., quantity-based versus distribution-based). As a result, four different hypothetical scenarios are created, in which the respondents consider buying a ticket to a concert performed by a famous artist. The four scenarios include: (1) tickets available online and in stores without any limit, (2) tickets available online and in stores with an unspecified quantity limit, (3) tickets available online and in stores with a limit of 500, and (4) tickets are available only in a specific store/location. Respondents are randomly assigned to one of the four scenarios. In each scenario, we measure Willingness-To-Pay (denoted WTP) using a five-point Likert scale as a proxy for the perceived valuation for the ticket. The description of these four scenarios, along with the questions, is provided in the appendix.

In the second experiment, we also have four scenarios. Here, the independent variables include (1) Scarcity (with versus without scarcity), and (2) Brand identity (i.e., popular brand versus private brand). We also use WTP as a proxy measure for perceived valuation. As a result, we randomly assign our respondents to one of four scenarios, in which they consider buying a pair of sneakers. The four scenarios are as follows: (1) A popular brand, which is Jordan, is available for purchase at all footwear stores without any quantity limit, (2) A private



brand, Hamilton, is available without any quantity limit, (3) A popular brand, Jordan, is available for purchase but each customer is allowed to buy only one pair, and (4) A private brand, Hamilton, is available for purchase but each customer can buy only one pair. In the appendix, we describe the details of each scenario and the included questions.

Participants in the survey were recruited from the student body at a metropolitan university. Participation was based on a voluntary basis and no incentives were provided. A total of 62 respondents completed and returned the questionnaires. The data were then coded and entered to SPSS for analysis. Table 1 provides a summary of the descriptive statistics of both experiments.

**Table 1: Descriptive Statistics**

<u>Experiment 1: The Moderating Effect of Source of Scarcity</u>					
	N	Minimum	Maximum	Mean	Std. Deviation
Scarcity	124	0	1	.50	.502
Source	124	1	2	1.50	.502
WTP	124	1.00	5.00	2.3952	1.29927
<u>Experiment 2: The Moderating Effect of Brand Identity</u>					
Scarcity	124	0	1	.50	.502
Brand Identity	124	1	2	1.50	.502
WTP	124	1.00	5.00	1.9032	1.06244

## RESULTS

In both experiments, the two independent variables are dichotomous and the dependent variable is measured on an interval five-point Likert scale. Therefore, we use factorial ANOVA in both analyses to test the interaction between the two independent variables. We report the result in Tables 2 and 3.

In both analyses, we did not find statistically significant interaction effects of the focal variables, i.e., between Scarcity and Source of scarcity in the first and between Scarcity and Brand identity in the second experiments. The significant levels are at .838 and .736, respectively. Instead, the entire effect arises under the Intercept. Though this result does not support our hypotheses, we recognize the theoretical rationale behind the proposed relationships. More importantly, a more careful investigation of the experimental design and

the process of data collection reveals interesting findings that we discuss in the following section.

**Table 2: The Moderating Effect of Source Scarcity**

Dependent Variable: WTP

Source	Type III Sum of Squares	df	Mean Square	F	Sig.
Corrected Model	.540 <sup>a</sup>	3	.180	.104	.957
Intercept	711.363	1	711.363	412.192	.000
Scarcity	.395	1	.395	.229	.633
Source	.073	1	.073	.042	.838
Scarcity * Source	.073	1	.073	.042	.838
Error	207.097	120	1.726		
Total	919.000	124			
Corrected Total	207.637	123			

a. R Squared = .003 (Adjusted R Squared = -.022)

**Table 3: The Moderating Effect of Brand Identity**

Dependent Variable: WTP

Source	Type III Sum of Squares	df	Mean Square	F	Sig.
Corrected Model	3.290 <sup>a</sup>	3	1.097	.971	.409
Intercept	449.161	1	449.161	397.639	.000
Scarcity	1.581	1	1.581	1.399	.239
Brand_ID	1.581	1	1.581	1.399	.239
Scarcity * Brand_ID	.129	1	.129	.114	.736
Error	135.548	120	1.130		
Total	588.000	124			
Corrected Total	138.839	123			

a. R Squared = .024 (Adjusted R Squared = -.001)

## **LIMITATIONS AND FUTURE RESEARCH**

First, we revisit the design of the two experiments and the questionnaires in the survey. Recall that the independent variables include Scarcity, Source of scarcity and Brand identity. Their levels vary as a result of the hypothetical scenarios we used in the respective experiment. To ensure that the scenarios effectively vary these independent variables, we would need to include a question for manipulation check. The lack of these questions in the questionnaires used in this study restricts our ability to confirm whether the independent variables indeed vary between scenarios. Though the description of each scenario directly implies whether the product is scarce (or not), the perception of the respondent may differ.

Next, we are concerned about the potential issues related to the hypothetical products, i.e., the concert ticket and sneakers. Specifically, not every respondent has an interest in (or experience with) going to a concert or buying a pair of Jordan sneakers. (For instance, female respondents, who are more likely to be interested in buying heels, may consider sneakers as a unique category.) As a result, they may not have a reliable reference for their willingness-to-pay for these items.

Further, we are aware of the limitations related to our sample and administration of the survey. The respondents are students who participated in this study without any incentives (e.g., no extra credits provided) before the start of a class. This, in conjunction with the potential lack of interest/knowledge in the product categories, may eventually affect the reliability of our data.

Given these limitations, future research is needed to replicate this study. Specifically, different product categories should be considered. The questionnaires should also include questions for manipulation check to ensure reliability of the variables.

## **CONCLUSION**

This study extends the current literature on the effect of scarcity on consumer behavior. It provides the theoretical insights into how (1) scarcity based on limited distribution affects consumers' perceived value of the product differently from quantity-based scarcity, and (2) brand identity interacts with scarcity to affect consumers' valuation. In addition to the theoretical contribution, this research provides important managerial implications for product management. It helps managers fine tune their distribution strategy to enhance the value of their products/brands, which not only raises profitability but also improves the firm's competitiveness in the marketplace.

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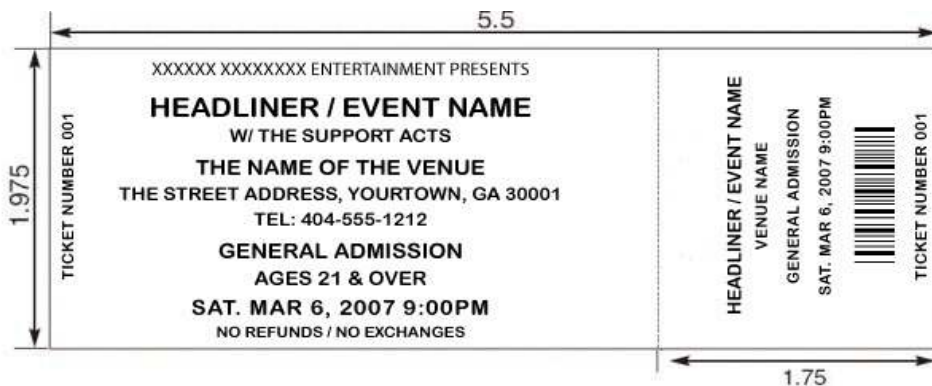
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## APPENDIX 1: THE MODERATING EFFECT OF SOURCE/TYPE OF SCARCITY

- ❖ A famous artist is coming to town and you are interested in going.

### Scenario 1:

Tickets are available online as well as at most retail stores in town without any limit



Q1: How likely will you purchase the tickets?

- ☐ very unlikely      ☐ unlikely      ☐ neither unlikely nor likely      ☐ likely      ☐ very likely

Q2: How much are you willing to pay for the tickets?

- ☐ \$50 or below      ☐ \$51 - \$100      ☐ \$101 - \$150      ☐ \$151 - \$200      ☐ \$201 or above

### Scenario 2:

Tickets are available online as well as at most retail stores in town. However, due to the capacity of the venue, the number of tickets is limited and they can be sold out at any time.

In each of the following scenarios the same image as in Scenario 1 is included.

Q1: How likely will you purchase the tickets?

<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
very unlikely	unlikely	neither unlikely nor likely	likely	very likely

Q2: How much are you willing to pay for the tickets?

<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
\$50 or below	\$51 - \$100	\$101 - \$150	\$151 - \$200	\$201 or above

Scenario 3:

Tickets are available online as well as at most retail stores in town with a limit of 500.

Q1: How likely will you purchase the tickets?

<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
very unlikely	unlikely	neither unlikely nor likely	likely	very likely

Q2: How much are you willing to pay for the tickets?

<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
\$50 or below	\$51 - \$100	\$101 - \$150	\$151 - \$200	\$201 or above

Scenario 4:

Tickets are sold only at the booth in Bricktown (in downtown Oklahoma City).

Q1: How likely will you purchase the tickets?

<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
very unlikely	unlikely	neither unlikely nor likely	likely	very likely

Q2: How much are you willing to pay for the tickets?

<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
\$50 or below	\$51 - \$100	\$101 - \$150	\$151 - \$200	\$201 or above

## **APPENDIX 2: THE MODERATING EFFECT OF BRAND IDENTITY**

❖ You see an advertisement of an exclusive shoe and you are interested in buying them.

Scenario 1:

The shoes are made by the Jordan. They are available at all footwear stores in town without any quantity limit.



Q1: How likely will you purchase the shoes?

☐ very unlikely      ☐ unlikely      ☐ neither unlikely nor likely      ☐ likely      ☐ very likely

Q2: How much are you willing to pay for the shoes?

☐ \$100 or below      ☐ \$101 - \$150      ☐ \$151 - \$200      ☐ \$201 - \$250      ☐ \$250 or above

Scenario 2:

The shoes are made by Hamilton. (Hamilton is a private company *that carries a line of footwear products, which are of good quality and* comparable to well-known brands.) They are available at all footwear stores in town without any quantity limit.



Q1: How likely will you purchase the shoes?

☐ very unlikely      ☐ unlikely      ☐ neither unlikely nor likely      ☐ likely      ☐ very likely

Q2: How much are you willing to pay for the shoes?

☐ \$100 or below      ☐ \$101 - \$150      ☐ \$151 - \$200      ☐ \$201 - \$250      ☐ \$250 or above

Scenario 3:

The shoes are made by Jordan. They are available at all footwear stores in town with a quantity limit of one pair per person.





Q1: How likely will you purchase the shoes?

<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
very unlikely	unlikely	neither unlikely nor likely	likely	very likely

Q2: How much are you willing to pay for the shoes?

<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
\$100 or below	\$101 - \$150	\$151 - \$200	\$201 - \$250	\$250 or above

Scenario 4:

The shoes are made by Hamilton. They are available at all footwear stores in town with a quantity limit of one pair per person.





Q1: How likely will you purchase the shoes?

☐ very unlikely      ☐ unlikely      ☐ neither unlikely nor likely      ☐ likely      ☐ very likely

Q2: How much are you willing to pay for the shoes?

☐ \$100 or below      ☐ \$101 - \$150      ☐ \$151 - \$200      ☐ \$201 - \$250      ☐ \$250 or above