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ABSTRACT

This document presents a report on and description of the Minority Business Consulting Program, a graduate course at the University of Wisconsin Graduate School of Business. The basis of the course is students' gaining the faith of black small businessmen in hopes that the students, with their knowledge of business practices, might help the businessmen in their endeavors. The essence of this course was based on the field work of the student and not his in-class activities. The 6 case studies presented in this volume are intended for the use of future students interested in working on an internship basis in small business, particularly black small business. See also HE 003 799. (HS)

CONSULTING FOR BLACK ENTERPRISE. . . EXPERIENCES DURING THE SECOND YEAR. Volume II.

This 104-page document contains six more elaborate case studies of Black owned and operated small enterprises in Wisconsin. These case studies were compiled by a group of seventeen graduate students in a course dealing with Minority Enterprise as part of the Masters in Business Administration program of the University of Wisconsin. Professor William Strang directed the course and authored this report.

The case studies deal with an aluminum window and door manufacturer, a successful hamburger franchiser, a meat processing plant with a retail outlet, a plastic injection molding manufacturer, a roofing contractor, and a housing rehabilitation and construction contractor. In addition, there is a superb bibliography of 106 items and books relating to newer small Minority Enterprises, Minority Capitalism, and Minority Entrepreneurship. Appendix A is a description and syllabus for a course in Minority Enterprise.

This volume, along with Volume I, is a superb package of items for any institution of higher learning that wishes to improve or begin a course in Minority Enterprise. These volumes not only detail a course of study but also outline how students can "go into the field" and learn first hand the failure and triumphs of Small and Minority Enterprise. The cases are excellent preparatory material for study prior to and during the field experience.

These two volumes are recommended to
---professors establishing a course in Minority Enterprise
---college level students taking such a course
---development officials working in Minority Enterprise
---government officials at all levels
---large and established enterprises attempting to establish a Minority Enterprise relationship.

Title: CONSULTING FOR BLACK ENTERPRISE EXPERIENCES DURING THE SECOND YEAR. (Vol II)
Price: $4.00
Note: If Volumes I and II are ordered together, a total price for the set is only $6.00.
Available from: The Center for Venture Management, 811 East Wisconsin Avenue, Milwaukee, Wisconsin 53202.

CONSULTING FOR BLACK ENTERPRISE . . .

EXPERIENCES DURING THE SECOND YEAR

William A. Strang, Associate Professor
Graduate School of Business Administraticn
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The Center for Venture Management was established and initially endowed in 1968 by Mr. Karl A. Bostrom. He was Chairman of the Board of the Bostrom Corporation until 1967 when the company was acquired by Universal Oil Products Corporation.

The Center was founded in the belief that the dynamics and vitality of free enterprise is sustained by the continual birth of new enterprises and improvement of existing firms by increased sophistication of their management. Because of ever new technology ano the increasing complexity of the economic and social environments, entrepreneurs should be sought out, encouraged and nurtured by new and improved means for transfer and exchange of knowledge and experience. The Center is the first of its kind whose objectives are primarily concerned with entrepreneurs and new enterprise formations. The monumental problems faced by all economies must be met by increasing productive wealth, a large part of which must be contributed by the new entrepreneurs, large and small. The Center will seek to meet these objectives through research and to make new knowledge available as widely as possible.

The Center for Venture Management is a Wisconsin non-profit corporation and registered with the Bureau of Internal Revenue as an exempt organization. It is headquartered in downtown Milwaukee, Wisconsin. The Center director was employed in July, 1968, and The Center opened operations as of that date. A Special Library specializing in the field of new enterprise formation and in studies of the entrepreneur are housed in the same office suite. The Center has no affiliation with any other organization or institution, but will seek to contract or participate with such organizations for these purposes through program development, research, seminars and conferences.

The Center welcomes those interested in research and other objectives related to the role of entrepreneurs in a free enterprise economy.

PREFACE

CONSULTING FOR BLACK ENTERPRISE - VOL. II

We are again pleased to present a report and collection of case studies based on the work of 15 graduate students at the University of Wisconsin 1970-1971 with 6 black independent owner/managers. This effort was directed by Dr. William Strang who has now turned the program over to his colleague, Dr. Don Anderson.

Again as we expected, no miracles were performed, and out of the 16 case studies presented in both volumes, no major black entrepreneur has emerged. On the other hand, all the businesses represented in these volumes have benefited from the incisive questioning and the myriad services of a group of able graduate students in business administration. Furthermore these business owners can look with pride at the immense learning opportunity they presented to these students, many of whom have declared that they will eventually start their own enterprises. Finally, much has been learned about the nature of black capitalism, its successes and failures.

The 6 case studies presented in this volume are intended for the use of following students interested in working on an internship basis in small business or in black small businesses in particular. These cases are in addition to the cases presented in the first volume, although 2 cases in this volume are with the same clients as in volume #I.

We are indeed grateful to the Loewi Foundation for their continuing support and to Mr. Edward Sylvester, President of Cooperative Assistance Foundation in Washington D.C. and his Board of Trustees for their generous support. The Center for Venture Management has been proud to be affiliated with this undertaking and in being able to support this program in various ways.

John L. Komives, Ph.D.,
Director of
THE CENTER FOR VENTURE MANAGEMENT

ACKNOWLEDGMENTS

I express my very great appreciation to the seventeen graduate business students who contributed their time and talent to the counseling of minority businesses during the past year. Their experiences are the basis for this book. I also want to thank the several black businessmen who showed an interest in improving their businesses and had faith in our ability to help them do so. Finally, I want to recognize Dr. John Komives, Director of the Center for Venture Management, whose interested efforts enabled us to obtain funding for the consulting program and whose encouragement spurred us on during our more difficult moments.

The financial sponsors of the program, the Loewi Foundation of Milwaukee and the Cooperative Assistance Foundation, Inc., Washington, D.C., are also to be thanked for their faith in our ability to contribute significantly to minority enterprise in Wisconsin.

William A. Strang

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SECTION 1: BACKGROUND

The Program in Brief

During the 1969-70 academic year, the University of Wisconsin's Graduate School of Business first offered its students a two-semester, six-credit course entitled, "Problems in Small Business Management: The Disadvantaged Entrepreneur." The course was structured with a two-hour class meeting during most weeks. The students were divided into six teams of two or three students, and each team was assigned counseling responsibility for a minority business. The team was to spend from a half day to a full day each week working with its "client business." In addition, each team spent an hour with the course instructor, reporting its activities and discussing its problems. Details regarding the program format may be found in Appendix A.

The objectives of the program-course were to assist minority enterprise in the state, to provide students with an opporutnity to work with a small business in a structured situation, and to give students the chance to respond to their own motivations to tackle an important social problem on a practical level.

The First Year's Experience

During the 1969-70 academic year, the program operated with mixed success.[1] Clearly, the program was exciting and valuable to the students who participated in it. They found it useful as an integrating device to bring together the various pieces of functional knowledge they had gained in the classroom. They also, for the first time, came to understand the needs and motivations of the entrepreneurs with whom they worked.

The impact on the clients was less uniform. Some clients benefited a great deal from the assistance and advice given by students. Some resisted advice and proved unwilling to admit the need for disciplined record keeping, effective planning, and evaluating the likely outcome before taking action. Others made effective use of some student suggestions, but rejected potentially useful advice as well. In only two of the six consulting relationships did things go more or less as hoped.

Plans for the Second Year

Because the students felt the program was definitely successful, there was no question that we would again offer the course during the 1970-71 academic year. The faculty of the School of Business was enthusiastic in its support of the program.

[1]For a detailed discussion and evaluation of the first year of the program see, William A. Strang et al. *Consulting for Black Enterprise: A Challenge to the Business Establishment* (Milwaukee: Center for Venture Management, 1970). Most readers would probably find it desirable to combine the first year's study with this one.

As the professor in charge, it was my responsibility to improve the course so that student consulting problems would be reduced and our effectiveness increased. Many of the problems that had developed the first year had defied solution. We had tried many and varied solutions, but we failed time after time. Both the students and I often became discouraged. After review, I concluded that the clients who had benefited the least from the program were those who were unwilling to admit that they needed help. They were just wasting their time with the team. We had probably recruited them more than they had solicited us.

The major change in the plan for the second year's program was a greater emphasis on extremely careful client selection. A student was hired for the summer months to locate and interview potential clients. Businesses that appeared to have promise were to be interviewed a second time by both the student and myself. If selected, the client would be asked to provide financial statements before the program began. We also considered asking for a nominal consulting fee of ten dollars a month.

Based on the recommendations of the first year's students, the content of the class lecture-discussion sessions was altered. Discussion of the functional problems of small business (promotion, financing, personnel, and others) was virtually eliminated. More entrepreneurs were brought in to relate their case histories to the class and to respond to student questions. Struggling back entrepreneurs were included in this group as well as a number of men who had success stories to relate. Men involved in minority enterprise development were also to be included on the guest list.

Finally, we established some policies that were provided in writing to both students and our clients:

1. Clients were expected to provide complete financial data, such as was available, and any information needed to fully understand the firm's business situation.

2. Students were expected to devote adequate time (half day per week) on a flexible basis, working directly with the business.

3. Clients were free to drop the program at any time.

4. Clients were free to contact the professor in charge at any time.

5. Students were to be objective in their evaluation of the business situation at all times.

6. Students, together with the professor in charge, had the right to discontinue the team/client relationship at any time, if neither party appeared to be benefiting from it. (In the event this happened, contingency plans were built into the program, e.g., spread students around to other teams, take on new client, etc.)

Because a few intra-team problems had developed during the first year, students were allowed to choose teammates as well as clients. Close cooperation among team members was considered vital to successfully work with a client firm.

Other than these changes, the plan for the second year's program was similar to that used during the first year.

Recruiting Students

Because we needed to match up our students and clients in terms of numbers and ability and needs, it was necessary to recruit students during the spring. Knowing in June how many students we would have and their capabilities would allow us to determine the number of firms to recruit during the summer months.

We began to approach students in April regarding the program to begin in the fall. The course was still considered experimental and was not included in the school bulletin, so many students had to be informed of its availability. Tentative outlines were prepared together with student application forms (see Appendix B). The first year's students visited all the graduate seminars to explain the program, and notices were posted on the graduate bulletin boards.

Because of the great enthusiasm of the first-year students, I expected to be swamped with applications for the second year. To my disappointment, this did not happen. I needed approximately twelve to sixteen students and had hoped to be able to choose from forty or fifty. Only twenty students applied. Fortunately, the quality of the applicants was high, and it was possible to choose fourteen who appeared to have the potential ability and personality to do a good job.

Finding Clients

To avoid overselling ourselves to the black business community, we had purposely avoided publicity about the program. As a result, most black businessmen in the area did not know of the program's existence, and we could not expect to have businesses approach us regarding their participation. So a black student was hired to go out into the community to locate potential clients and inform them about the program. Those interested were then considered for participation.

From a master list of about two hundred black-owned businesses, we were appalled to discover that we could narrow the prospective participants down to approximately twenty by eliminating those without the potential for significant growth. We were not, for instance, really interested in barber shops or bars. We hoped to find some manufacturers and some construction companies. Retailers and service companies with significant potential were also desirable from our viewpoint.

My student assistant began visiting the twenty-odd companies with significant growth potential that we had identified. He further narrowed the list down to about nine companies. After follow-up interviews, we were pleased with the six companies that were selected: an aluminum products manufacturer and a fast-food franchiser carried over from the first year's program, a general contractor, a roofing contractor, a meat wholesaler, and a plastics manufacturer. All the businesses appeared to have a sincere interest in getting counseling help, and all had the potential for growth. All were asked to provide fin ncial statements to us before September, and those whose rec s possible agreed. However, only one firm actually followed t on this request.

Getting the Money

This course-program was not funded through the school's budget. We had to obtain funds — primarily to pay student travel expenses — to support the program from outside the University.

Our sponsor of the previous year generously agreed to provide fifty percent of the support needed, despite the fact that the unfavorable stock market of the previous year had severely reduced the foundation's income. We began looking elsewhere for the additional twenty-five hundred dollars needed, not expecting to encounter much difficulty.

To my surprise, we were turned down by each foundation or business we approached. The sum involved seemed to me to be very reasonable relative to the service that would be provided. This was possible because the students worked for credits instead of money, being reimbursed only for their expenses. By September, we still had not located funding. The program began, drawing against the initial amount provided by the Loewi Foundation. October passed — then November and December. Our funds were rapidly becoming exhausted and the balance needed was nowhere in sight. Then, in late January, Dr. John Komives, director of the Center for Venture Management, made a contact in New York that showed promise. Within a month, the balance of the funding had been obtained from the Cooperative Assistance Foundation of Washington, D. C. The money was received at a point where we owed the students several hundred dollars for their expenses.

The main reason for including a brief account of our funding difficulties in this book is to point out that funds do not seem to be easy to obtain for a program such as ours. Perhaps our request was too small; perhaps potential sponsors did not feel a University and its students could effectively help minority business. Or perhaps the interest in minority enterprise development among members of the business community is not very sincere. In any event, we had difficulties and some anxious moments during the search for funds. In the end, the money needed was provided, thanks to the efforts of Dr. Komives.

SECTION 2: EXPERIENCES

The reader has at this point been presented with a brief description of the background of our 1970-71 course program. This section deals with our experiences during the year and attempts to evaluate these experiences in a straightforward manner.

The Classroom Experience

A description of our classroom activities is presented here for the benefit of educators who may desire to establish similar programs in their schools. In addition, it is useful to all readers to understand the structure behind the students as they worked with their minority business clients.

Our first class meeting was devoted to organization and orientation. The most important piece of business was assigning students to teams. Each client business was described to the class and the students were given the opportunity to indicate their first, second, and third choices. In addition, the students were allowed to indicate the names of the student or students with whom they would like to work. In a very short time, I was able to make team assignments that considered these factors plus the need for a black student and at least one strong leader on each team. To my surprise, the assignments went very well, with all students getting their first or second client choices and almost all being teamed up with the fellow students they had chosen.

During the previous year, students had not ventured into the field until they had spent four weeks in intensive classroom study. Course evaluations from those students suggested that the field experience begin more promptly to allow extra time for building client rapport. As a result, the current year's students made first contact with their clients during the second week of class. By that time I had written each client a short letter telling him something about the students who had been assigned to his business.

In the classroom, the first semester was devoted to a procession of outside speakers. The speakers and their topics are detailed in Appendix A. Among the speakers were a management consultant and several entrepreneurs of varied experience. The presentation by the management consultant was especially interesting. He outlined some of the responsibilities of a management consultant and then indicated that he had misgivings about the ability of inexperienced graduate students to help small business. In fact, he seemed very concerned that we might harm the businesses by giving bad advice. The students reacted strongly to these suggestions. They pointed out that they clearly recognized that an experienced consultant had the potential to be of greater assistance. But, they asked, "How many black businesses have the members of your association helped?" "How many hours a week are you prepared to devote to the problems of small black businesses without being paid for your time?" "Are you willing to sit down with a new minority businessman and explain the use of a cash register to him?"

In addition, the students felt that they did have the ability, as well as the desire, to help. When unsure of problem solutions, they were very willing to consult with the course instructor, other faculty, and members of the business community.

A few weeks later, the consultant called and asked if he could bring some other consultants to visit with the class. He was interested in offering help and getting suggestions as to what his consulting association could do to assist minority enterprise development. An evening meeting was arranged. The first hour of the meeting evolved into a sensitivity session for the consultants. The students accused them of not being concerned and failing to understand the problems involved. Then the meeting began to take on more constructive tones. The students discovered that the consultants were willing to assist them. While not willing to devote a half day each week to a black business, the consultants seemed eager to provide advice to the students about client problems if the pertinent information could be first put together. They felt that in a one or two-hour session they would be able to provide the direction the students would need. The meeting broke up with the students making appointments with individual consultants.

During the year, several students did go to the consultants for assistance in resolving client problems. The encounter between students and professionals turned out to be highly productive from the viewpoints of both parties.

The sessions with the entrepreneurs went very well at first. The experienced, successful entrepreneurs interested the students greatly. The students seemed to value hearing from businessmen "who had been through it."

The new black entrepreneurs who visited the class presented a picture of the difficulties they had faced and were facing. Perhaps the most significant result of these latter talks was the revelation that the black businessmen were uninformed about so many basic techniques for conducting a business. I was struck by the bitterness that one of the black entrepreneurs displayed: had he understood business, he would have realized that he had not been treated as badly as he thought.

Entrepreneurs brought into the classroom during the latter part of the semester and during the second semester were less well received by the students, who sometimes felt that the discussions were redundant. This was very disappointing to me, because I felt that there was something to be learned from each speaker. Although some speakers were better than others, all potentially offered different insights into successful entrepreneurship. One explanation for the students' failure to probe into the speakers' thinking was the fact that they had by this time become deeply involved in the problems of their client businesses and, thus, had begun to think in narrow terms. I recommend that other professors setting up similar programs try to schedule these speakers early in the year.

During the second semester, we listened to two representatives from the financing industry. One was in charge of a fairly large minority loan program in a bank; the other was the director of a small Minority Enterprise Small Business Investment Company (MESBIC). Both sessions were productive, although they would have been more useful had they come earlier in the year. A session with an SBA representative would have been useful, but the ratings of the speaker who had come the previous year were so low that I decided not to extend an invitation. This may have been a mistake as we had several dealings with the SBA during the course of the year, none of which gave us much satisfaction.

The Team Meetings

Each student team was required to meet with me each week for an hour. During this period, we discussed what had gone on during the previous week, how the team might approach various problems, and what the students planned to do during the next week. These sessions allowed me some measure of control over the students' activities as well as providing the opportunity to contribute to the solution of problems.

As during the first year of the program, the teams' situations varied a great deal from week to week. At times, the consulting relationship would seem to be going well and the business would be accomplishing a great deal. But shortly thereafter, the same team would be frustrated by the discovery that the client had concealed something or because the business had encountered some disappointment. The ability of the students to bounce back from their disappointments and attack problems with continued vigor was striking. They showed a patience and understanding that probably would not have been present among a more professional group of counselors. In many ways, the students were far more sophisticated than more mature businessmen. They seemed to have an empathy for their minority clients that successful businessmen might not have had; they also had enough humility to avoid making their clients feel inadequate.

The Field Experience

Both students and clients viewed the consulting relationship as the basis for most of the accomplishments in the course. The highlights of these experiences follow. The names of the clients have been changed and dollar figures have been altered to protect the privacy of the clients.

AMITY ALUMINUM PRODUCTS, INC.

Amity Aluminum is a small manufacturer of aluminum screen and glass windows and doors. It also does some repair work and acts as a wholesale distributor of awnings and aluminum siding. We had worked with Amity during the previous year and felt that a second year of counseling would be useful to the company. Because the consulting relationship had been amicable and productive during the first year, we anticipated no difficulties during the second year.

Company sales in 1969 had been only thirty-two thousand dollars. The first-year team had helped to organize an effective marketing program that resulted in a strong sales increase to almost eighty thousand dollars in 1970. The company, however, still showed a small loss in 1970. This was somewhat misleading as the president, James Wright, had paid himself a salary of about twelve thousand dollars during the year, more than we felt was legitimate given the company's stage of growth and capital needs.

When the student team first arrived, it discovered a conflict among the firm's investors. Mr. Wright, a co-owner and principal operating officer, felt that the firm needed capital. The other two co-owners, who were not immediately involved in the business operations, were anxious to begin earning a return on their investment and were unwilling to invest more. As a result, Amity was short of capital, a situation which forced the company to buy its supplies in small quantities and prevented cash discounts. Periodically, the company was required to obtain short-term loans from the bank.

A second problem was the allocation of Mr. Wright's time. As is true in many, if not most, small businesses one man, Mr. Wright, was responsible for all facets of the firm's activities. Because he often found it difficult to delegate authority, he spent most of his time **doing** and relatively little time **managing.** An example of this was the great amount of time that he spent installing his products. The student team strongly recommended that he hire an installer to free himself for supervising activities in the shop and for selling. Mr. Wright did this and the situation improved noticeably.

Amity was fortunate in having an outstanding secretary-bookkeeper, Miss Joyce Allen. Miss Allen was keeping the records, but she was encountering some difficulty. The students looked at the system she was using and saw several ways to improve it. These changes were made, and records were not a problem at any time during the remainder of the year.

The students noted that the marketing compaign instituted by the previous team was not really being applied. Mr. Wright had failed to follow through on several potentially valuable sales ideas. The team helped Mr. Wright to renew his sales efforts.

While concern during the previous year had centered around sales, it became apparent that the sales increase that had been achieved had not brought a profit to the company. Mr. Wright had no clear idea of the profitability of the various products in his line. The team attempted to convince Mr. Wright of the need for some careful financial planning. Sales estimates were made for each product, and product cost estimates were obtained. Analysis of the latter showed great variability in the profitability of the different products. Some prices were changed (where competitors'

prices allowed). A pro-forma profit and loss statement was prepared. Unfortunately, the students provided the main impetus for this planning effort, and Mr. Wright never really became convinced of its worth.

Mr. Wright wanted to obtain a loan to ease his chronic working capital shortage. With some apprehension the students agreed, if Mr. Wright would reduce his salary to a more reasonable level. Key to the salary reduction was agreement by the partners that Mr. Wright would be compensated with additional stock in the company. Unfortunately, the partners did not agree to this, and it was eventually decided to continue to struggle with the shortage of working capital. Mr. Wright was encouraged to collect on delivery whenever possible to keep accounts receivable at a minimum.

The product cost estimates had revealed another serious company problem; the productivity of Amity's production workers was much lower than it should have been. The workers were being paid relatively low wages; these were increased. Mr. Wright talked to them about the need for increased productivity, established some informal standards, and reorganized their responsibilities. Unfortunately, he did not follow this up with close supervision. Because he had some difficulty communicating effectively with the workers, relations between management and labor deteriorated seriously. An additional problem was the fact that two of his three fulltime workers were related to him. And, in the summer, two sons of one of the owners were to be hired. The student team was quite upset about this, believing that in the end it was the low productivity of the work force that was preventing Amity from showing a profit. The team felt that it would be advantageous if the company hired workers unrelated to the owners and held them to established standards of output.

The success of the consulting relationship with Amity Aluminum during the second year was mixed. Amity was fortunate in obtaining student consultants of unusual ability. Many suggestions were made, and several were adopted. However, the most important advice was most often not followed. As a result, the student team left the firm in the spring concerned that the changes needed to make Amity's operations financially successful were not going to be made. This was especially disappointing because the firm clearly had the potential to grow and prosper under effective management leadership. Mr. Wright was working extremely hard, but without the effectiveness of which he was capable.

MR. R'S HAMBURGERS

Mr. R's Hamburgers is a subfranchising fast-food chain associated with a national chain. Mr. R's objective is to establish minority-owned franchise units in inner city areas in the Midwest. His plans also include the possibility of units in smaller cities with substantial minority populations. During the first year of operation, Mr. R's planned to open five to ten units in the next three to five years.

A student consulting team had spent the previous year with Mr. R's with mixed success. We agreed to provide a student team for a second year because the owner was eager to have one. This business had the potential for truly significant growth and we felt an obligation to contribute to that growth.

Bill Roberts, the president of Mr. R's, was involved in several businesses, including a family billiards parlor, a newspaper, and a restaurant, as well as the subfranchising chain. He is a personable, ambitious, and capable young man. His work experience was with the YMCA, and his college background was in liberal arts.

When the new student team first contacted Mr. Roberts, their assignment was not clear. The students were willing to serve Mr. Roberts in any area of his "mini-conglomerate." They discovered that the plans for expansion of Mr. R's operations were not developing as expected; no additional units were planned in the near future. However, Mr. Roberts had just recently opened a new restaurant, called Josie's. Although this was a drive in restaurant, it differed from Mr. R's in offering a fairly extensive menu. One of the team's first assignments was to conduct some market research regarding the menu.

The students conducted a survey of households in the area around Josie's to select items for the menu. Mr. Roberts, recognizing that Mr. R's was depending primarily on teenage customers, wanted to present a menu that would attract a different market segment. He was particularly interested in the twenty to forty-five-year-old market segment.

The survey proved to be useful. Several items currently on the menu were found to be of little interest, while others not on the menu were found to be highly desired. Price information was obtained, and prices of some items were changed. This project, which consumed considerable student time, proved valuable to both the students and Mr. Roberts. The students were particularly pleased to find that their recommendations were accepted.

Aside from some minor promotional suggestions, the students went into a period of relative inactivity. Mr. Roberts did not seem to have any important projects to assign and he neglected the team. After a period of growing dissatisfaction, the students decided to confront their client. The day of the planned confrontation, Mr. Roberts gave the team a new assignment before any complaint had been registered. Mr. Roberts had developed a connection in Africa, and he wanted to investigate the possibility of opening up a chain of fast-food outlets in one African country. The students were asked to investigate.

Using the resources of the University, the students were able to bring together considerable economic information about the country involved. They also obtained material related to the problems of beginning operations

in a foreign country and data related to the intricacies of financing such operations. The report was well received by Mr. Roberts, who was a novice in the world of international business.

Unfortunately, the students once again fell into a period of relative inactivity. They finally decided that Mr. Roberts did not really need their services. He was capable, well-financed, and able to resolve the kinds of problems that a student team could handle. On the other hand, his operations were getting to be larger and more involved. Mr. Roberts had a tendency to retain all authority for himself, hesitating to let go of the operating aspects of his various companies. As a result, he wasn't accomplishing the growth that he should have. He was preoccupied with day-to-day operating problems. When the students pointed out his need for good managers to run the operations of his various companies, Mr. Roberts agreed, but failed to do anything about it. The students were concerned that Mr. Roberts continue to receive some counseling advice, particularly at the level of general business strategy.

As their final project, the team contacted several members of the city's business establishment to find an advisor for Mr. Roberts' operations. The first several contacts bore no fruit; the interest was not there. But finally, contact with a semi-retired banking executive brought forth a well-qualified volunteer.

When the student team left Mr. R's in the spring, it felt confident that Mr. Roberts would continue to receive counseling help when he needed it. Although disappointed that they hadn't been asked to do more, the students did recognize that they had made some important contributions to the firm's operations. Of greater satisfaction was the realization that they had learned a great deal from Mr. Roberts himself, whose entrepreneurial spirit and management style had built business operations grossing close to a million dollars annually.

JOHNSON'S MEATS

Johnson's Meats is a wholesale-retail meat business begun in July, 1970. Ralph Johnson, 42, had seventeen years of experience cutting meat in a packing house. He wanted to go into business so he went to the Urban League for help. The Urban League helped him prepare a loan proposal for the business. A local bank provided thirty thousand dollars based on the proposal. The capital was primarily used to buy a building and equipment together with stock. The financial objectives established in the original business plan were sales of $150,000 and an annual net profit of fourteen thousand dollars.

The business had begun on the basis that it would do ninety percent of its volume at wholesale, supplying small grocery stores unable to meet the minimum order requirements of the local packing companies. A meat counter was installed in the building in the expectation of attracting some

retail trade. Mr. Johnson and the former owner of the business, Vince Pankrit, were the only fulltime employees of the firm. Mr. Pankrit worked six hours a day, Monday through Friday, and four hours on Saturday. The business was open seven days a week. Some part-time help was obtained from Mr. Johnson's teenage son, who worked when he could.

When the students arrived in September, the business had been operating for two months. Mr. Johnson welcomed the team, recognizing that he had absolutely no previous business experience and that he would need help. He knew that things were not going very well. His first month's financial statements had revealed a one thousand dollar loss, and he had not been able to keep his records up to a point where additional statements could be prepared. The students immediately recognized that they would have to begin with very basic business instruction. Mr. Johnson did not even know how to use his cash register properly; also, his business checkbook was incomplete and out of balance.

For the first few months, the students worked with Mr. Johnson, explaining the essentials of his recordkeeping needs. They established a good working relationship with the CPA the firm had hired to ensure that adequate data was provided monthly. They convinced Mr. Johnson to make daily bank deposits and to tally up his cash register receipts at the end of each day. Progress was slow, despite Mr. Johnson's willingness to learn. He had enrolled in a basic bookkeeping course at the local vocational school but soon had to drop out because he didn't have the time to keep up. On visit after visit the students discovered that something had gone wrong with the recordkeeping. But they were patient and by the end of the semester progress was being made. The checkbook was normally up-to-date and balanced. Monthly financial statements were being prepared.

To the students' disappointment, the financial reports showed regular losses varying from seven hundred dollars to fifteen hundred dollars monthly. Feeling that the firm's fixed expenses were minimal, they decided that two alternatives existed — increase sales and/or increase the average gross margin achieved.

An investigation of Mr. Johnson's buying revealed that he was paying high prices for some of his items. Most important was the three to six cents extra that he was paying for chicken, one of his fastest moving items. However, because of a prior association with his chicken supplier, Mr. Johnson was not willing to buy elsewhere at a lower price.

An evaluation of the potential for increasing sales was also disappointing. Although predicated on a ninety percent wholesale volume, it was clear that the business could not sell at prices that would attract many wholesale buyers. In fact, the local meatpackers had recently lowered the size of the minimum orders and several of Mr. Johnson's wholesale customers had begun to buy directly from the packers. The best strategy seemed to be to

stimulate retail sales, which had a much higher gross margin. Retail sales had been showing a steady increase, despite the fact that there had been no real promotion to retail customers.

Because cash was low, the students encouraged Mr. Johnson to ask the bank for a short-term loan of five hundred dollars to finance a retail sales campaign. At first it seemed that the bank would provide the loan, but the loan committee rather arbitrarily turned down the loan. Mr. Johnson decided to go ahead with the promotion regardless.

The students developed a marketing plan for the month of April that would include newspaper advertising, flyers to be distributed in the neighborhood, and a sound truck to advertise various specials, such as a free pound of bacon with any purchase of five dollars or more. The gross margin on a five-dollar sale was approximately one dollar and the bacon cost Mr. Johnson approximately thirty-five cents per pound. The purpose was to attract new customers into the store with the hope of developing them into regular customers.

The students used the company truck with some sound equipment purchased by Mr. Johnson for eighty-five dollars and began street promotions on certain key days. After a month of great effort on the part of the students, the sales results were tallied. Sales had increased only marginally from the previous month, although retail sales had increased while wholesale sales dropped off to almost nothing. A five hundred and forty dollars profit was shown.

The success or failure of the campaign was difficult to determine. Sales were moderately influenced, but not enough to offset the costs of the campaign. The newspaper advertising appeared to have been expensive with virtually no results (no coupons from the paper were brought in to the store). On the other hand, Mr. Johnson had definitely concluded that the flyers and street promotions had brought in many new customers.

During May, retail sales continued to increase, although the promotion campaign basically ended (except the distribution of flyers). It seemed that the campaign had helped. The volume of sales in May reached the level which the students estimated was necessary to earn a reasonable profit in the business.

As a final project, the students arranged for the American Society for Training and Development (ASTD) to counsel Mr. Johnson. ASTD offered four of its members to help Mr. Johnson continue to improve his operation and to give him the opportunity to add to his steadily growing business knowledge.

This particular student-client consulting relationship developed almost exactly along the lines visualized at the beginning of the course. The students built a close relationship with their client; they uncovered significant problems and very logically and patiently attacked them. It was clear

that Mr. Johnson benefited from the students' advice and that the students learned and got satisfaction from the experience.

CITIZEN'S CONTRACTING SERVICES

Citizen's Contracting Services (CCS) was incorporated in April, 1968. The initial capitalization of twenty-two thousand dollars was wholly contributed by four black investors who believed that their city needed a general contracting firm owned and operated by blacks. One of the investors, Charles Evans, was the principal operating officer of the company, while the other investors served on the firm's board of directors.

When the students arrived in September, the firm had been in operation for two years. It was working on the completion of a $145,000 apartment construction job. Small, relatively simple problems had matured into complicated and serious situations. Accounting statements had not been available during the initial summer evaluation of the company. When these statements were produced, it was dismaying to discover that the firm had sustained a forty thousand dollar loss the previous year on sales of $375,000. This was in addition to a first year loss of nine thousand dollars. These losses had completely used up the firm's initial capital and left a large and long list of trade creditors. In addition, the government was owed payroll taxes. At this point, CCS had hired an accounting firm to bring its inadequate records up-to-date.

The students felt that correcting the negative working capital situation was the most urgent problem, and Mr. Evans agreed. They prepared a detailed prospectus outlining the financial situation of the firm and explaining how this situation had developed. They made no effort to hide the fact that the firm had been poorly managed initially, but were careful to point out that counseling help was now being provided by the accounting firm, which specialized in the construction industry, by an experienced contractor with a local firm, and by the student team. Some management changes had been made and others were contemplated such as the institution of a cost control system that would keep job costs current for Mr. Evans' evaluation.

The completed prospectus was taken to several potential sources of financing. The most hopeful sources appeared to be a nearby Minority Enterprice Small Business Investment Company (MESBIC) and a local bank working with an SBA loan guarantee. A loan of eighty-five thousand dollars was sought. The major hurdle appeared to be getting the SBA to agree to guarantee the loan, but after considerable negotiation this seemed to have been accomplished. Then, at a crucial bank loan committee meeting, the loan was turned down despite the SBA offer to guarantee it. The loan refusal was based primarily on Mr. Evans' failure to deal honestly with the bank (he had tried to hide some operating failures of the company and a few facts about his background). The bank believed that the hidden facts alone would not have resulted in the loan turndown, but it was

concerned about making such a large loan to a borrower who would not deal in a straightforward manner. The students were also upset at this point because the same information that had been withheld from the bank had been kept from them. After several months of prospectus development and negotiation with various financing agencies, it seemed that financing was to be found and then lost at the last minute.

During the period that financing was being sought, the students had also worked on other projects. They had been helping recruit a fulltime secretary-bookkeeper and an assistant manager. The latter was not hired because the loan was needed to add him to the staff. With the accountant, the team had been helping to straighten out the company's records, which were in an almost hopeless state. The students had also been trying to determine Mr. Evans' specific operating weaknesses and had been recruiting counseling help from persons in the construction industry so that new work could be accomplished on a profitable basis.

After the loan refusal and the revelation that CCS had been taken off its large apartment project, it became clear that two items had priority: holding off creditors and obtaining new work.

The students began working with the accounts payable, bringing them up-to-date. More than a hundred phone calls were made to creditors in the process. With the assistance of the students, Mr. Evans then wrote letters to each creditor explaining the situation and asking for patience. It was clear that none of the creditors would collect anything if the firm were forced into bankruptcy, because the government's claim was greater than the assets of the company.

Although the bank had turned down the loan application, it was still possible to obtain financing on a job-by-job basis. The bank was willing to consider this because two men in city economic development programs had offered to provide counseling. Both men had excellent backgrounds in the construction industry. It was agreed by all that new work should be relatively simple and should be in the fifty thousand to one hundred thousand dollar range. Mr. Evans reluctantly agreed.

As their last major project in the spring, the students called on several potential inner city customers and made a sales pitch. In addition, they prepared a promotional brochure and arranged to have it finalized and printed without charge by a large public relations firm.

At the conclusion of the year, the student team left CCS feeling that it had failed more than it had succeeded. The firm's desperate financial situation was unchanged and the spring had been relatively inactive for the company (an eight-thousand dollar contract was signed just as the students were leaving the company). Most discouraging was the fact that Mr. Evans had not dealt straightforwardly with them, thus causing them to be embarrassed at times outside the company and certainly making it difficult for them to be effective in their work.

CREATIVE PLASTICS, INC.

Creative Plastics is a manufacturer capable of manufacturing injection-molded and vacuum-formed plastic products. The company began operations early in 1970, intending to specialize in point-of-purchase display materials.

Joseph Franklin, owner and president of the company, had twelve years experience as an industrial designer prior to beginning his own business. The company was started with some donated machinery and a ten thousand dollar bank loan that was provided on the basis of a twenty thousand dollar contract offered by a local manufacturer. Unfortunately, just after the firm was started, the local manufacturer withdrew his contract offer because of an economic downturn.

Mr. Franklin began looking for other business, but orders came slowly. When the student team arrived in September, he was very receptive to their help. He perceived getting orders as his major problem. The students also quickly realized that obtaining sales was the most critical deficiency of the business, although other problems did exist. The most significant of these were poor records and the lack of capital. The original bank loan had been consumed, and Mr. Franklin was able to keep the business going only with a series of small increases in his loan.

An accountant, Vance Phillips, was contacted and brought into the business on a voluntary basis. Over a two month period Mr. Phillips brought the business records up-to-date and installed a bookkeeping system. Mr. Phillips and his employer provided the many hours of work required without charge to Creative Plastics.

Early in the semester, the students went to the bank with Mr. Franklin to investigate the possibility of obtaining a major increase in the loan outstanding. They had discovered that reasonable starting capital for a business of this kind would have been approximately thirty thousand dollars. The bank, although sympathetic to the thought that the business might have been started with inadequate capital, did not want to provide a major loan increase at the time. The bank's primary concern was the inability of Creative Plastics to develop orders. Mr. Franklin, on the other hand, pointed out that he needed money to travel to Detroit, Indianapolis, and Minneapolis to develop the business contacts that would result in orders. The bank agreed to continue to provide funds on a limited basis under strict supervision. It was clear that funds to finance signed contracts would not be difficult to obtain.

Mr. Franklin had obtained a small contract with American Motors to supply some automobile parts. Noting this, the students recommended that he contact several large and medium-sized manufacturers, emphasizing his potential for supplying production parts. Several sales contacts were made by mail, by telephone, at business fairs, and with personal sales calls. It seemed that business would improve as the number of bidding

opportunities increased markedly. However, orders continued to develop slowly. Some bids that Creative Plastics submitted were very high, resulting from the relatively small production capacity of the plant and from Mr. Franklin's biddi. , inexperience. Other bids that were low related to work that was not needed until mid-1971. By the end of 1970, the firm had generated only seventeen thousand dollars of work, earning a gross profit of six thousand dollars, giving the firm a net loss of eight thousand dollars for the year.

A sales forecast prepared for 1971 estimated sales of twelve thousand dollars for the first quarter, but only four thousand dollars of sales were actually achieved. By the end of April, sales for the year were only $7,800, far below the level needed to break even Two reasonably profitable contracts were signed for May and June production.

The students were disappointed at Mr. Franklin's reluctance or lack of interest in following through on potential sales contacts. At one point, he was invited to bid on an American Motors job that would have meant several thousand dollars of business. He did not reply to the bid invitation until a month had passed, despite continued pressure from the students. It became apparent that Mr. Franklin's interests were more attuned to the point-of-purchase market, which provided him an opportunity to use his design skills. The students pointed out that the firm was in desperate financial circumstances and that any business should be welcomed at this point. When things began to improve financially, Mr. Franklin would be able to shift his production to the area that gave him the most satisfaction. The current question was survival.

Earlier, Mr. Franklin had developed a proprietary item, an Afro comb, with an embossed logo, "Black and Proud." Dies had been made for the comb and the firm was capable of producing it. Arrangements had been made for packaging. The problem was selling it. Contacts were made with several potential distributors without success. The students, learning of the comb project toward the end of the year, became involved in developing a marketing plan. A Chicago distributor indicated an interest if Creative Plastics could report the results of a market test indicating that the comb was saleable. Arrangements were being made to conduct a simple market test at the time the students left the business in the spring. Because the project was incomplete, two of the three students volunteered to continue to work with Creative Plastics over the summer months.

This consulting relationship was one of mixed success. The students enjoyed good rapport with their client, but became frustrated by his failure to aggressively follow through on so many sales possibilities. Most demoralizing, however, was the continuing disappointment when potential contracts fell through, continually shifting backward the period of expected success.

RELIABLE ROOFERS

Henry Jackson had been a roofer and a roofing foreman for fourteen years and had reached an annual income of twelve thousand dollars. In May, 1970, he gave up his job and began his own roofing company, Reliable Roofers. Lacking capital, he had approached the Small Business Administration about a fifteen thousand dollar loan. They had discouraged him from beginning his own business and informed him that there was little chance of obtaining a loan.

He didn't follow their advice and began his business using a four thousand dollar loan secured by a mortgage on his mother's home. Fortunately for him, a hail storm had recently caused considerable roof damage in the city and he immediately was able to secure contracts. Working with a crew that varied from three to five men, he was able to generate forty thousand dollars of business during 1970.

When the student team joined him in the early fall, he was not concerned about his sales volume, but was primarily interested in getting someone to help him keep his business records. At this point, the books amounted to a checkbook (which was not well kept and did not include all business transactions) and some boxes of receipts and accounts receivable. The students dug in and tried to make some financial sense out of the records. They contacted a local CPA who volunteered to assist them and to provide Reliable with quarterly financial statements. It took almost two months to determine the financial condition of the firm.

The first year of operation had not been unprofitable. Operating less than a full year, Mr. Jackson had achieved sales of forty thousand dollars and had earned a net profit of six thousand dollars. He had drawn an income of eighty-five hundred dollars during the period, thus reducing his capital. The students were pleased to discover that his operating costs were generally consistent with industry norms. They suggested that he should reduce his draw to allow the business to accumulate retained earnings and he agreed to do this.

The balance sheet at the end of 1970 was less reassuring. Having begun with only four thousand dollars, he had allowed his trade payables and taxes payable to fall into arrears. In essence, the suppliers and the government had been used to finance the purchase of the capital equipment needed for the business, to pay his unreasonably high salary, and to provide working capital for the firm. His delinquent taxes included withholding from his employees which had not been turned in to the government. To a great extent, the debt situation had developed because Mr. Jackson was unsure of tax requirements, unfamiliar with business practices regarding the payment of suppliers, and unable to judge the firm's profitability until late in the year. As an example of the financial confusion, Mr. Jackson discovered in October a three-month-old bill for seventeen hundred dollars from a supplier. He had simply misplaced and forgotten it.

Lacking business experience, Mr. Jackson also tended to view his finances solely in terms of cash. If he received five hundred dollars in cash on completion of a job, he saw it as five hundred dollars that could be spent in any way for the firm, failing to consider the wages and supplies associated with the work that had been completed.

The short-term debt situation appeared to be the firm's major problem as 1971 began, although other difficulties, including recordkeeping, marketing, and personnel turnover, were present. The student team made recommendations to solve the latter problems, but concentrated its major efforts on securing financing to replace the short-term debt with intermediate or long-term debt. Pro forma profit and loss statements were prepared along with a projected cash budget and a pro forma balance sheet. It was finally decided that a loan of fifteen thousand dollars would put the company in a position that would allow it to operate without difficulty. The SBA was approached regarding the loan and a meeting was set up in the city. Unfortunately, the SBA representatives cancelled out of the meeting which resulted in some irritation on the part of the Internal Revenue Service agent who had been invited to attend. A second meeting was set up in the SBA office to discuss the possibility of a loan. Prospects did not seem good. Continued efforts were made to obtain a favorable decision from the SBA on the loan, but the application was finally turned down. The student team was frustrated by the failure of the SBA to discuss the turndown with Mr. Jackson and the student team.

At the end of the school year, the IRS had agreed to a repayment schedule that Reliable seemed able to meet. Sales were good, and a fifty-five thousand dollar volume seemed probable for the year. The major operating difficulty of the company, aside from the lack of working capital and the current debt, appeared to be keeping close financial control of expenditures. Unfortunately, Mr. Jackson's wife, who at one point had shown promise as a bookkeeper, had soured on the business and didn't want to have anything to do with it. Arrangements were made to have an accountant from a local corporation visit the business weekly to keep the records current. The student team volunteered to continue working with Mr. Jackson during the summer to the extent they were able to do so.

This particular consulting relationship was reasonably successful despite the problems that occurred over the year. The students began slowly and made some mistakes in developing the firm's financial records. However, they improved their effectiveness and by the end of the year had a good understanding of the business and Mr. Jackson's weaknesses. Their client had improved his business knowledge, although he did not yet have a clear understanding of the financial workings of a business.

The Year In Retrospect

From the viewpoint of our minority clients the program was more successful during the second year than it had been during the first. Two of the clients felt the program had provided them with excellent and useful help; two found the assistance generally useful and on balance good; and two felt that some help had been provide that contributed moderately to the success of their businesses. From the perspective of two years experience with the program, it was clear to me that the second year students had been more effective in their counseling relationships than those during the initial year. Each team had contributed positively to its client. The most successful relationships came in those situations where the client clearly recognized his own weaknesses and was willing to learn from the students, suggesting that our initial emphasis on client selection was justified.

From the viewpoint of the students, the experience was very rewarding. Some unsolicited comments were:

"The course provides an excellent opportuni. for students of any major to not only assist their assigned enterpnses, but also to learn a great deal about business operations, small business in particular, and the continuing problems encountered in solving business problems presents an opportunity to individualize work with the entrepreneur "

"Very interesting and practical course. Gave an individual a chance to express his individuality and contribute to a very worthwhile cause Should be more courses like this Namely a blend of the academic and the pragmatic "

"The course has been very helpful in enlarging my horizon as to racia' questions and the instructor's warm personality has been most encouraging to me "

"I personally consider this course as one of the most enjoyable and rewarding courses among all of the business courses being offered. especially from the aspect of developing good business skills, which is most important among the young businessmen and MBA's of today "

"Thank you for one great year in your minority business course It was indeed a stimulating course It's too bad that just as things seemed to be picking up with the clients, the year was over, but I guess that's life Again. thanks for a tremendous experience "

The only negative comments received regarding the course related to some of the class meetings, which did not always prove to be exciting and worthwhile. For this, I assume responsibility. Faculty who consider developing a course-program such as ours should avoid an overprogramming of structured class sessions. It's difficult to compete with the excitement of the field of experience, which is the essence of the course.

Perhaps the most significant evaluation of the course from the students' viewpoints came from the formal course evaluation given throughout the school. On a scale of one to seven, with one signifying "strongly disagree" and seven indicating "strongly agree," the following course ratings were achieved:

	Mean Rating
The subject of this course has been mentally challenging	6.25
This course has required a great deal more time and effort than other courses at the same level	6.25
I feel I learned a lot from tnis course	6.83
I would definitely recommend this course to a friend	7.00

The ratings of all graduate courses are not available at the time of this writing, but based on previous evaluations scores of 4.5 to 5.5 would be average for most questions.

Teaching this course was rewarding, discouraging, exciting, exhausting, and educational for me. I learned a great deal about the operations of small business and had the opportunity to see and come to understand the difficulties of the small businessman. I saw the interaction of the black business community with the establishment and came to the conclusion that while some businessmen do care about the success of black enterprise, a great many more are indifferent. Most important, the establishment does not seem to fully appreciate the tremendous effort that will be required if black business is to grow to significance in our economy.

Student counseling difficulties stemmed more from the student-practitioner conflict than from black-white conflicts. Students seemed capable of resolving problems, but they had considerable difficulty identifying them in the first place. The only other significant student weakness was a failure to get all the facts. Frequently, a problem would seemingly be identified only to have additional information spot the basic problem elsewhere. In some cases this was caused by the clients' failure to "level" with their consultants. But more often than not it was the students' failure to probe deeply enough, to ask specific questions and demand direct answers. Looking back, I suspect that as I improved my own expertise, I began to demand more expert performances from my students. My grading was more severe this year than it had been during the previous year, yet when I consciously compare the two classes, it seems that this year's group was considerably more successful.

Perhaps one of the real services that the course provides is giving students the opportunity to understand the needs of black business and to develop a sincere desire to help. These MBA students will become part of the business establishment and their most important contributions to minority enterprise development may come as they assume their corporate roles as managers in the establishment.

We hope that other schools will adopt similar course-programs in one form or another. Clearly the students regarded the experience valuable; the clients also seemed to benefit. Effective counseling of minority businessmen is a challenging assignment. Unfortunately, the resources being applied to this end are inadequate. Applying student energies to the task can add an important ingredient to successful minority enterprise development.

SECTION 3: CASE HISTORIES

Case histories of each client firm are presented in this section. The intent is to provide a detailed description of each consulting experience to enable the reader to visualize the business and interpersonal problems the student consultants encountered. Each case is written from the viewpoint of the course instructor, although, hopefully, the author has been able to present the histories as objectively as possible. To protect the anonymity of the clients, names of firms and individuals have been changed. Additionally, all financial data has been altered without losing the essence of the financial problems encountered by the client firms.

Four of the six clients were located in the inner city of the large metropolitan area. In their immediate market area incomes were low, unemployment was high, residential and commercial property was deteriorating, and minority business ownership was low. The other two clients were located in smaller cities, one having a very small and the other a significant black population.

It is hoped that anyone planning to become involved in counseling activities for minority business will carefully read these case histories as well as those in the first book (**Consulting for Black Enterprise . . . A Challenge To The Business Establishment,** Center for Venture Management, 811 E. Wisconsin Avenue, Milwaukee, Wisconsin, 53202). Although the experiences of both years show many important similarities, the relationships between students and clients were smoother during the second year. As a result, the reader will, hopefully, gain optimism as well as an appreciation of the difficulties inherent in a minority business counseling program. It also seems proper to express my feeling here that most of the difficulties encountered in our program appeared to be related to small business rather than minority business, with the exceptions of the below-average experience of our clients and their below-average starting capital.

CITIZEN'S CONTRACTING SERVICES

Citizen's Contracting Services was incorporated in April, 1968. The initial capitalization of twenty-two thousand dollars was wholly provided by four black entrepreneurs. Ralph Smith, a government manager, was elected president; Charles Evans, a carpenter and construction superintendent was elected vice-president, treasurer, and general manager; and Lewis Collins, a lawyer, was elected secretary. The fourth stockholder, James Echols, was a nonactive owner.

Initially, the firm engaged in rehabilitation of existing housing under a city code enforcement program. These contracts ranged from two thousand to five thousand dollars each and the firm completed ninety thousand dollars of rehabilitation work during its first year. Believing the potential volume of rehabilitation work inadequate to cover the firm's overhead and wanting to become a significant factor in the city's construction industry, CCS shifted its operations to new housing and

commercial projects during the second year. The volume of work accomplished rose dramatically to $375,000; construction completed included a restaurant, a laundromat, a motel, a YWCA building, and miscellaneous rehabilitation work. In spite of an initial lack of capital, an inexperienced organization, a lack of business expertise, and an inadequate accounting system, the company was able to complete the projects on schedule and the work was of good quality.

From the firm's inception through September, 1970, no accounting system existed at all. Initially, an accountant was hired to take care of the books, but his output for the first two years of operation left the books in an almost hopeless state. This lack of bookwork, combined with Mr. Evans' lack of financial management experience, made it difficult for CCS management to judge its financial progress. A suspicion existed, however, that all had not gone well.

In August, 1970, the firm's directors belatedly decided that there should be a change in accountants. Rewe and Company, specialists in construction accounting, was hired to produce the 1969 tax reports, bring the books up to date, and to offer managerial advice.

Identifying Problems

When the students arrived in late September, they spent the first few weeks trying to gain a "feel" for the company and to build rapport with Mr. Evans. They met with Mr. Evans, talked with Rewe and Company, visited a job site, interviewed a local development consultant experienced in construction management, and reviewed the CCS project files. The inadequate records made it difficult to evaluate the company's problems beyond the obvious need for an adequate bookkeeping system.

In mid-October, the statements for 1969 and 1970 arrived, and everyone saw the disastrous financial situation facing CCS (see Exhibits 1 and 2). During the first year of operation, a reasonable gross profit had been earned doing rehabilitation work. But overhead was not covered by the relatively low volume of work, and CCS showed a loss of ninety-two hundred dollars. The volume problem appeared to have been solved during the second year, but the cost of construction exceeded revenue yielding a **negative gross margin.** In addition, the increased work volume had resulted in expanded overhead (more than double the previous year). As a result, CCS lost $40,150 for the fiscal year ended June 30, 1970. Because of its initially minimal starting capital, the firm was in a precarious financial situation.

The student team made extra efforts to find useful industry data that would allow them to better evaluate the financial statements. This data proved difficult to obtain. The team's main concern at this point was to pinpoint the reasons for the substantial losses that had occurred. Finally, unable to obtain specific data, the team concluded that the failure to maintain

Exhibit 1

CITIZEN'S CONTRACTING SERVICES

Profit and Loss Statement

	1969	1970	6 mos. 1971
Income from Construction			
Gross construction receipts	$ 90,000	$375,000	$180,000
Cost of construction	81,350	380,000	155,000
Gross Profit	$ 8,650	$ (5,000)	$ 25,000
Operating Expenses			
Travel	—	100	100
Office salaries	4,200	5,800	7,550
Repairs	2,650	5,000	400
Rents	175	250	—
Taxes (payroll and real estate)	1,175	3,550	2,175
Casualty and theft	100	200	—
Depreciation	500	600	300
Advertising	200	400	50
Utility	2,800	3,400	1,800
Insurance	1,200	2,400	200
Misc. general expense	2,200	11,300*	1,850
Total operating expense	$ 15,200	$ 33,000	$ 14,425
Total Operating Income	$ (6,550)	$ (38,000)	$ 10,575
Nonoperating Expense and Income			
Interest expense	3,800	4,050	1,900
Rental income	600	1,000	600
Miscellaneous income	550	900	—
Net nonoperating income	$ (2,650)	$ (2,150)	$ (1,300)
NET INCOME	$ (9,200)	$ (40,150)	$ 9,275

*Includes an $8,000 loss on sale of fixed assets.

Exhibit 2

CITIZEN'S CONTRACTING SERVICES

Balance Sheet (End of 6 Months, 1971)

ASSETS

Current Assets	
Cash on hand	—
Accounts receivable	$ 55,000
Inventory	400
Revenue earned but unbilled	41,000
Prepaid interest	325
Mortgage escrow account	820
Total current assets	$ 97,545
Fixed Assets	
Land	3,200
Building	5,500
Vehicles	1,800
Tools and equipment	300
Furniture and fixtures	1,200
Total fixed assets	$ 12,000
TOTAL ASSETS	$109,545

LIABILITITES

Current Liabilities	
Bank overdraft	$ 8,500
Notes payable (bank)	16,000
Current portion of long-term notes	950
Accrued payroll	9,350
Payroll taxes withheld and accrued	24,600
Union benefits payable	6,250
Accrued interest payable	2,000
Accrued property taxes	500
Accounts payable	40,270
Total current liabilities	$108,420
Long-term Liabilities	
Mortgage note	7,200
Notes payable, officers	12,000
Total long-term liabilities	$ 19,200
TOTAL LIABILITIES	$127,620

EQUITY

Common Stock	$ 22,000
Retained earnings, beginning of year	(49,350)
Income, current year	9,275
TOTAL EQUITY	$ (18,075)
TOTAL LIABILITIES AND EQUITY	$109,545

good records had resulted in the firm's failure to keep a rein on costs. Mr. Evans felt that his bidding had been reasonable. His bids had been close to those of competition, although there was no way to judge whether or not CCS had the capacity to do work as efficiently as competition.

At this point, the team was invited to attend a board of directors meeting, primarily to explain their mission to the board. At this meeting, the students were struck by the lack of knowledge that the directors had about the company. Mr. Evans was the only one who appeared to know what was happening and he, due to his inexperience at the management level, was not able to provide the kind of information the board needed to be effective. Another surprise to the students was the relative lack of concern shown by the board regarding the company's financial condition. The students viewed the situation as potentially disastrous. With little or no cash, high accounts receivable, and substantial short-term trade and government debt, it appeared that the firm could be forced into bankruptcy at any time. In addition, the students felt that it would be difficult, if not impossible, to begin any new projects without some additional capital.

After the meeting, the students pointed out their concern to Mr. Evans. It was agreed to go into the financial situation in greater depth at a board meeting in two weeks.

A week later, the first quarter financial statements were delivered by Rewe and Company. CCS had shown a profit of sixty-two hundred dollars on gross revenues of ninety-one thousand dollars. The gross margin seemed to be in line with industry averages and operating expenses had been reduced. At this time, almost all CCS revenues could be traced to a large apartment project that the company was participating in with a large, established contractor. CCS had general contracting responsibility for a number of units, but only a portion of the total project.

At the second board meeting, the students suggested that CCS should begin to look for financial assistance in one form or another. The board directed the student team to prepare a brochure to be used for this purpose.

Soliciting Capital

The student team's primary focus for the next several months was obtaining funds for the continued operation of CCS. A prospectus was prepared. No attempt was made to gloss over the substantial losses that the company had incurred in the past. Mistakes due to inexperience were admitted. Emphasis was made that changes had been made (a construction accountant hired, a construction consultant used, and a student MBA consulting team involved). The results of the first quarter of 1971 indicated that the situation had improved. The high construction costs of the past were partially attributed to Mr. Evans inability to find time to supervise the field operations. The CCS plan called for the hiring of an assistant general manager with business experience to manage the cost control program proposed by the accountant (and the student team), to serve as an expeditor, and to perform most of the other administrative tasks.

A sales forecast of $450,000 was made for 1971, with a net profit of four thousand dollars projected. The 1972 forecast was for six hundred thousand dollars of revenues and a profit of twenty thousand dollars. The sale estimates were basically a projection of work that Mr. Evans expected to get in the next several months.

Capital needs were identified, and it appeared that CCS needed an eighty-two thousand dollar loan. The funds were primarily to be used to eliminate the negative working capital position of the firm and to provide enough capital to obtain bonding for $450,000 of work. The basis for requesting funds was:

1. The community needed a minority-owned construction firm so that the community could benefit in terms of payroll and profits from the funds being injected into the inner city.

2. CCS was the best opportunity around. Mistakes were made in the past, as would be expected given the management's inexperience.

3. CCS had recognized its errors, changed its policies, and brought in considerable outside expertise, and the financial statements reflected these changes.

When the prospectus was completed, the team made its first contact, the Small Business Administration. There, the students were told that no money was available, but that the SBA could potentially work on a guarantee basis with a bank. However, the SBA representative felt that Mr. Smith's position as a government manager might present a conflict of interest preventing SBA's consideration of a guarantee.

A second contact was made, this one with a Minority Enterprise Small Business Investment Company (MESBIC). Mr. Wells, the director, was impressed with what had been done and he assured the students that the

prospectus would be evaluated by his board. After a lapse of about a month. Mr. Wells wrote that the MESBIC would probably be able to guarantee bonding in cases where CCS needed it.

A third contact was with a local bank with a large minority enterprise development division. Mr. Nelson, director of the division, critically analyzed the financial aspects of the prospectus. He asked several questions, many of which neither the student team nor Mr. Evans could answer. The students were embarassed that they were not more familiar with the financial situation than they were. But they were especially struck by Mr. Evans' and Mr. Smith's inability to answer several seemingly simple questions. At the end of the meeting, Mr. Nelson stated that the request for funding would be considered if the additional information requested were provided.

A presentation was made to another MESBIC, which indicated an interest in participating partially in a financing package along with the SBA and the bank. Communications were established between the potential parties to a loan, and a proposal was worked out. The SBA held back temporarily because of the potential conflict of interest problem, but this was resolved in a few weeks time. During this period, the student team became confident that the loan package would go through. The bank was most encouraging and enthusiastic about the venture and in fact stated that if the SBA resolved the conflict of interest problem, they were ready to go with the loan.

Late in March, the bank called Mr. Evans in and to the disbelief of all concerned, the loan was refused. The students reporting on the incident stated that "we feel the bank did not sincerely want to make the loan, was glad to find an excuse to get out of the loan, and perhaps does not understand what a minority loan program really entails." Angry and disappointed, the team began to investigate to find out what had happened. Mr. Evans had told them that the loan was turned down because he had failed to fully inform the bank about the status of the large apartment job. It turned out that Mr. Evans, probably because he felt it would hurt his chances for obtaining the loan, had not told the bank that CCS had been taken off the apartment project because of a failure to meet the established deadlines. The principal contractor, who took over the job, felt that this move was probably advantageous to CCS, which had begun to lose money on the project and was in the dangerous position of having to pay penalties. It was also discovered that Mr. Evans had not been completely straightforward on another matter and the bank had discovered this. These two factors would not, according to the bank, have been especially detrimental to the loan evaluation because the bank knew it was considering a high-risk situation. But the loan board did not want to make a relatively large loan to a man who hesitated to deal with them directly and honestly. The students were not really satisfied with the bank's action. They felt the bank should have understood that Mr. Evans was not used to dealing with bankers and that he behaved according to his intuition. While he was wrong, his actions were understandable. However, the students also understood the bank's position.

New Work

With the loan refusal and the discovery that CCS no longer had any projects going, the situation appeared hopeless. The students contacted several people involved with city development and discovered that there was still a chance of obtaining financing on a job-by-job basis. The short-term objective now seemed to be finding new work. The several projects that Mr. Evans had claimed to be forthcoming at the time of the forecast had not developed. Company operations were at a standstill, but the overhead was continuing.

The students began to make calls on potential customers to make a sales pitch for CCS. One of the students arranged for a local public relations firm to develop (at no charge) a brochure for CCS to be used in soliciting contracts. These efforts were frustrating to the team, because they dealt with the medium-term, and CCS needed work immediately. But no work prospects developed.

The students, who had just completed a thorough review of the accounts payable (more than a hundred accounts), offered to develop a letter to be sent to all creditors to ask them not to press for repayment. The letter was prepared. In essence, it pointed out that CCS had every intent of repaying, but that it currently had no ability to do so. Because the firm's assets were worth substantially less than the amount owed the government for back taxes, no creditor stood to gain from a forced bankruptcy. The reaction of the company's major creditors was favorable to the plea for patience.

The End of the Year

The team's year came to a close with the students' hopes and aspirations for CCS at a low point because of the financial and work situations. Arrangements had been made for experts in the community to take a more active part in counseling CCS. As the students were leaving, they learned that CCS had just signed a contract to build a small apartment building for eighty-five thousand dollars. Although the situation looked grim, it appeared that CCS still had a chance to survive. Mr. Evans, who certainly had even stronger feelings about the business than students, continued to show a remarkable tenacity toward the accomplishment of his goal — the establishment of a healthy, black-owned construction company in the inner city.

This consulting assignment had proven to be the most frustrating and least satisfying of those in the second year program. The construction industry was so unique that the students' training could only be applied partially to the problems that they encountered. Data was so sparse that the students found it difficult to focus on specific problems. Mr. Evans,while appreciative of the students' efforts, had not provided them with all the information he could have, thus leaving them to grope for explanations at key moments. The major project undertaken during the year — obtaining financing — had not been satis. torily concluded.

Despite this, the students recognized the value in their experiences. And they felt that they had accomplished some useful things for the company, such as straightening out the accounts payable, preparing a prospectus, developing a brochure, and perhaps most important, involving several persons in the business establishment in the struggle of CCS to survive.

MR. R's

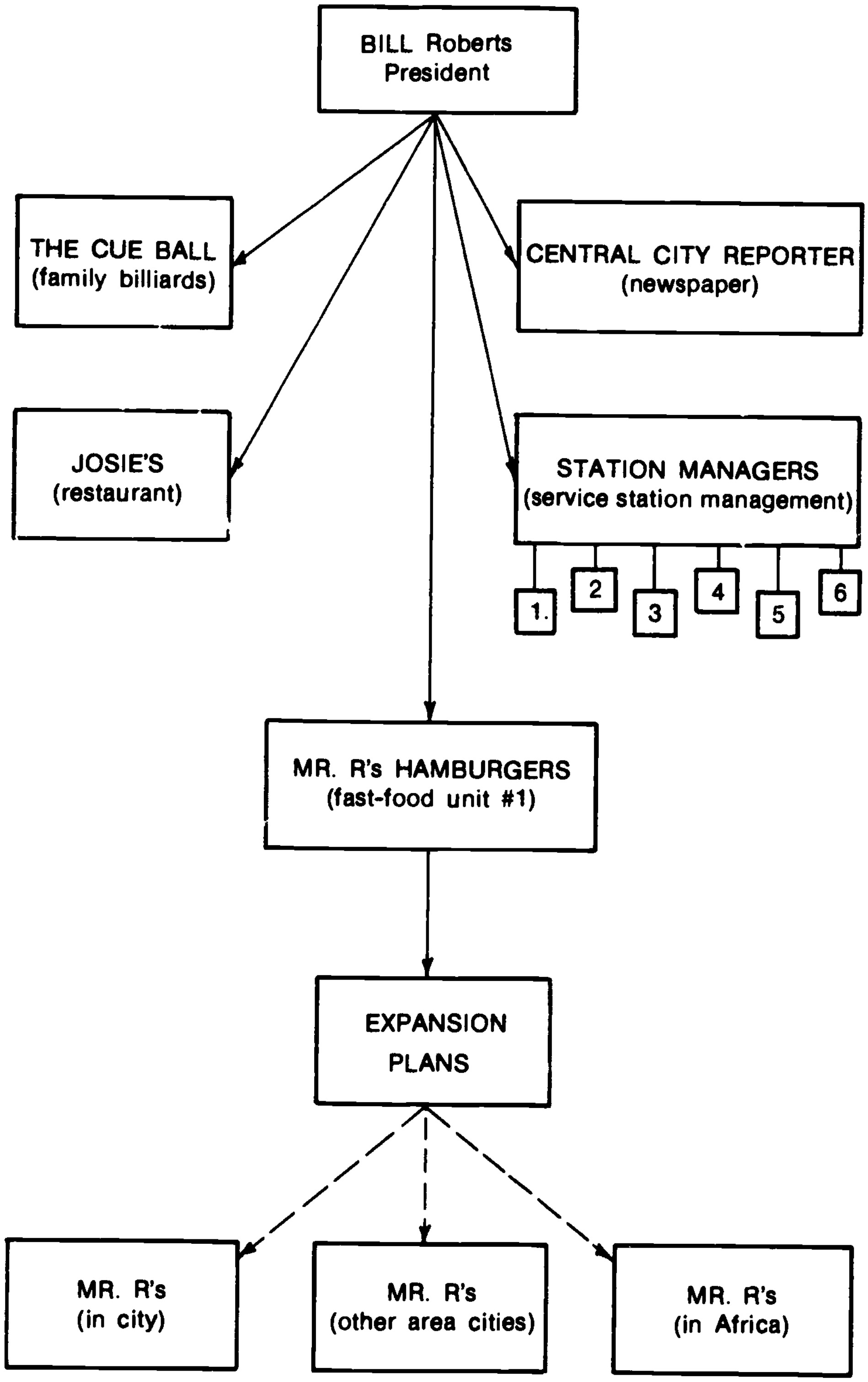
Mr. R's is a mini-conglomerate of small businesses operating in the inner area of a large city. The business includes a family billiards parlor, a newspaper, a restaurant, a service station management organization, and a fast-food, drive-in restaurant (see Figure 1). Bill Roberts, who presides over these various operations, is a young man of thirty-five. He obtained a college degree in 1959, with a major in history and political science.

Roberts is active in community organization and leadership. He serves as commissioner for the Social Development Commission and as chairman of the Central City Businessmen's Federation, an organization that he founded. He was the former director of youth work for the local YMCA.

The Cue Ball, a family billiards parlor, served as the starting point for Roberts' business operations. Capital generated in this business provided a base for expansion, which included a newspaper in 1967, a fast-food, drive-in restaurant in 1969, another restaurant in 1970, and a service station management organization in 1971.

We had worked with Bill Roberts during the first year of our counseling program, primarily with regard to the fast-food restaurant operation. Because Mr. Roberts was skilled in many aspects of business management, the consulting relationship had been very different from most of our others. In this case, the student team had worked on a series of special projects (surveys, organization development, etc.). The comments of the first year team at the conclusion of its assignment were:

Figure 1
THE ROBERTS "MINI-CONGLOMERATE" 1971



we feel that if the Mr. R's system is to achieve fruition, Roberts will have to take an increasingly active interest in the organization. Short-range and intermediate goals must be constantly reevaluated and long-term plans must be developed and reexamined in light of ever-changing competitive conditions. In short, a choice between business interests and community leadership interests faces Roberts and a definite choice is imperative at this critical time

Mr. Roberts requested a student team for the second year. We felt that despite his outstanding accomplishments in a short period of time, Roberts' businesses were expanding so rapidly that he faced some dangers. Because the potential impact of this organization was so great (sales in 1970 were probably close to a million dollars), it was important that Roberts continue to grow and prosper. We agreed to provide a team of counselors.

A Market Survey

When the students made their first visit to Roberts in the fall, they were pleased to find that he was waiting with an assignment for them. He had recently opened a second restaurant called Josie's, unrelated to Mr. R's Hamburgers. The objective of this new restaurant was to attract the market between twenty and forty-five years of age. Roberts was not certain as to what strategy he should follow to accomplish this objective, and he wanted to conduct a market survey to obtain data to guide him. The students readily agreed to perform the survey.

Fortunately, both students on the team were marketing majors and were fairly knowledgeable about the intricacies of survey research. The major objective of the research was to determine a menu that would prove attractive to the target market segment defined for the restaurant. The students prepared a tentative questionnaire and administered it to approximately ten persons. The pretest suggested that several revisions were called for. These were made, resulting in the final questionnaire presented as Exhibit 2.

The University's Survey Research Center assisted the students in drawing a random sample of names of people living within a twenty-square block area around Josie's. A telephone survey was conducted, and using up to two callbacks, seventy-four useable questionnaires were filled out. The data was keypunched and tabulated, including cross tabulations between attitudes and demographic characteristics (age and sex).

The survey results indicated that certain items on the menu were not particularly desirable, that others were over-priced, and that some items not on the menu would likely prove popular. A somewhat similar survey conducted by Kentucky Fried Chicken indicated results very similar to those achieved by the students.

The students reported their findings and were delighted to discover a few weeks later that the menu had been changed almost exactly as they had recommended. They reported, "Not only did it boost our egos greatly to see our results being accepted and actually implemented, but the idea of a professional, scientific survey to back our recommendations was a

very encouraging and reassuring factor for us. Our results have been very useful in convincing the operator of Josie's to give the most preferred items a try. If it wasn't for our data sheets, it is highly unlikely that this excellent and creative chef would have accepted the advice of a 'couple of college kids' in an area which he almost considers sacred."

Exhibit 2
REVISED QUESTIONNAIRE:
MR. R'S SURVEY

1. Is this (address)?

2. I am ____________ from The University of Wisconsin. I am calling you to ask several short questions about restaurants like McDonald's or Mr. R's.

3. Have you bought food at this type of restaurant during the past year?

   ________ Yes (Go to 6)   ________ No (Go to 4)

4. If no, why not? ____

   ____

5. Would different food items on the menu cause you to buy at this type of restaurant?

   ________ Yes   ________ No (Go to 9)

   List foods and price you would pay.

   a. ______________________

   b. ______________________

   c. ______________________

   d. ______________________

6. Were you satisfied with the choice of food offered? _____ Yes _____ No

7. What other variety of food would you buy if offered and what would you pay for it?

a. ______________________

b. ______________________

c. ______________________

d. ______________________

8. Would you buy any of the following? ___ Hot dogs ___ Chicken ___ Ribs ___ Fried shrimp ___ Catfish ___ Chili ___ Fried pies ___ Tacos ___ Chili dogs ___ Seafood salad ___ Hot beef sandwich

9. Age _____ 10. Area _____ 11. Sex _____

A Financial Prospectus

The students began a second assignment for Mr. R's in November — the development of a prospectus. Mr. Roberts had several ideas as to potential sites for expansion of the Mr. R's units. However, he wanted to attract investors interested in providing the land, building, and/or equipment needed for the new units; in addition, new units might call for franchisee's. Thus expansion was dependent to a large extent on Mr. Roberts' ability to attract investment capital.

The students began work on the prospectus. They first collected information about the fast-food industry, pointing out the potential for growth, particularly in ghetto areas. They then developed a section outlining the company's general background, its management, and stockholder control. Financial statements were to be included in this section, but they were not immediately available. The legal and accounting expertise available to the firm was then outlined.

With this base, a section was prepared to sell potential investors on the idea of investing in the company. This focused on the potential earnings for a typical unit. Mr. Roberts was to provide specific information as to the percentage of gross that would be paid in return for capital invested in any one unit.

At this point, the skeleton and a small part of the body of the prospectus had been completed. Further progress depended on information and decisions that could only be provided by Mr. Roberts. After a few attempts to obtain what was needed, the students decided to hand in the outline, leaving it up to Mr. Roberts and his accountant to fill in the missing parts. When no action was taken by Mr. Roberts, the students judged that interest in the project had been minimal. They had been somewhat confused initially about the assignment because the previous year's student team

had spent some time preparing a prospectus which was never fully completed. The team became somewhat suspicious that the assignment had been given just to occupy them temporarily.

Problems with Chicken

Mr. R's had been using a chicken recipe that had proven unable to maintain the same, good flavor from one batch of chicken to the next. This prompted Mr. Roberts to look elsewhere for a proven and well-known recipe. He decided to look into the chances of obtaining the use of a nationally-recognized and popular recipe for chicken. He contacted Howard White, president of World's Best Chicken, to explore the possibility of placing their chicken in Mr. R's units in return for a percentage of the gross sales of the product. An appointment was made, and the students assisted Mr. Roberts in preparing a professional presentation of Mr. R's operations. The presentation included:

1. A map indicating all Kentucky Fried Chicken, Mahalia Jackson, and Mr. R's outlets within the inner city area.

2. Census tracts of the area showing population figures.

3. A summary of Mr. R's performance in the past.

When Mr Roberts returned from his visit with Mr. White, it appeared that the presentation had gone well. Mr. White flew into the city soon thereafter to look over Mr. R's operations. Unfortunately, the students were excluded from this latter interview, without explanation.

Mr. Roberts considered the percentage-of-gross desired by the national chain to be unreasonably high. In the end, nothing was finalized and Mr. R's chicken continued to vary in quality.

Advertising and Promotion

During the course of the year, the students continually emphasized the need for advertising and promotion in a growth-oriented enterprise such as Mr. R's. As a result of this prompting, Mr. Roberts worked out a campaign using sixty-second spots on a local radio station directed toward the black community. However, the plan was postponed until spring when sales would begin to pick up.

The students were, however, able to convince Mr. Roberts to use large point-of-sale displays in Josie's to highlight the additions to the menu. They also made plans to distribute handbills in the community to stimulate adult walk-in traffic.

Personnel

The lack of "good workers" and the high employee turnover rate are problems throughout the fast-food industry. Mr. R's was no exception.

On several occasions, while the students were waiting to meet with Mr. Roberts, several of the younger teenaged employees were observed engaging in "horseplay" while on the job. To hold this to a minimum, the students recommended that Mr. Roberts attempt to hire some older individuals. Also, the students observed that two workers were practically idle after the rush hour, which ended around 2:00 p.m. when school was in session. Mr. Roberts, on the advice of the students, requested that the two workers with the lowest seniority punch out at 2:00 p.m. This action produced a substantial labor cost-savings.

Organization and Planning

Failure to define realistic, obtainable objectives is widespread among the owners and managers of small businesses. During the previous year, the first student team and Mr. Roberts had laid out a growth plan. The primary objective was the establishment of additional fast-food franchising units in the original and other cities. Yet in a year's time no additional units had been opened. The second year team, realizing this and having observed Mr. Roberts in action, felt that it would be important for him to commit himself on paper to a growth plan instead of continually reordering his priorities. A minor conflict developed between the ordered minds of the students and the instructor and the creative, but less ordered mind of the entrepreneur (Mr. Roberts). A year earlier, Mr. Roberts had no plans for opening Josie's, or for organizing a service station management business. But during the year, he saw the opportunities and he acted. As a result, he failed to follow through on the plans to develop Mr. R's.

Although the opening of two new businesses in a year's time was reasonable progress, it was clear that future progress might be more difficult. Mr. Roberts was simply making inefficient use of his time, due basically to a failure to develop managers for his various businesses. Mr. Roberts spent a large part of each day (10:00 a.m. to 2:00 p.m.) doing manual labor in the Mr. R's unit. In addition, he sold the 1971 advertising contracts for the newspaper (seventy-eight thousand dollars worth) and spent considerable time with Josie's operation. On one occasion the students were discussing a problem with Mr. Roberts and he was staring past them for several minutes. Finally, he yelled, "Fred don't burn those french fries." The students were dismayed that a man responsible for enterprises grossing close to a million dollars was spending his time watching the french fries rather than managing the business.

The students continually stated their feelings to Mr. Roberts. They even suggested that he move his office away from the Mr. R's unit. Finally, he started to train a man to start managing the fast-food unit in the spring.

Current Plans for Expansion

By circumstance, Mr. Roberts became acquainted with George Hanyata, a University of Chicago graduate in economics. Mr. Hanyata was a native of an African country and he planned to return to his home in 1971. He and Mr. Roberts became interested in the possibility of opening some

fast-food units in Africa. Mr. Hanyata had good connections with the government in his home country, and Mr. Roberts became excited about the prospects of the two of them combining forces.

Relatively low-cost, fast-food service might be well-suited to the needs of the African market. Mr. Roberts was however, completely unfamiliar with the problems of operating abroad. He asked the student team to gather what information they could to help him evaluate the potential foreign expansion.

Using the resources of the University, the students were able to prepare a list of the steps one should follow when founding a foreign business. The report prepared by the students also contained information about the pros and cons of joint ventures in Africa, investment laws and regulations there, and suggestions for obtaining financing. In addition, the students developed their thoughts regarding the defining and investigation of potential markets. "Will fast-food items sell?" seemed to be the single most important question facing Mr. Roberts. Armed with this background information, Mr. Roberts visited with bankers in the city to discuss his ideas. He expected to travel to Africa during the summer of 1971 to explore the potential for foreign expansion.

With the excitement of possible foreign expansion, Mr. Roberts more or less set aside his plans for expanding Mr. R's domestically. Among other things, he was concerned about recent McDonald's expansion in the inner city, recognizing that their organization would present strong competition to him.

A Board of Advisors

Early in the second semester the student team began to feel that it was not being used effectively by Mr. Roberts. He often failed to provide them with complete information, sometimes failed to keep his appointments with them (after the students had driven for more than an hour for a scheduled visit), and simply did not seem to be highly interested in what they were doing. The students came to the conclusion that Mr. Roberts was too talented a businessman to have need for a student consulting team, but that he did need assistance at a higher level.

The team suggested to Mr. Roberts that he could make effective use of a board of advisors. Such a group would be made up of men who held positions of power and respect in the business establishment. They would not be concerned with day-to-day operating problems of the Roberts' enterprises, but would instead be able to provide advice at the strategy level. When financing was needed, they would be able to pave the way to the sources; when property was needed, they could effectively provide information as to what was available and what would become available. In short, the advisors not only could provide the overview that Mr. Roberts seemed to lack, but they could provide access to the resources of the establishment as well.

The students began their search for advisors. The list of prospects included two bank presidents and the presidents of three major manufacturing companies located in the city. All of these men were sent a letter asking for assistance in setting up a board of advisors. The students didn't hear from one of the manufacturers, were pushed aside by one of the banks, and toyed with by a public relations man on behalf of another of the manufacturers.

The Robert Johnstone Company a major manufacturer of heavy industrial equipment, invited the students and Mr. Roberts to discuss the proposal. Mr. Roberts took a very forceful approach during the meeting, asking for great amounts of costly assistance. The students were as surprised as the representative of the Johnstone Company because Mr. Roberts, conception of the board seemed to differ greatly from what they had discussed together earlier. In any event, perhaps because of Mr. Roberts' approach or perhaps because of a real lack of concern, the Johnstone Company showed no interest in becoming involved with Roberts' enterprises.

A second personal contact was made, this one with a retiring vice-president of a major bank. Mr. Roberts changed his approach during this meeting, conforming to the initial conception of the board of advisors.After several meetings, during which goals were discussed and the Roberts' enterprises scrutinized, the banker, Mr. Lewis, volunteered to help set up a board of advisors. The students were extremely pleased, feeling that this was perhaps the single most valuable contribution they had made to Mr. Roberts' enterprises during the year.

The Counseling Relationship

This counseling relationship was a series of peaks and valleys. It started out on a high note with the successful and useful market survey. Then things deteriorated. The students were given projects that generally were not especially important and their contributions seemed minimal. Aside from weekly discussions with Mr. Roberts, during which the students acted as a sounding board for his ideas and contributed a few of their own, the team felt that it was not being challenged. The report relating to foreign expansion raised their spirits somewhat, but it was not until they had laid the groundwork for a board of advisors that they felt comfortable about their contributions. On the other hand, they recognized Mr. Roberts as an exceptional man, an entrepreneur in the true sense of the word, and they valued the opportunity to watch him at work. In summary, this experience was moderately successful from the viewpoint of both the students and the client.

RELIABLE ROOFERS

Reliable Roofers began operating as a full-time proprietorship in April, 1970. Previously, the proprietor, Henry Jackson, had operated Jackson's Insulation on a part-time basis while working full-time for a local roofing contractor. An experienced tradesman, Mr. Jackson has, during his four-

teen years as a roofer, worked on the two major types of roofing-shingling jobs and those jobs requiring felt and a hot tar layer, commonly called "hot jobs."

Mr. Jackson had wanted his own business for some time. In early 1970, he visited the Small Business Administration Office in Madison to inquire about the possibility of obtaining funding for a new business. The SBA advisors felt that he did not have enough of his own capital to begin a business and that he probably would fail. They advised him not to start the business and told him that he would probably not be eligible for the fifteen thousand dollar loan he wanted.

Feeling strongly about beginning the business, Mr. Jackson then went to a bank in his home town and secured a four thousand dollar loan, using his mother's house as collateral. This amount was the total "equity" used to begin the business. This financial input was used to purchase a truck, a kettle, and other supplies needed for initial operations. Cash of around nine hundred dollars was left.

Mr. Jackson did not suffer from a lack of work. Fortuitously (for Reliable Roofers), a hailstorm in May did considerable damage to roofs in the area. The damage was extensive enough to attract roofers from outside the area, but Mr. Jackson won several contracts for residential shingling. In August. he was able to get away from this work and undertake a major shingling job for the federal government. The local banker, Harold Stiles, helped Mr. Jackson get this thirty-two hundred dollar job by furnishing a performance bond.

The Recordkeeping Problem

Mr. Jackson's primary interest in obtaining the counseling services of the MBA advisors lay in his need for assistance in keeping his records. Although experienced in the field, he had never had office management or recordkeeping experience. He was confused by such things as keeping his checkbook up-to-date, keeping track of his accounts receivable and accounts payable, and filling out the various governmental forms used in the business.

When the students first arrived in September, they discovered that the recordkeeping system amounted to no more than throwing bills and other papers into a box. Because he was busy in the field, Mr. Jackson had stopped trying to keep records after May, when his work volume picked up. He claimed to keep the books in his head.

The students began sorting things out. They began with the checkbook. The local banker helped by giving accurate and complete information about Mr. Jackson's notes, loans, and the value of equipment purchased with money from loans and notes. Check stubs, unfortunately, showed no description of the checks other than the amounts and names of the payees. Checkbook balances and deposits were not recorded. In asking Mr. and Mrs.

Jackson for the names of check payees and more information about deposits, the students discovered that Mr. Jackson had deposited money from his customers into his personal checking acount. He also admitted spending cash at times before having deposited it. Working with the information available to them, the students finally constructed tentative balance sheet and profit and loss statements through November.

The students, however, were both marketing majors and they felt uncomfortable about the statements. Realizing that taxes would be coming up in another month, they felt that the services of a professional accountant were needed. They obtained the volunteer services of Charles LeGrande, a CPA. Mr. LeGrande agreed to prepare quarterly and yearly statements for business and tax purposes.

Working with Mr. LeGrande, the students developed a simplified bookkeeping system that Mrs. Jackson began following in January, 1971. The system consisted of a check record, ledger accounts receivable and a file of cards showing individual accounts (with these separated according to job type), an accounts payable record consisting of a paid-unpaid bill file, and individual records for each employee showing needed tax information and earnings.

Mrs. Jackson took initial responsibility for keeping the records. She did well for a few months, but soon she lost interest and fell behind.

Money Problems

The operating statements completed by Mr. LeGrande showed that the firm had made a profit of six thousand dollars during its first eight months of operation (see Exhibit 1). However, Mr. Jackson, lacking profit information during the year, had drawn eighty-five hundred dollars in salary, thus adding to the firm's capital squeeze. He quickly adjusted his draw downward to approximately five hundred dollars a month.

Exhibit 1
RELIABLE ROOFERS
Profit and Loss Statement

	8 Mos. Ended 12/31/70	1st Quarter 3/30/71
SALES	$40,000	$ 5,800
Cost of Sales		
Direct Costs:		
Materials and supplies	11,200	2,350
Wages	14,500	2,300
Total direct costs	$25,700	$ 4,650
Indirect Costs:		
Tools	150	---
Payroll taxes	700	100
Truck and auto	1,850	210
Depreciation	1,000	250
Insurance	650	240
Rent	1,250	330
Utilities	820	100
Other	80	65
Total indirect costs	$ 6,500	$ 1,295
Total Cost of Sales	32,200	5,945
GROSS PROFIT	$ 7,800	$ (145)
Other Operating Expenses		
Advertising	$ 120	$ 60
Office supplies and expenses	350	450
Dues and subscriptions	300	---
Professional services	450	---
Other	190	315
Total other operating expenses	$ 1,410	$ 825
Net Operating Income (Loss)	6,390	(970)
Interest Expense	390	450
NET INCOME (LOSS)	$ 6,000	(1,420)

Looking over the profit and loss statement, the students were not too disappointed. They were impressed that Mr. Jackson had achieved sales of forty thousand dollars in his first eight months. The cost of construction was somewhat, but not much, above industry averages. Other operating expenses, with the exception of Mr. Jackson's draw and perhaps truck and auto expenses, were within reason. Mr. Jackson was willing to reduce his draw and it appeared that the firm's gross margin could be increased by raising prices and making geater efforts to increase labor productivity.

The balance sheet was a different story (see Exhibit 2). Here the situation appeared dismal. Mr. Jackson had been expanding his short-term and long-term debt simultaneously. The ratio was about .5. The Internal Revenue Service was pushing for the withholding taxes that had not been paid; a few creditors were pushing for their money. It appeared that partly out of error and partly due to need resulting from lack of initial capital, Mr. Jackson had financed his business with trade credit and tax money due the government. The team recommended that the short-term debt be replaced with intermediate-term debt, if at all possible. Although profit prospects for 1971 were good, it did not seem likely that profits would be adequate to repay the short-term debt in that limited a period of operations. Lack of working capital was also a problem.

The students were contacted about this time by General Motors Minority Enterprise Small Business Investment Company, which had an office in a nearby town. They heard of Mr. Jackson and were wondering if he needed help. The students met with Don Stevens, the local MESBIC representative.

Mr. Stevens appeared eager to give Mr. Jackson financial assistance if he qualified. An application was submitted for a five thousand dollar long-term loan for additional working capital and the purchase of needed equipment. The working capital would be used to reduce accounts payable and to purchase supplies and materials on a cash discount basis.

The local banker realized that Mr. Jackson had shown a profit, but felt he had been underpricing his jobs. At first he was not convinced that the loan was needed, but he was willing to consider it.

In the meantime, Mr. Jackson had accepted several thousand dollars in contracts on the premise that he would have access to the new piece of equipment to be purchased with part of the loan.

The students made a profit analysis of the work that had been contracted and determined that Reliable Roofers would lose money on some of the jobs without the new equipment. They again approached the banker. Realizing that the MESBIC loan would take some time to process and that the equipment was needed soon, the banker agreed to make a three thousand dollar loan to Reliable, which included the refinancing of a previous one thousand dollar note.

Exhibit 2

RELIABLE ROOFERS

Balance Sheet

ASSETS

	12/31/70	3/30/71
Current Assets		
Cash	$ 300	$ 400
Accounts receivable	2,200	2,250
Inventory	2,700	2,700
Total current assets	$ 5,200	$ 5,350
Fixed Assets		
Trucks	$ 2,650	$ 2,450
Equipment and tools	7,000	6,850
Total fixed assets	$ 9,650	$ 9,300
Other Assets		
Prepaid Interest	$ 600	$ 500
TOTAL ASSETS	$15,450	$15,150

LIABILITIES AND EQUITY

	12/31/70	3/30/71
Current Liabilities		
Note payable - bank	$ - - -	$ 1,500
Accounts payable	5,950	$ 6,070
Accrued liabilities:		
Federal payroll taxes	4,100	4,300
Wisconsin payroll taxes	500	550
Total current liabilities	$10,550	$12,420
Long-Term Liabilities		
MESBIC note	$ - - -	$ 900
Note secured by mortgage	3,900	3,850
Bank note (equipment loan)	3,500	3,300
Total long-term liabilities	$ 7,400	$ 8,050
TOTAL LIABILITIES	$17,950	$20,470
Proprietor Equity		
Balance		(2,500)
Net income, 8 months, 1970	$ 6,000	$ 1,420
Less: Draw	8,500	(1,400)
Deficit	(2,500)	(5,320)

The MESBIC loan was also applied for. However when it came through, it was for one thousand dollars rather than the five thousand dollars that the students and Mr. Jackson had expected. Mr. Stevens explained that the MESBIC expected the bank to supply the additional four thousand dollars, that this was the MESBIC's normal leveraging policy. However, the bank insisted on the repayment of about thirty-five hundred dollars of existing debt as a condition of the four thousand dollar loan, so the idea was dropped.

The situation went about as expected during the first quarter of 1971. Sales were off simply because the January-February roofing business is always negligible. A loss was sustained and the balance sheet problems remained much as they had been, worsening a bit.

Mr. Jackson, under pressure from the IRS and harried by his working capital problems, wanted to obtain more money. The students agreed that replacing the short-term debt with long-term debt would be desirable. The intermediate-term outlook for the company appeared bright, and the students felt that a loan could be justified on the basis of Mr. Jackson's strong desire to succeed, his past profit and loss performance, his sales projections (and profit expectations), and the very real need to develop significant black-owned businesses in the city. Believing that the bank had gone as far as it was willing to on its own and discouraged by Mr. Stevens from trying to obtain equity funds from the MESBIC, the only solution appeared to be to approach the SBA for a loan guarantee. Mr. Stiles, the banker, agreed that he would be willing to make a loan with an SBA guarantee.

A meeting was arranged at the bank with the SBA representative, the banker, the IRS representative, Mr. Jackson, the students, and their professor. The objective of the meeting was to hopefully convince all parties that together a package could be worked out to everyone's mutual benefit. Unfortunately, the SBA representative had to cancel this appointment.

A second meeting was arranged with the SBA, this one in Madison with only the students and the professor there. The intent was to investigate the potential for a fifteen thousand dollar loan.

The students had prepared several papers to be used in making the presentation. These included projected income statements for 1971, 1972, and 1973 (Exhibits 3, 4, and 5); and a cash budget with and without the loan (Exhibits 6 and 7).

In spite of the fact that the balance sheet appeared so weak, the students and the professor felt that a reasonable case could be made for obtaining a loan. The lack of initial capital (due in part to the initial refusal of the SBA and local banking to entertain a loan for fifteen thousand dollars a year

Exhibit 3
RELIABLE ROOFERS
Projected Income Statement for 1971

Particulars	Amount	Percent
Revenue:		
Sales	$50,000	100
Cost of Sales:		
Direct Costs -		
Materials and supplies	13,500	27.0
Wages	16,500	33.0
Total direct costs	$30,000	60.0
Indirect Costs -		
Licenses	480	
Payroll taxes	920	
Truck and auto	1,060	
Depreciation	1,000	
Insurance	660	
Rent	1,980	
Utilities	525	
Maintenance and trash hauling	240	
Total indirect costs	$ 6,865	13.7
Total cost of sales	$36,865	73.7
Gross Profit	$13,135	26.5
Other Operating Expenses:		
Advertising	522	
Office supplies and expenses	778	
Other expenses	1,060	
Total other operating expenses	$ 2,360	4.7
Net Operating Income	$10,775	21.5
Interest Expense (for loans prior to February, 1971 only)	1,150	2.3
Net Income	$ 9,625	19.2

Projected Monthly Sales for 1971

Month	Amount	Month	Amount
January	$ 2,800	July	$ 6,000
February	1,100	August	6,000
March	3,000	September	5,000
Qtr. total	$ 6,900	Qtr. total	$17,000
April	3,500	October	5,000
May	5,000	November	3,500
June	7,500	December	1,600
Qtr. total	$16,000	Qtr. total	$10,100

earlier) and Mr. Jackson's experience explained what had happened during the first year. The group felt that Mr. Jackson showed good potential for repaying the loan and; based on his improved business attitudes in the past few months, they felt that he was beginning to learn how to handle money.

The meeting was held, but the local loan officer present was unable to justify a positive solution. Recognizing that loan approval would take faith in Mr. Jackson and the many consultants now working with him, the professor arranged a meeting with the SBA director to push for the loan's approval. Mr. Briles, the SBA director, was sympathetic and stated that he would try to get the loan through one way or another. By this time it was late May.

In June, just before leaving on a two-week vacation, the professor called to find out what the progress was on the loan. He was informed that the decision would be made the next day, but that it would be improper to discuss it. On returning from vacation, the students reported that the loan had not been made. A refusal letter was sent to the bank. The SBA had not spoken about the turndown with the students because it was felt that its relationship to the company was through the bank.

After another request from the professor and a visit from Mr. Jackson, the SBA agreed to review the situation after the six months financial statements were available to see if a loan could be justified. At the time of this writing another review was in progress and prospects looked brighter.

Exhibit 4
RELIABLE ROOFERS
Projected Income Statement for 1972

Particulars	Amount	Percent
Revenue:		
Sales	$56,000	100
Cost of Sales:		
Direct Cost -		
Materials and supplies	14,000	25.0
Wages	18,500	33.0
Total direct cost	$32,500	58.0
Indirect Costs -		
Variable:		
Payroll taxes	925	
Truck and auto	1,400	
Fixed:		
All remaining indirect costs (including depreciation)	5,100	
Total indirect costs	$ 7,425	13.3
Total Cost of Sales	39,925	71.3
Gross Profit	16,075	28.7
Other Operating Expenses	2,800	
Net Operating Income	13,275	23.7
Interest Expense (for loans prior to Feb., 1971 only)	1,150	
Net Income	$12,125	21.7

Exhibit 5
RELIABLE ROOFERS
Projected Income Statement for 1973

Particulars	Amount	Percent
Revenue:		
Sales	$62,000	100
Cost of Sales:		
Direct Costs -		
Materials and supplies	15,500	25.0
Wages	19,220	31 0
Total direct costs	$34,720	56.0
Indirect Costs -		
Variable:		
Payroll taxes	960	
Truck and auto	1,860	
Fixed:		
All remaining indirect costs (including depreciation)	5,500	
Total indirect costs	$ 8,320	13.4
Total Cost of Sales	43,040	69.4
Gross Profit	18,960	30.6
Other Operating Expenses	3,040	4.9
Net Operating Income	15,920	25.7
Interest Expense (for loans prior to Feb., 1971 only)	1,150	
Net Income	$14,770	23.8

Exhibit 6

CASH BUDGET
(Based on $50,000 Sales)

	APRIL	MAY	JUNE	JULY	AUG	SEPT	OCT	NOV	DEC	JAN
RECEIPTS										
COLLECTIONS	$1520	$3470	$5125	$7425	$6000	$5950	$5000	$4925	$3405	$1615
PAYMENTS										
PURCHASES	945	1350	2030	1620	1350	1350	950	432	486	
GROSS WAGES (=33% curr. mo. sales)	1270	1670	2470	1980	1980	1650	1650	1170	528	600
PROPRIETOR'S DRAW = GROSS	500	500	600	600	600	600	550	550	500	500
RENT	165	165	165	165	165	165	165	165	165	165
TRUCK LICENSES			120			120			120	
UTILITIES	43	43	48	48	50	48	48	43	43	45
TRUCK & AUTO	65	100	100	100	100	100	100	100	100	100
INSURANCE									660	
NOTE PAYMENTS	173	173	173	173	173	173	173	173	173	173
REPAYMENT OF SHORT-TERM LOANS		1500								
TAXES (FICA Matching Only)			265			380			168	
OTHER EXPENSES	200	200	200	200	200	200	200	200	200	200
TOTAL PAYMENTS	$3461	$5701	$6171	$4886	$4888	$4786	$4236	$3351	$3029	$2269
NET CASH GAIN (LOSS) DURING MONTH	$(1941)	$(1271)	$(1046)	$2739	$1412	$1164	$ 764	$1574	$ 376	$(654)
INITIAL CASH MONTH'S START	322	1619	(2890)	(3936)	(1197)	(85)	1079	1843	3417	3793
CUMULATIVE CASH (If No Financing)	$(1619)	$(2890)	$(3936)	$(1197)	$ (85)	$1079	$1843	$3417	$3793	$ 2939
DESIRED LEVEL OF CASH	1200	1200	1200	1200	1200	1200	1200	1200	1200	1200
CASH ABOVE MIN. NEEDS (Or Financing Needs) - Cum. Minus Desired	$(2819)	$(4090)	$(5136)	$(2397)	$(1285)	$(121)	$ 643	$2217	$2593	$ 1739

Exhibit 7
CASH BUDGET
(Based on $50,000 Sales & $15,000 Loan, As Shown Above)

	APRIL	MAY	JUNE	JULY	AUG	SEPT	OCT	NOV	DEC	JAN
RECEIPTS										
COLLECTIONS	$1520	$3470	$20125	$7425	$6000	$5950	$5000	$4925	$3405	$1615
PAYMENTS										
PURCHASES (Includes all overdue A/P in June)	1350	2030	6145	1620	1350	1350	950	432	486	459
GROSS WAGES	1270	1670	2470	1980	1980	1650	1650	1170	528	600
PROPRIETOR'S DRAW = GROSS	500	500	600	600	600	600	550	550	500	500
RENT	165	165	165	165	165	165	165	165	165	165
TRUCK LICENSES			120			120				
UTILITIES	43	43	48	48	50	48	48	43	43	45
TRUCK & AUTO	65	100	100	100	100	100	100	100	100	100
NOTE PAYMENTS	173	173	473	473	473	473	473	473	473	473
INSURANCE									660	
REPAYMENT OF SHORT-TERM LOANS			1500							
TAXES (FICA MATCHING ONLY)			265			380			168	
OVERDUE TAXES (FROM 1970)			4819							
OTHER EXPENSES	200	200	200	200	200	200	200	200	200	200
TOTAL PAYMENTS	$3766	$4881	$16905	$5186	$4918	$5086	$4136	$3133	$3443	$2542
NET CASH GAIN (LOSS) DURING MONTH	(2246)	(1441)	3220	2239	1082	364	864	1792	(38)	(927)
INITIAL CASH MONTH'S START	322	(1924)	(3365)	(145)	2094	3176	4040	4904	6696	6658
CUMULATIVE CASH	$(1924)	$(3365)	$ (145)	$2094	$3176	$4040	$4904	$6696	$6658	$5769
DESIRED LEVEL OF FINANCING	1200	1200	1200	1200	1200	1200	1200	1200	1200	1200
CASH ABOVE MIN NEEDS (or financing needs) - CUM MINUS DESIRED	$(3124)	$(4565)	$(1345)	$ 894	$1976	$2840	$3704	$5496	$54[illegible]8	$4569

Marketing

Mr. Jackson had very little trouble getting business in 1970. This was partly attributable to the May hail storm which created a lot of business as he started out. Another factor was the good reputation that he built up in the city as he completed jobs. This, coupled with interest of several businesses in helping a black businessman, resulted in his getting November orders totaling some eight thousand dollars. Also the market structure in the area is favorable. The two major roofing firms in the city do a great amount of work outside the area, specializing in very large jobs. This leaves primary competition from smaller roofers in surrounding cities. These firms often were not willing to do jobs in the city if any inconvenience was involved.

However, the students were concerned that sales might be a problem in 1971. The team placed Reliable on the federal government's GSA bid list and they investigated state and local possibilities. In the spring, Reliable was awarded a government contract for a low-cost housing project. The bid was approximately thirty-five hundred dollars. A visit with a marketing consultant produced the suggestion that Reliable try to obtain regular repair and maintenance work at factories, motels, and apartment buildings in the city. Another suggestion was to try to arrange with a modular home builder to do his roofing; a third was to build up strong relationships with general contractors to obtain subcontracting work.

The team did not have time to become deeply involved in marketing, however. Mr. Jackson did place a large advertisement in the yellow pages of the telephone book. The relatively slow first quarter sales were not unexpected. Sales picked up during the second quarter and the firm was very busy in June and July. Mr. Jackson felt that he would probably achieve the fifty thousand dollars sales forecasted and perhaps a few thousand more.

A Materials Problems

Mr. Jackson began purchasing materials from a supplier located in a city about twenty miles from his business. Because he had no credit track record, he was limited in his ability to shop around. And, of course, the credit track record he did build up was a bad one. However, in late 1970, he was able to obtain credit from a supplier in Minnesota, who provided materials at a considerable savings. Although still not very flexible, the supply problem appeared to have been temporarily resolved. The major concern of the student team was that Mr. Jackson would fall into arrears with the new supplier and lose this good contact. They continually kept after him to pay his supplier bills as soon as possible. Unfortunately, the slow first quarter made this difficult.

Labor Problems

The first difficulty with labor was an excessive turnover of the work force. Reliable's work crew, excluding Mr. Jackson, ranged from one to five and averaged about three during 1970. Yet Mr. Jackson employed twenty-three different men during this period. The students felt there were three explanations for this situation. First, specialty contractors typically had high labor turnover. Second, Mr. Jackson used no systematic way of choosing new employees. He seemed to prefer young men who had no roofing experience, especially if they were black, down on their luck, or had had a few bad breaks in the past. He felt he could train new men in a short time. Unfortunately, the young, inexperienced, and immature men, all too often, turned out to be inefficient and unreliable. Later in the year, he shifted to older, more experienced men. A third problem was Mr. Jackson's tendency to yell at his men frequently, treating them quite gruffly. He lacked insight into their feelings, and he was inconsistent in handling them, sometimes firing them one day only to take them back the next.

The second labor problem centered around wage rates and increases. There was no standard criterion for justifying a wage increase. Productivity and efficiency records were not kept, so increases were largely subjective and unsystematic. Mr. Jackson began his men at $2.50 per hour and boosted these rates steeply once a man began to show signs of learning the work. He ended up paying poor workers as much as $4.40 per hour. As a result, the hourly rates became somewhat meaningless, because they did not reflect the employee's relative value to the company.

The students discussed the problem with a personnel professor and came up with some suggestions. They recommended to Mr. Jackson that he hire older, more experienced workers. Although he did do this, the students felt he had made the decision on his own. They also suggested that during the busy season he use two crews — one of regulars and the other consisting of moonlighters who would be given a chance to earn extra money. Another suggestion was that Mr. Jackson should be much more careful about the amount of money that he paid his workers.

As the 1971 roofing season began, he set a policy that limited inexperienced men to three dollars per hour. A top roofer, working well, was paid five dollars. Despite some awkward moments as the busy season began (some firing and rehiring), the labor situation appeared to improve during June and July. Morale was high and the men were producing far more effectively than they had the previous year. In fact, Mr. Jackson felt he was producing as much work with three men as he had with five the previous year. Nonetheless, the students were concerned that labor problems might continue to arise.

A Concern With Profit

Considerable space has been devoted to "the money problem" and the search for funds. Although the student team did devote a great deal of

time to the **financing** problem, it recognized that the **financial** problem ultimately would only be solved when Reliable's profitability increased.

To this end, the students attempted to get Mr. Jackson to keep job costing data on sheets that they prepared. They were especially interested in building data that would relate bid prices to actual job costs. When Mr. Jackson did this for a few jobs, the students were able to show him that in some cases either his bids were low or his productivity was less than expected, resulting in low gross margins. Mr. Jackson was interested in the findings and began to make efforts to bid more liberally. He continued to get work and his margins increased. Although the six-months financial statements are not available at the time of this writing, all indications are that Reliable's labor is much more productive now than in the past and that Mr. Jackson has been able to save on materials costs by carefully salvaging leftover shingles and tarpaper.

For some unexplained reason, Reliable's gross margin was unusually low during the first quarter of 1971. Mr. Jackson was particularly upset that his materials costs seemed to have risen. He felt certain that he had made a more economical use of materials during this period and that these costs should have declined relative to sales. A suspicion developed on the student team that either the inventory figures were in error or that some sales had not been recorded. Developments during the second quarter should have helped and all concerned were anxiously awaiting the financial reports from Mr. LeGrande, the CPA.

The Consulting Relationship

The students got along well with Mr. Jackson. However, they found that it was very difficult to get him to consistently follow their advice, particularly on recordkeeping matters. Mrs. Jackson had for a period appeared to be the solution to the records problem, but in the later spring, she unexpectedly became angry at the student team and claimed she didn't want anything more to do with them. She felt that the students were pushing her husband too hard. Discussing the matter with Mr. Jackson, it was discovered that she had not been enthusiastic about his starting the business in the first place. They had had several disagreements about the business before.

Recognizing that they could not depend on Mrs. Jackson, the students volunteered to continue working with Mr. Jackson during the summer months on a voluntary basis. This was also done to improve the chances of obtaining the loan from the SBA. Mr. Stevens, the MESBIC representative, volunteered the time of an accountant who would spend at least one afternoon each week at Reliable's office to keep the books up-to-date. Mr. Jackson eagerly accepted the help, stating that "I would be a damn fool if I didn't."

This particular student team began rather slowly. It made some mistakes initially in developing Reliable's efforts, but no errors were made twice. The team became more and more competent as time went on and by the

end of the year, it had a great deal of insight into the problems of the business. Mr. Jackson began to "come around" slowly. At first he agreed with their advice, but seldom actually followed up on it. Later, he began to take their advice and apply it. He began to understand the first few basics of financial control, although he still had a considerable way to go at the end of the year.

In summary, during the year there were many high and low points in this consulting relationship. But by the end of the academic year, there were some clear indications that Mr. Jackson was improving his business skills and that the business was improving. Somehow, Mr. Jackson had the ability to instill confidence among those of us who worked with him. We believed that Reliable would survive and one day prosper.

JOHNSON'S MEATS

Ralph Johnson, forty-two, had been working as a meat cutter in a packing house for seventeen years. In late 1969, he decided that he would like to go into the wholesale-retail meat business. He contacted the Urban League's Economic Development Division, and they prepared a proposal for a business loan. The business plan called for $150,000 of sales, primarily at wholesale in the first year. A profit of twelve thousand dollars was projected.

A local bank with a minority enterprise development division approved a mortgage loan for twenty-five thousand dollars to purchase a building. In addition, a short term loan was provided for the purchase of equipment, inventory, and for working capital. This loan was secured by a ninety-day renewable note that the bank agreed to extend indefinitely until the business got on its feet.

Unfortunately, just as Mr. Johnson began operating in July, 1970, the Urban League lost its economic development grant. Mr. Johnson, with no business experience was left to shift for himself. When approached regarding his interest in the MBA counseling program, he was delighted.

The Plight of Mr. Johnson

Lacking even the most basic experience and working under pressure, Mr. Johnson found himself working long and difficult hours without really understanding what was happening around him. He managed to provide information so that an accountant could prepare July financial statements, but he soon fell behind and no statements were forthcoming in August and September.

When the students first met with Mr. Johnson in late September, they quickly realized that business records were in a sad state. Stubs in the checkbook were not filled out; a running balance in the checkbook was not being kept; deposits were not dated and the amounts were not recorded; a daily cash record was not kept; some expenses were being

paid directly from the cash register; payroll taxes were not being paid as they should have been and no record of withholding was being kept; no record was kept as to the breakdown between wholesale and retail sales; and Johnson's invoices were proving too difficult to use. Visiting Hugh Hemp, a CPA working with Johnson, the students discovered that he was extremely dissatisfied with the operation. In fact, his disenchantment went so far that he doubted Johnson should be in business.

The students decided that their first objective would be to get the records straightened out and to begin teaching Mr. Johnson how to keep them in proper order.

The first point made was that everything was to be paid by check. Daily bank deposits were to be made and recorded. The checkbook was to be kept current. Once the students had brought the checkbook up to date, they asked Mr. Johnson to keep it current. For two months, they continued to look over the checkbook weekly and they found themselves balancing it. Finally, Mr. Johnson began to keep a complete and accurate checkbook that was reasonably current. This was accomplished only when the students finally said, "Look, Mr. Johnson. It's not doing you any good to have us doing your checkbook work for you. We're not going to look at it for a month. It's up to you to keep it in good shape."

Mr. Johnson's invoices were computationally cumbersome, so he often did not use them. He was also paying a substantial amount for the forms. The students contacted the president of a business forms company and a specially designed form was provided at a very reasonable price. Mr. Johnson began to regularly use this form to bill his wholesale customers.

Mr. Hemp, the accountant had provided Johnson with a daily cash statement to control all cash transactions. However, the forms proved difficult to complete. The students revised the statements twice before arriving at a form that Mr. Johnson could understand.

After consultation with Mr. Hemp, the students worked with Mr. Johnson in filling out the necessary forms for withholding taxes. At this point there had been a complete turnaround in the appearance and completeness of the checkbook and, as a result, in the service being received from Mr. Hemp, who was now providing monthly statements, assistance in preparation of W-2 forms, information for the paying of F.I.C.A., federal, and state taxes, and monthly comments about the status of the records.

To put the attack on the record-keeping problem in perspective, the students worked almost solely on the business records from September through November before they received the first financial statements after July. They were extremely patient and even convinced Mr. Johnson to enroll in a vocational school bookkeeping course (which he soon had to drop, because he did not have time).

When the October statements arrived, the students held several night sessions with Mr. Johnson, explaining what the statements were, why they were important, and how he could use them to determine how business was progressing. In addition, the students prepared a glossary of financial terms (gross margin, overhead, fixed costs, etc.) defined in simple, everyday language. At this point, the statements were not very meaningful to Mr. Johnson.

Improving the Profit Picture

Unfortunately as the statements began to arrive monthly, they showed rather consistently that the business was sustaining a loss of about one thousand dollars per month. (See Exhibit 1.)

The first consideration made by the students was the gross margin that Johnson's Meats was earning. Sales at this point were about evenly split between wholesale and retail. An average gross margin of six to ten percent could normally be expected on wholesale sales, and a margin of eighteen to twenty-three percent could be expected on retail sales. Mr. Johnson's margins for October, November, and December, were 12.5 percent, 21.4 percent, and 8.2 percent, respectively. (See Exhibit 2.)

The students suspected that the great variation in month-to-month margins was a result of inaccurate inventorying, and they advised Mr. Johnson of the importance of performing an accurate inventory. He agreed to be careful about this.

Mr. Johnson had frequently expressed an uneasiness concerning his pricing policy, feeling that it often had no basis. His pricing guidance came from the former owner of the business, Vince Pankrit, who he employed. Nonetheless, the business was now Mr. Johnson's, and the students felt he should learn with the best advice possible. So they interviewed some marketing people from a large meat packing house to obtain information about margins and pricing meats at the wholesale and retail levels.

The meat packing people provided some good advice and a detailed form showing how to determine if you are cutting sides of beef correctly and the exact amount of money you are making on a particular cut of beef.

The students also looked at the prices Mr. Johnson was paying for his meat. They discovered that he frequently was paying considerably more from his suppliers than he would have to pay elsewhere. Unfortunately, he was reluctant to change suppliers and in fact did not do so. This was hurting him considerably. As an example, he was paying three cents more per pound for chicken from his current supplier than he would have paid elsewhere. Chicken was a fast-moving, high-volume item for him and the reduced margin he was obtaining was hurting his profitability.

Exhibit 1
JOHNSON'S MEATS
Financial Record

Month	Sales	Cost of Goods	Gross Profit	Operating Expense	Net Profit
July	$ 6,200	$ 5,300	$ 900	$ 2,050	$(1,150)
August	7,400	6,850	550	1,625	(1,075)
September	7,500	6,950	550	1,600	(1,050)
October	10,200	8,925	1,275	2,450	(1,175)
November	10,050	7,900	2,150	2,225	(75)
December	8,875	8,150	725	2,200	(1,475)
January	9,718	8,623	1,095	1,800	(705)
February	9,850	7,600	2,250	1,700	550
March	8,900	8,700	200	2,100	(1,900)
April	10,430	8,320	2,110	1,570	540
May	14,260	11,310	2,950	1,505	1,445
11 Months	$103,383	$88,628	$14,755	$20,825	$(6,070)

Exhibit 2
JOHNSON'S MEATS

Cost of Goods Sold and Gross Margin
As A Percentage of Sales

Month	Cost of Goods	Gross Margin
July	85.4%	14.6%
August	92.5	7.5
September	92.6	7.4
October	87.5	12.5
November	78.6	21.4
December	91.8	8.2
January	88.7	11.3
February	77.1	22.9
March	97.7	2.3
April	79.7	20.3
May	79.3	20.7
11 Months	85.7%	14.3%

Johnson's First Marketing Campaign

Unsuccessful in influencing Mr. Johnson's buying policies, the students decided to look at the possibility of increasing sales. There were two possible routes — wholesale and retail.

The prospects for increasing wholesale business seemed dim. Mr. Johnson was not able to sell at low prices because of his relatively low volume. As an example, the large supermarkets sometime were able to sell meat at retail for less than Mr. Johnson could sell at wholesale. Thus, his wholesale business was limited to very small foodstores who wanted good service and were only able to purchase small quantities. Unfortunately, the meatpackers had recently reduced their minimum order sizes, thus taking away several of Mr. Johnson's wholesale customers.

The students recommended that Mr. Johnson attempt to build up retail sales. No retail promotion had been done in the past and yet these sales were showing a steady increase. Also, a relative increase in retail sales would increase his average margin.

Mr. Johnson agreed that a retail promotion campaign would be a good idea, but he had little cash to pay for it. The students suggested approaching the bank for a short-term loan, and Mr. Johnson readily concurred. When the students discussed the plan with the banker, Mr. Haskins, approval of a loan seemed likely. Mr. Haskins agreed that it would be worth the three hundred dollars sought (and a line of credit for five hundred dollars) to find out if any real retail potential existed. Johnson's Meats was continuing to lose money and this appeared to be one test to find out if the situation held much hope. Mr. Haskins assured the students that the loan would be provided.

The students began to plan the campaign in detail. They decided to use newspaper advertising in the weekly black newspaper together with flyers distributed in the neighborhood and at the churches. In addition, they had the idea of using a sound truck and cruising through the neighborhood to promote the business.

As their plans were developing, they got word from the bank that the loan was refused. Angry and disappointed at this turn of events, they wrote a strong letter to the bank condemning the loan action. The letter is included here as Exhibit 3, because it is an excellent example of the counseling style of this particular team, which often acted boldly, but was also capable of great tact.

Mr. Johnson told the students he wanted to go ahead with the campaign, and he volunteered to take the needed funds out of his personal checking account. The campaign was on. Events during the month of April were strategically scheduled to take advantage of potential demand around the welfare check days and Easter. (See Exhibit 4.)

Exhibit 3
THE UNIVERSITY OF WISCONSIN
Madison, Wisconsin 53706

April 15, 1971

Mr. Haskins
c/o Bank
City, Wisconsin

Dear Mr. Haskins:

After considerable thought, Art and I feel obligated to express our feelings regarding our actual $300.00 request for a loan and a line of credit for $500.00 for Johnson's Meats.

To begin with, you stated on March 2, 1971, the four C's in bank lending. They were:

1. Character
2. Capital
3. Capacity
4. Collateral

Our question is where have we failed??? Our effort was predicated on previous talks with representatives from your bank and, in fact, on your speech on March 2nd saying that you had the Power and the Authority. Can you blame us now for doubting your sincerity and, in fact, your program as a whole?

It is particularly distressing, in view of your verbal approval and Ed Helm's same commitment. I guess we are literally saying that we have been hustled and hustled again!

We question whether a normal customer would have been treated in this manner in view of the tremendous potential for the program, as we have outlined it.

We further feel that the bank has not expressed any degree of confidence in us and in doing a job you should have been doing long before now. It is obvious to us that the loan board made this decision on very little current information about Johnson's overall operation.

It is still very difficult to accept the decision in view of our close relationship with Johnson's operation and particularly distressing since our information could possibly exceed yours, and you made the loan.

(Page Two of Exhibit 3)

Our rationale for the emphasis on the retail trade is simply that we feel it will work and mainly for the following reasons:

a) With the economy as it is, the packing houses in the city have lowered the minimum purchases to within the grasp of the corner stores and other small meat dealers. As a result, Johnson no longer has a function in that area.

b) The profit margin on most wholesale goods is between 6% and 10% vs. a profit on retail sales of from 18% to 23%, naturally depending upon the product.

As a result of the above facts, our concern and interest in the wholesale area has dwindled considerably. The following points though are relevant to the wholesale area:

a) It was a complete fantasy to grant the loan as primarily a wholesale venture.

b) The market right now just isn't there.

Art and I thought the key to success was being flexible. We attempted to be so and look at the results. No wonder so many Blacks are fed up with the establishment! I believe that you should severely question your role and value to the black community as being relevant.

Cordially yours,

Crawford T. Carpenter

The highlight of the campaign turned out to be the sound truck, which generated great interest in the community. The sales pitch made by the students is presented in Exhibit 5. This was an imaginative sales story and it contains the basic information in the newspaper ads and the flyers.

Some relationship between sales and the promotion did seem to occur as the month went on. On the first few days after the promotion, sales seemed to pick up. But this was not always the case. Nobody came into the store with a coupon from the newspaper ad, suggesting that this medium had not worked well (this was also the only expensive part of the overall promotion). Total sales for the month were up by sixteen percent, indicating some success. Most pleasing to the students was the $540 profit registered, only the second time in ten months that Johnson's had shown a profit.

Mr. Johnson and Mr. Coleman had caught the enthusiasm of the students during the April promotion and they developed a special meat deal for May. The meat deal was outlined on a simple mimeographed sheet of paper and passed out to customers who came into the store. (See Exhibit 6.) As shown in Exhibit 1, sales continued to increase in May, reaching more than fourteen thousand dollars, thirty-seven percent above the previous month.

A New Set of Counselors

The students felt that Mr. Johnson could not remain in business for any length of time without further consulting services. Knowing they would be leaving in a month, they felt responsible for determining what kinds of services were needed and for obtaining them.

The team decided that the new consultants should be established businessmen in the local community, should have the ability to communicate with and train Mr. Johnson, and should have the desire to do something meaningful within the inner city. The local chapter of the American Society for Training and Development met all of the requirements. After the students initially approached the Chapter, the officers of the Chapter engaged in a decision-making process that lasted several weeks. Finally, they agreed to serve as consultants. The team that was assigned to Johnson's Meats included the sales training director of a large beer manufacturer, the training director of a power company, and two faculty members of the local technical college. The students agreed to work closely with the new consultants until they became familiar with the firm.

Exhibit 4

Advertising Campaign
(Schedule of Events)

April 1971

Sun	Mon	Tues	Wed	Thur	Fri	Sat
				1) Newspaper Ad ¼ page	2)	3)
4) Flyers Loudspeaker	5) Welfare Checks	6)	7)	8) Newspaper Ad ½ page	9)	10)
11) Loudspeaker	12)	13)	14)	15) Newspaper Ad ¼ page Flyers	16)	17)
18) Flyers	19)	20) Welfare Checks	21)	22) Newspaper Ad ¼ page	23)	24) Loudspeaker
25)	26)	27)	28)	29) Flyers	30)	

Exhibit 5

Students' Sales Story With Sound Truck

Story A

This is the Soul Butcher for Johnson's Meats at the corner of 10th and Grand.

We are here to let you know that it's free bacon for everyone.

Here's how you get it. Take the coupon on your doorstep or clip it out of the **Downtown News** and carry it on down to Johnson's Meats at 10th and Grand.

Mr. Johnson ain't no fool, giving away free bacon. He just wants you to come on down and get acquainted with him and his professional cuts of USDA meat.

That's right, folks! Free bacon at Johnson's Meats, located at 10th and Grand, and in fact, he's open today, waiting to meet you.

This is the Soul Butcher saying what you see is what you get, and what you get is good eatin'.

Story B

This the Soul Butcher for Johnson's Meats located at 10th and Grand.

Try Johnson's Soul Sauce to make your bar-b-cuing the absolute pleasure it should be.

Now there are three things that make good eatin'. They are:

1. Ribs
2. Sauce
3. Brew

I don't have to tell you where to get them, but just to be sure, Johnson's Meats.

Now let's talk about those ribs. They are:

1. Meaty
2. Tender
3. Just plain old good

We know there are places where you don't get what you pay for, but at Johnson's this isn't the case.

Johnson's individually cuts and wraps your meat to your specifications.

This is the Soul Butcher saying that people are talking about Soul Power, Green Power and Red Power. Now there's one power we don't have to talk about and that's Rib Power; so come on down to Johnson's and do your fair share for Rib Power

Exhibit 6

"MEAT DEAL"
Developed by Mr. Johnson and Mr. Pankrit
as a May Promotion

JOHNSON'S MEATS

PORK & BEEF DEAL   TOTAL $52.45

BEEF DEAL   APPROXIMATELY $27.00

Round Steak 2 slices
Sirlion 2 slices
T Bones 2 slices
Pot Roast 2 pieces
Rib Steaks 3 pieces
Short Rib 4 pounds
Chuck Meat 6 pounds
Liver 2 pounds
2 Fryers 6 pounds
(Soup Bone Free)

PORK DEAL   APPROXIMATELY $25.45

Pork Loin Cut
  into Chops & Roasts 12 pounds
Spare Ribs 4 pounds
Neckbones 5 pounds
Pig Feet 5 pounds
Bacon Slices 5 pounds
Pork Sausage (Home made) 4 pounds
4 Fryers 12 pounds
(Free Soup Bones)
(Free ½ Gallon Ice Cream)

ALL CHOICE MEAT PROFESSIONALLY CUT AND WRAPPED.
YOU MAY ORDER THE WHOLE DEAL, THE BEEF DEAL OR JUST THE PORK DEAL.

Exhibit 7

JOHNSON'S MEATS
Profit and Loss Statement
(for the 11 months ended May 31, 1971)

		Percent to Sales
Sales	$103,383	100.0
Cost of Sales	88,628	85.7
Gross Profit	$ 14,755	14.3
Controllable Expenses		
Wages	5,750	5.6
Outside services	405	.4
Payroll taxes	240	.2
Supplies	750	.7
Professional services	650	.6
Maintenance and repairs	720	.7
Office expense	235	.2
Advertising	475	.5
Delivery	350	.3
Donations	25	—
Total controllable expenses	$ 9,600	9.3
Contribution margin	5,155	5.0
Fixed Expenses		
Interest	4,100	4.0
Depreciation	2,050	2.0
Utilities	1,850	1.8
Insurance	1,725	1.7
Property taxes	1,190	1.2
Telephone	310	.3
Total fixed expenses	$ 11,225	10.9
Net Loss	$ (6,070)	(5.9)

Exhibit 8
JOHNSON'S MEATS
Balance Sheet, May 31, 1971

ASSETS

Current Assets		
Cash	$ 1,300	
Accounts receivable	320	
Inventory - at cost	1,050	
Real estate escrow account	350	
Total current assets	$ 3,020	
Property and Equipment		
Land	$ 3,000	
Building	34,250	
Equipment	2,500	
Truck	350	
Total	$40,100	
Less: Accumulated Depr.	2,400	
Net property and equipment	$37,700	
TOTAL ASSETS		**$40,720**

LIABILITIES

Current Liabilities		
Notes payable (90-day renewable note from bank)	$ 9,525	
Mortgage payable - current portion	800	
Accounts payable	2,525	
Payroll taxes	225	
Property taxes	350	
Interest	75	
Total current liabilities	$13,500	
Long-Term Liabilities		
Mortgage payable	$24,090	
Due to officer	5,200	
Total long-term liabilities	$29,290	
Stockholder's Deficit		
Common stock issued	$ 1,000	
Additional paid-in capital	3,000	
Net loss for year	(6,070)	
Total stockholders deficit	$ (2,070)	
TOTAL LIABILITIES AND STOCKHOLDER DEFICIT		**$40,720**

A Review of the Year

Mr. Hemp, for tax reasons, prepared the year-end statements for Johnson's Meats at the end of eleven months. (See Exhibits 7 and 8.) Total sales were $103,000, about thirty percent under the original plan. Also, sales were primarily retail rather than wholesale as had been the case under the Urban League plan. A six-thousand dollar loss was sustained instead of the twelve-thousand dollar profit that had been projected.

However, the students and the banker were not depressed by these results. The business was clearly improving. Sales during 1971 averaged $10,632 versus the $8,371 averaged in 1970. Mr. Johnson's average gross margin increased from 12.3 percent in 1970 to 16.2 percent during the five months in 1971. And, perhaps most significantly, the average monthly loss of one thousand dollars in the first six months had dropped to only fourteen dollars in 1971. The last two months, April and May, showed a profit for the business, the first time Johnson had earned a profit during two consecutive months.

Mr. Johnson had improved dramatically in his recordkeeping ability. The accountant wrote with his year-end statements, "I think Johnson has arrived at the point where he can give us the basic data we need. Both his interest and his accuracy have greatly improved in the past two to three months."

Arrangements had been made for a new set of consultants to work with Johnson. The bank also had a counselor assigned to the business, and although their counselor had done little during his first three or four months, there was hope that ASTD's presence would stimulate him to become active.

In the opinion of the course instructor, this student team had accomplished a great deal. Their enthusiasm and patience had made important contributions to Mr. Johnson's gradual transformation to an experienced and capable businessman.

AMITY ALUMINUM PRODUCTS, INC.

Amity Aluminum is the second continuing client from the first year of the MBA consulting program. Client-consultant relations were good during the first year, and Amity still needed help when the academic year ended.

Amity Aluminum is a small manufacturer of aluminum screen and glass windows and doors. The company also does some repair work and acts as a wholesaler of awnings and aluminum siding.

Amity's employees include James Wright, who is a stockholder and the president, a secretary, three production workers, and one installer The two stockholders in addition to Mr. Wright are not active in the business, although one, John Garrett, meets monthly with Mr. Wright to discuss the company's progress.

During the first year of operation, the primary company problem had been stimulating sales. The first-year student team had concentrated on this objective. Their success is attested to by the sales increase from thirty-two thousand dollars in 1969 to almost eighty thousand dollars in 1971 However, Amity continued to show a small loss in 1970. Mr. Wright was pleased that sales were at a level where a profit could be produced and he wanted the second-year team to concentrate on items that would increase the company's profitability They agreed, but pointed out that they would first need to become intimately familiar with the business.

A Lack of Records

When the students looked at Amity's financial records, they discovered that the company's books were in fairly good order. Miss Kowalski, the secretary-bookkeeper, was having some difficulty keeping track of the accounts receivable and payable, but the students developed a simple card-filing system that solved this problem. Another problem was periodic confusion in the checkbooks because the company had accounts in two banks. One account was closed, and the checkbook presented few problems.

The major records deficiency was a lack of cost and sales data on a product-by-product basis. Mr. Wright had no way of determining the relative profitability of his different products; prices were set with little regard for costs. After several sessions with Mr. Wright, the students were able to determine the standard material and labor inputs into each product that Amity produced. When these inputs were translated into dollars, the company's pricing schedule was reviewed and some prices changed.

At this point, the students were concerned about the amount of time that Mr. Wright spent installing windows and doing other manual work. They suggested that he hire an installer to free himself for selling and planning activities. He followed their advice and an installer was hired.

A Financial Plan

Feeling that a financial plan was needed for 1971, the students enlisted Mr. Wright's help in preparing one. Unfortunately, he seemed to take little interest in the planning, and the students ended up doing most of the work, using Mr. Wright as a data source.

The first step in creating a financial plan for 1971 was to review the company's financial performance in 1970 and 1969. The Financial statements for these years are presented in Exhibits 1 and 2. Sales increased by

148 percent in 1970, but this was misleading because the company began from a small base and was in operation only ten months during the first year. The most disconcerting aspect of the 1970 profit and loss statement was that the sales increase did not result in a profit (although expenses included a salary of almost twelve thousand dollars to Mr. Wright).

The balance sheet at the end of 1970 showed that Amity's current ratio was less than one. Mr. Wright felt that the company should apply for a loan to ease his difficult working capital situation. Therefore, the student team did its financial planning with the thought that the results might become part of a loan application.

The plan began with the preparation of a sales forecast on a product-by-product basis. Mr. Wright, when asked to estimate the 1971 sales volume, quickly arrived at a figure. But when the students forced him to make estimates for each product, he was surprised to discover that the total was only half of what the general forecast had been. Mr. Wright seemed to be impressed by the difference in forecasts, and the students hoped that he was beginning to appreciate the value of planning. Forecasts were also made for 1972 and 1973. The results are presented in Exhibit 3. A forty percent sales increase, to $111,000, was forecast for 1971.

The students then used the product cost data developed earlier to estimate the gross margin contributions from each product. They arrived at a total expected gross margin of almost forty-five thousand dollars for 1971. Operating expenses were then estimated. It appeared that the operating expenses were relatively fixed and that sales above the current level (which appeared to be close to the breakeven point) would be highly profitable. Conservative estimates of operating expenses resulted in a final estimate of fourteen thousand dollars profit for 1971.

Exhibit 1

AMITY ALUMINUM PRODUCTS
Profit and Loss Statements

	10 Months 1969	12 Months 1970	6 Months 1971
SALES	$32,000	$79,500	$29,000
Cost of Sales			
Beginning Inventory	—	1,000	3,500
Purchases and Freight	17,000	40,000	12,000
Productive Wages	10,000	22,000[1]	4,300[1]
Ending Inventory	(1,000)	(3,500)	(3,000)
Total	$26,000	$59,500	$16,800
GROSS PROFIT	$ 6,000	$20,000	$12,200
Operating Expenses			
Administrative Wages	1,300	5,600	7,305[2]
Bad Debts	—	600	260
Rent	1,200	1,800	1,000
Office Supplies	250	450	90
Legal and Accounting	275	650	220
Insurance	400	480	220
Advertising	20	600	1,000
Auto and Truck Expense	600	1,300	600
Repairs	75	450	125
Utilities	300	325	250
Telephone	500	800	380
Sales Commissions	50	2,500	—
Interest	200	450	350
Depreciation and Amortization	950	1,250	625
Payroll Taxes	575	1,300	700
Travel	250	1,050	50
Miscellaneous	300	250	200
Personal Property Tax	—	350	125
Total	$ 7,245	$20,205	$13,500
NET PROFIT (LOSS)	$ (1,245)	$ (205)	$ (1,300)

[1] Includes subcontracting payments.
[2] Mr. Wright's salary included. In previous years, 80 percent of his salary was allocated to productive wages.

Exhibit 2
AMITY ALUMINUM PRODUCTS
Balance Sheet

ASSETS

	12/31/69	12/31/70	6/30/71
Current Assets			
Cash	$ 3,000	$ 2,100	$ 250
Accounts Receivable	3,500	3,900	6,900
Inventory	700	3,500	2,000
Total	$ 7,200	$ 9,500	$ 9,150
Fixed Assets			
Auto and Truck	1,000	1,000	850
Shop Equipment	7,500	7,700	8,000
Office Equipment	600	550	550
Less: Depreciation	(1,000)	(2,250)	(2,800)
Total	$ 8,100	$ 7,000	$ 7,200
Other Assets			
Organization Expense	200	150	150
Goodwill	1,800	1,800	1,800
Total	$ 2,000	$ 1,950	$ 1,950
TOTAL ASSETS	**$17,300**	**$18,450**	**$18,300**

LIABILITIES AND EQUITY

	12/31/69	12/31/70	6/30/71
Current Liabilities			
Accounts Payable	$ 2,600	$ 5,100	$ 5,645
Payroll Taxes Payable	1,190	700	1,500
Note Payable - Current Portion	2,800	4,200	5,400
Total	$ 6,545	$10,000	$12,545
Long-Term Liabilities			
Note Payable	4,000	1,900	—
TOTAL LIABILITIES	$10,545	$11,900	$12,545
Stockholder's Equity			
Capital Stock Issued	8,500	8,500	8,500
Prior Retained Earnings	—	(1,245)	(1,445)
Earnings Current Year	(1,245)	(205)	(1,300)
Total	$ 6,755	$ 6,550	$ 5,755
TOTAL LIABILITIES AND EQUITY	**$17,300**	**$18,450**	**$18,300**

Exhibit 3

AMITY ALUMINUM PRODUCTS
Projected Income and Expenses

	1971	1972	1973
Net Sales*	$111,035	$133,242	$146,566
Cost of Goods Sold	66,200	79,440	87,384
Gross Profit	$ 44,835	$ 53,802	$ 59,182
Operating Expenses:			
Administrative Salaries	16,000	17,000	18,000
Accounting and Legal Fees	1,100	1,100	1,100
Advertising	1,000	1,200	1,400
Travel and Entertainment	1,000	1,200	1,400
Delivery	1,000	1,200	1,300
Bad Debts	500	600	650
Supplies	600	700	750
Rent	1,950	2.400	2,800
Utilities	500	600	725
Taxes	1,600	1,920	2,110
Repairs	1,000	1,200	1,350
Depreciation	1,500	1,500	1,500
Insurance	550	660	730
Interest	500	500	800
Other Operating Expenses	2,000	2,400	2,650
Total Operating Expenses	$ 30,800	$ 34,180	$ 37,265
Net Profit Before Taxes	**$ 14,235**	**$ 19,622**	**$ 21,917**

*Net Sales and Gross Profit were taken from projected profit and margin schedules.

The students then decided to divide their energies up into two major areas — cost control and sales — in order to help make the pro forma income statement a reality.

Sales

Amity's sales forecast for 1971 was based on the assumption that the company would get a five thousand dollar contract from a local builder (this seemed highly probable) and that it would get a three thousand dollar contract with a local school district. The assumptions seemed sound by the end of the first quarter. However, sales were not going as well as expected overall.

The one sales success of the first quarter was Amity's participation in a local home show. Several thousand dollars of sales resulted from contacts made at the show. However, because Mr. Wright had failed to follow the advice of the student team, he lost three hundred dollars when one of the companies sharing his display did not pay its share of the cost. The students had warned Mr. Wright that a signed agreement should have been obtained.

However, total sales during the first and second quarters of 1971, were not much above those of the previous year. If the forecast was to be realized, the students felt that extra sales effort would be necessary. They believed that Mr. Wright spent too much of his time installing and measuring and not enough making calls on his wholesale accounts and other customers. They suggested that he hire an installer and devote more of his time to selling. His neglect of selling was exemplified by his failure to display his products in a local department store specializing in building materials after having obtained permission for such a display. Eight months later, at the students' prodding, he went back and again received permission to display his products. The department store salesmen would take orders on behalf of the store, which would then order the windows at wholesale.

Another problem was that he visited the lumberyards carrying his displays only once or twice a year. The students emphasized the importance of selling the retail salesmen on Amity's products, which were relatively easy to sell to retail customers because of their high quality and reasonable price.

A purchasing agent from the local Sears store contacted Mr Wright about the possibility of supplying windows to the store. Mr. Wright and the students negotiated price over a period of three weeks. Sears would not agree to sign a contract and would provide no previous cost and volume figures. Finally, a price was agreed on, but Sears backed out, apparently because the local purchasing agent had second thoughts about dropping the nationally-approved supplier with its somewhat lower prices.

Although the conclusive part of the sales year was yet to come, the twenty-nine thousand dollar sales volume achieved in the first half of the year was only two thousand dollars above that of the previous year. There was considerable doubt that the forecast would be realized.

To stimulate sales, the students suggested that a semi-retired, commissioned salesman be retained to sell door-to-door, using a low key approach to combat the aluminum products high pressure image. The plan presented by the students recommended that two days preceding a call, the salesman should drive through a neighborhood and locate prospective customers (those houses needing new windows or doors). A flyer should be left to create interest and prepare the potential customer for the salesman's call.

Concerned about the lack of a coordinated sales effort, the students made the following recommendation to Mr. Wright:

> An analysis of sales should precede a decision about the lines of products the business will carry in the future We question the profitability of the manufacturing operation, particularly of windows Margins are small to wholesale accounts and a tremendous production volume increase would be needed to increase the contribution to profits substantially The team suggests looking into the possibility of ceasing manufacturing operations and running a retail distributorship of aluminum products Fish (a local building supply dealer), for example, can retail quality windows at Amity's production cost
>
> Your margin breakdowns show Nu-Primes, siding awnings, repairs, and retail sales as being quite profitable If the products were bought, marketed, and installed, the business would be considerably less complicated to run and Mr. Wright would not have to spread himself so thin You might also operate a subcontract installation service for large companies like Fish or Sears. We suggest a commitment be made by Amity's stockholders as to the types of products to be manufactured or sold and markets to be reached Without this commitment, sales efforts will continue to be of an elusive and disjointed nature

The students felt that even if their suggestions were not adopted, Mr. Wright would be forced to commit himself to making planned sales efforts toward the achievement of specific company goals.

Labor Problems

The student team was concerned that two of the three production employees were related to Mr. Wright. These employees were paid a relatively low wage, $1.85 per hour, and their morale was low. Mr. Wright's brother, Tom, was theoretically, in charge of production. But he did not use his authority properly. Shop orders were being filled more slowly than they should have been. In other words, productivity was low. After adjusting, for accounting changes, the company's labor inputs as a percentage of sales rose from 10.6 percent for the first half of 1970 to 18.8 percent for the first half of 1971

In an attempt to increase the productivity of the shop labor, the students developed a production-scheduling board. But this was not used, "because there was not enough time."

When the students discovered that production was often slowed down because of unequal work loads among the three shop workers, they decided to prepare job descriptions, a production flow chart, and instructions for Mr. Wright to use in employee interviews. The production flow chart of the situation as it existed showed that the workers had an incentive to work

slowly to avoid the finishing work of the production process. Whoever completed his specifically assigned task first was to undertake job identification, quality inspection, and placing the item in inventory. A revision of job responsibilities eliminated this negative incentive by assigning this responsibility to Mr. Wright's brother.

Mr. Wright spoke with the employees individually in an effort to reduce dissatisfaction. Each employee was given a fifteen-cent raise. But the students were concerned that the employees were not properly oriented and that productivity would remain low. By June, Mr. Wright felt that the situation had improved considerably. The students felt it was unfortunate, however, that two sons of another stockholder, Mr. Garrett, were going to work for Amity during the summer months. The students felt that the low productivity of the shop workers was the single greatest cause of Amity's lack of profitability. This also contributed to the low wholesale margin. If labor productivity could be increased (one of the workers had, in a moment of weakness, suggested that he could turn out fifty percent more work if he wanted to), the manufacturing operation could be profitable.

Supply Problems

Materials costs also rose, but to a lesser degree, in the first half of 1971. This was attributed to price increases and the inefficient cash and carry procedure that the aluminum supplier forced on Amity. On several occasions, Amity's truck, with a paid employee driving it, showed up at the supplier's warehouse only to have the order not ready. This wasted several hours of company time. Even more disconcerting was the inability of Amity to order in larger quantities, which would have meant fewer trips and fewer stockouts to interrupt production. The basic difficulty here was the lack of working capital available for the purchase of materials. The poor supervision of labor in the shop was also resulting in some waste of materials. At a minimum, the students suggested, "Amity should sell its scrap aluminum, which is probably worth almost six hundred dollars."

Other Expenses

Operating expenses generally seemed to be in good control, with the exception of Mr. Wright's salary. The students felt that the $216 each week that he was being paid was too much for the company to pay at this stage of its development. They were able to suggest to him tactfully that he reduce his salary in return for additional stock to allow the company to build up its equity and cash positions. However, for personal reasons, Mr. Wright was not able to do this. The other stockholders did not like the idea of giving up a portion of their control in the company anyhow.

The End of the Year

The months of July, August, and September, 1971, were key months for Amity Aluminum These were the expected peak sales months. If the company could generate good sales during this period and keep its costs reasonably in line, a substantial profit could be earned. A twenty-two hundred dollar profit was earned in the second quarter despite modest sales, suggesting that Amity had the potential to do well. The student team ended the academic year by making the following recommendations to Mr. Wright:

1. Establish definite goals and objectives which may be used in planning and forecasting.

2. Emphasize sales and hire a part-time, semi-retired salesman to concentrate on retail sales. Mr. Wright should concentrate on wholesale accounts and preparing bids.

3. A second part-time, semi-retired installer should be hired when needed to keep pace with sales. Subcontractors should be used for large jobs and when a large backlog has built up. Mr. Wright should avoid becoming involved in installing.

4. Amity should attempt to consolidate its financial position by paying off the notes and accounts payable, and building up cash with the expected increased revenues in 1971. Opportunities for growth should be examined, and plans laid for expansion in 1972. At this time additional capital could be sought.

5. Continue to seek more satisfactory sources of aluminum supplies.

6. Enlist the aid of professional people, perhaps by including them on the board of directors.

At the end of the year, the students had mixed emotions about their experience working with Amity Aluminum. They were discouraged at times by Mr. Wright's failure to follow their advice, even regarding small matters that would have taken little time. However, they had grown to understand and appreciate the multiple problems of a small manufacturing company. And they did feel that the financial plan they had developed provided Amity for the first time with data that could be effectively used to guide the company to profitability.

CREATIVE PLASTICS, INC.

Creative Plastics is a plastics manufacturer capable of producing injection-molded and vacuum-formed plastics products. The company began operations early in 1970, intending to specialize in point-of-purchase display materials.

Joseph Franklin, owner and president of the company, had twelve years of experience as an industrial designer prior to opening his own business. He was an articulate and ambitious young man of forty. He considered his strength to be his creativity and the ability to translate ideas into finished products.

Creative Plastics began on the basis of a ten thousand dollar bank loan and two-semi-automatic injection molding machines provided by local manufacturers. One of the machines was donated and the other was sold to him at a very low price. Because of the expense involved in machine installation, only one of the machines was initially installed in the shop.

Unfortunately, soon after the company began operating, a twenty thousand dollar order that had been promised by a local manufacturer was cancelled. This order had been one of the bases on which the bank loan had been obtained and the cancellation disturbed the bank as well as Mr. Franklin. Looking for other business, Mr. Franklin found that orders developed very slowly. One of his problems was that he was for all practical purposes the company's only employee. Thus, he found it difficult to find time to do the sales work needed in addition to doing the recordkeeping, the correspondence, the design, and the production. When he did obtain a contract, he had to stop selling and produce the order. Then when the order was finished, he once again would attempt to sell. As might be expected, this resulted in considerable lags between production periods. In addition, Mr. Franklin was finding it difficult to sell.

Recordkeeping Problems

Accurately perceiving that his most critical problem was obtaining orders, Mr. Franklin neglected his recordkeeping in order to spend time calling on potential customers. When the student team arrived in September, it immediately concluded that someone had to develop an adequate bookkeeping system for the company.

The student assigned to this task was not an accountant. Fortunately, one of his friends was an accountant employed by a large, national accounting firm located in the city. The student contacted his friend, Maury Tesch, to obtain help. Mr. Tesch soon became very interested in Creative Plastics and its problems, and he volunteered to develop the bookkeeping system that was needed. After spending almost eighty hours of his own time on the project, he asked for and received permission from his employer to spend company time working to help Mr. Franklin.

Exhibit 1
CREATIVE PLASTICS
Profit and Loss Statement

	1970	Percent	5 Months 1971	Percent
SALES	$ 15,200	100.0	$ 8,250	100.2
Cost of Goods Sold				
Material	1,800		1,150	
Direct Labor	675		410	
Associated Services	2,600		770	
Coordinated Services	2,500		2,990	
Other Direct Costs	3,575		400	
Total Cost of Goods Sold	$ 11,150	75.6	$ 5,720	69.3
GROSS PROFIT	$ 4,400	24.4	$ 2,530	30.7
Operating Expenses				
Indirect Labor	1,400		450	
Supplies	1,925		350	
Rent	2,500		1,100	
Utilities	1,620		1,425	
Repairs and Maintenance	750		200	
Auto and Travel	1,425		725	
Insurance	200		150	
Officer's Salary	5,155		3,335	
Depreciation	1,500		600	
Development	625		250	
Advertising	180		175	
Miscellaneous	220		90	
Total Operating Expenses	$ 17,500	115.1	$ 8,850	107.3
Interest Expense	950	6.3	800	9.7
NET PROFIT (LOSS)	$(14,400)	(94.7)	$(7,120)	(86.3)

Exhibit 2
CREATIVE PLASTICS, INC.
Balance Sheet

ASSETS

	12/31/70	5/31/71	Change
Current Assets			
Cash	$ 100	$ (300)	$ (400)
Accounts Receivable	6,450	525	(5,925)
Work in Progress	2,200	1,150	(1,050)
Prepaid Expenses	---	200	200
Total Current Assets	$ 8,750	$ 1,575	$(7,175)
Fixed Assets			
Office Furniture	700	1,350	650
Shop Equipment	12,725	14,200	1,475
Tools and Dies	1,800	1,850	50
Less: Depreciation	(1,500)	(2,100)	(600)
Total Fixed Assets	$ 13,725	$ 15,300	1,575
TOTAL ASSETS	**$ 22,475**	**$ 16,875**	(5,600)

LIABILITIES AND CAPITAL

	12/31/70	5/31/71	Change
Current Liabilities			
Accounts Payable	$ 10,450	$ 6,700	$(3,750)
Accrued Liabilities	900	2,500	1,600
Short-Term Loans	200	1,300	1,100
Total Current Liabilities	$ 11,550	$ 10,500	$(1,050)
Long-Term Liabilities			
Long-Term Loans	18,150	18,150	---
TOTAL LIABILITIES	$ 29,700	$ 28,650	$(1,050)
Capital			
Paid-in Capital	---	1,000	1,000
Donated Capital	7,175	8,745	1,570
Accumulated Profit (Loss)	(14,400)	(21,520)	(7,120)
Total Capital	$ (7,225)	$(11,775)	$(4,550)
TOTAL LIABILITIES AND CAPITAL	**$ 22,475**	**$ 16,875**	$(5,600)

By the end of December, the books had been brought up to date and monthly financial statements were being produced. The year-end statements clearly showed the company's major problems to be sales and a lack of capital. (See Exhibits 1 and 2.)

Unfortunately, as the first semester ended, the student who had worked on the bookkeeping system graduated. He was replaced by two students who joined the course at mid-year. This proved to be somewhat unfortunate, because it took some time for the new students to become oriented to Creative Plastics' needs and to build up rapport with Mr. Franklin. (This is mentioned here as a warning of the disadvantages of changing the student team during the middle of a year.)

The Capital Problem

While the one student worked on the records during the first semester, the second spent his time helping Mr. Franklin to obtain sales. Mr. Franklin claimed that one of his marketing problems was that he was spread so thin. He felt that he needed a secretary to keep up with correspondence, keep records, and answer the telephone. Also, he wanted to hire a production employee as soon as he obtained a significant contract. This seemed reasonable and the student consultant helped to prepare a proposal for expansion of the initial bank loan. Based on the statement of one plastics manufacturer that starting a company such as Creative Plastics would require thirty thousand dollars and three years before the business would be able to operate profitably, the loan proposal seemed reasonable.

The bank, however, was not receptive to the idea of expanding the loan in one large increment. It was disillusioned by past claims of orders that did not develop. The bank agreed to provide the financing necessary to produce any contracts that could be presented in a legally binding form and to parcel out loan increments as they were needed. This amounted to Mr. Franklin's having to approach the bank monthly for twenty-five dollars to pay the telephone company, seventy-five dollars to pay a utility bill, etc. This not only took a considerable amount of Mr. Franklin's time, but the continual "begging" for money proved to be very demoralizing.

However, while the failure to obtain a major loan increment did make effective marketing difficult, the bank had effectively forced Mr. Franklin to discipline himself regarding expenditures.

An Attack on Sales

When the loan proposal was turned down, it focused the student's energies on one principal goal — obtaining signed contracts. One student, Bill Schroeder, had by this time noticed that one of Mr. Franklin's weaknesses was a failure to follow through on potential orders. Many times Mr. Franklin would make a sales contact and obtain an indication of interest. However, he would then fail to call back periodically to see if there were any specific production contracts he could bid on. Worst of all, sometimes when he had

bids come into the shop, he would fail to respond to them quickly. Schroeder tried to convince Mr. Franklin of the importance of being more aggressive and consistent in following up his orders.

New business, however, continued to develop slowly. By the end of 1970, the company had achieved only $15,200 of sales. The average contract was about fifteen hundred dollars. Although Creative Plastics was not getting many significant contracts, the firm had done work for some important national businesses, including United Airlines, American Motors, A. O. Smith, and Pabst Brewery. The fact that these customers were satisfied with the quality of Creative's production had potential value in soliciting new business.

The students had recommended by this time that Mr. Franklin emphasize his ability to produce plastic production parts as opposed to the point-of-purchase display materials that had been emphasized in the past. The former appeared to have more immediate potential. The hope was that some major companies, wanting to provide a boost to a black business, would offer Creative Plastics a chance to provide production parts. A major automobile manufacturer, for example, could afford to give Creative Plastics a twenty thousand dollar order for plastic parts without affecting its overall production cost greatly. The order might be less than a percent of the firm's total parts needs, but it would be a very important order to Creative Plastics. A previous successful contract with American Motors (for only twenty-five hundred dollars) suggested that this approach might be successful.

As a beginning to the increased selling effort, the students prepared a follow-up letter which Mr. Franklin sent to more than thirty companies that he had contacted at a black business fair in Chicago. They also culled through Mr. Franklin's somewhat disorganized files and sent letters to all the firms that he had contacted during the previous year.

These letters drew a number of hopeful responses. The automobile manufacturers in Detroit particularly seemed to show potential. In late March, Mr. Franklin was able to visit several automobile manufacturers in Detroit. Although no concrete orders resulted, the ground breaking was done. The Ford Motor Company sent a team of engineers to inspect Creative's production capabilities. several bids were received from Hydromatic, Saginaw Steering Gear, American Motors (Detroit office), and the Ford Motor Company. With the exception of the American Motors bids, all of Creative's bids were very high. However, follow-ups were made, and the automobile manufacturers promised to send more invitations to bid in June and July when bids were typically let for production and replacement parts.

The bidding experience with the automobile manufacturers convinced the students that they needed to improve their bidding procedures. In addition to being extremely high on these bids, the students were disturbed at Mr. Franklin's tendency to leave the bid invitation lie around the office until

the students could come in to calculate them. One bid invitation from American Motors (already a good customer) was not returned for over a month in spite of the student's continual prodding.

To correct this situation, or at least to alleviate it, one of the students prepared a detailed procedure to be used in bidding (see Exhibit 3).

During the first semester, Creative Plastics had bid on three pinion gears for Western Electric. To secure that contract, several repeat calls were made on the buyers and plant engineers of Western Electric in Chicago. Western's engineers came to inspect Creative's plant. Fortunately, the firm had recently obtained a one-third ounce automatic screw machine from a local manufacturer on a buy-no buy arrangement (if Creative did not get the Western Electric contract, it did not have to buy the machine). A contract for five hundred thousand small gears was finally obtained with production to begin in June.

The Students made contacts with a number of potential customers that Creative Plastics had not yet contacted. In some instances, sales calls were made, and in several cases, invitations to bid were obtained. It appeared that at least one contract for six thousand dollars would result from these calls.

A contact was made with a marketing representative of a promotions company working out of Chicago. Miss Mary Allen, the representative, offered to solicit business for Creative Plastics on a commission basis. Because she traveled around the country trying to sell her firm's creative ideas for point-of-purchase promotions, this appeared to be a potentially valuable contact. Within a month, it appeared that Creative Plastics would get from three thousand to eight thousand dollars of orders based on her efforts. This work, however, was not due to begin until late summer

At the end of the year, Creative Plastics had bids outstanding with sixteen different companies. In many cases, there were indications that Creative had an excellent chance of obtaining contracts. However, Mr. Franklin had shown a tendency in the past to be optimistic and the student team was not overly excited.

One team problem was that their information regarding bids made and potential business coming in was not always complete. In one instance, for example, Mr. Franklin had been told he was going to get a five thousand dollar contract. During the week, while the students were gone, the company called saying it needed the parts sooner than expected. Mr. Franklin rejected the bid offer at that point (having made a mistake in calculating what it would cost him to meet the deadline). As a result, his machines stood idle for three weeks. The students didn't discover what had happened until it was too late to correct the error.

Exhibit 3
CREATIVE PLASTICS, INC.
STEPS INVOLVED IN THE BIDDING ON NONPROPRIETARY ITEMS

Series I

1. Obtain a reference number for the bid from the bid book.

2. Identify when the bid must be returned to the potential customer.

3. Arrange all the outstanding bids by their due dates.

4. Work on the bid which has the nearest due date.

Series II

1. Identify who the buyer of the part is and if questions on the bid should be directed to him, or another party.

2. List the order quantities that must be quoted on.

3. Calculate the weight of the part to be bidded on (if no sample part can be weighed);

   a. find the material the part is to be produced in, and its specific gravity per cubic inch (given on supplier sheets).

   b. calculate the cubic inches of material needed in the part, this is is done by calculating the volume of the part in cubic inches - - tables and formulas to help in this process can be found in the CDC match tables book.

   c. multiply the volume of the part in cubic inches × the weight in grams of one cubic inch of the material; this resultant will equal the weight of the part in grams.

4. Use the standard rules of thumb for estimating the number of cavities to be included in the mold;
   —take into consideration the weight of the part, quantity of the order, and the tool and die maker's recommendations, specs of molding machine.

5. Obtain tooling costs from two separate sources.

6. Estimate the material cost per part by:

   a. (with regrind) multiply the part's weight in grams by 2.3 to find the pounds of material needed to produce 1,000 parts.

or

b. (with no regrind) multiply the part's weight plus the weight of the runner in grams by 2.3 to find the pounds of material needed to produce 1,000 parts.

and

c. multiply the cost of one pound of the material by the number of pounds needed for 1,000 parts.

d. divide the cost for a thousand parts by 1,000 to find the material cost per part.

7. Estimate the cycle time needed per shot of material by using the standard rules of thumb,
   —take into consideration the weight of the parts (or shot weight) tolerance of the part, and the machines specs

8. Calculate the effective production yield rate per hour,

   a. (for single parts) Yield rate = (#shots per hour × #cavaties in mold) × effective yield rate

   b. (for a family mold Yield rate = #shots per hour × effective yield rate

9. Production cost per part = $\frac{\text{plant's hourly machine rate}}{\text{effective yield rate per hour}}$

10. Set up cost = hourly machine rate × #hours needed to set up the run.

11. Set-up cost per part = $\frac{\text{set up cost}}{\text{total order quantity}}$

12. Estimate the type of packaging needed to send the order out.

13. Packaging cost per part = $\frac{\text{packaging cost}}{\text{total order quantity}}$

14. Total cost per part = material cost per part + production cost per part
    (piece price) + set up cost per part + packaging cost per part

15. The price to be quoted the customer will be either a piece price or the total price found by multiplying the piece price by the size of the order.

Series III

1. On the copy of bid retained by Creative Plastics note the date the bid was mailed out.

2. In the company bid book under the appropriate bid number list:

   a. the total amount of the bid for each order quantity.

   b. the material cost per part, total material cost, and total number of pounds of material needed to complete job.

   c. the production cost per part, total production cost, and the total number of hours needed to complete job.

   d. estimated packaging cost per part, total packaging cost, and the method of packaging.

   e. set up cost per part, total set up cost, time needed to set job up.

   f. the date the bid was mailed out, and the date a decision was to be made on the part.

In spite of some confusion regarding sales, sales opportunities, and bids outstanding, Mr. Franklin was gradually building up a list of companies which knew of his existence and were willing to submit bid invitations to him on a regular basis. Sales during the first five months of 1971 were only $8,250, less than forty percent of what had been forecast, but the potential for the future seemed good **if Mr. Franklin would aggressively follow-up on all his contacts.**

A Proprietary Item

Mr. Franklin had designed an Afro-Comb in the fall. He felt he could produce it and market it through a national distributor at a substantial volume and profit. On this basis, he contracted to have dies made at a cost of three thousand dollars. When the die producer discovered that Creative Plastics could not promptly pay for the dies, he stopped work on the item. In early 1971, the die-maker was convinced to complete the dies and take payment on the basis of one cent for each comb sold.

Mr. Franklin was quite sensitive about the Comb project. It was his idea and he was leery of the advice that the students gave him regarding the marketing of the Comb. Yet, it was soon clear that he had no specific plans for marketing the product.

Contacts were made with a few potential distributors, but these uncovered only some potential interest. At this point, a sample of the Comb was not available. When the samples became available in their packaged form, the students and Mr. Franklin visited with a distributor of black beauty products in Chicago. The reception for the Comb was not very enthusiastic. The distributor felt that the retail price was high and the quality only moderate. He did volunteer to take another look if Mr. Franklin could provide the results of a market test. But, Mr. Franklin did not attempt to make a market test locally, despite the students' suggestion that he do so.

In the meantime, the students had been trying to learn how to market an item of this type. They discovered that a fifty percent markup on retail (with perhaps an extra introductory incentive) and a fifteen to twenty-five percent distributor markup (with "push money" for the salesmen) was usual. Creative Plastics had the potential to earn a good profit on the item if a demand could be developed at $1.50 retail. Unfortunately, this project had developed at the close of the academic year and the students were unable to effectively follow-up on it. The marketing plan was not completed.

The most unfortunate thing about the Afro-Comb was that it became the pet project for Mr. Franklin. He often neglected to keep up with the bid invitations for production parts that were coming into his office. As a result, the sales were not developing as well as expected.

Summary

Mr. Franklin began his plastics business under the most difficult of circumstances. He had few resources (no employees and little money) to accomplish all that needed to be done to build up a business. The economy was down. The initial order of twenty thousand dollars that had provided the stimulus to start the company had fallen through. Sales developed very slowly and the firm soon ran out of funds. Additional funds were parcelled out slowly by the bank.

At the end of the academic year, the students were not confident about Mr. Franklin's chances of success. Sales continued not to develop and the marketing of the Afro-Comb was in a state of confusion. They felt that if he didn't obtain some significant contracts in the last of the year the company would probably fail.

On the bright side, Mr. Franklin was bright and tenacious in his desire to succeed. A nine thousand dollar SBA-guaranteed loan was obtained in July from the bank. Orders were in hand for some June and July work. The potential for some significant contracts from the automobile manufacturers in the next few months was fairly good.

Mr. Franklin's basic potential for success was excellent. He was capable of producing a good product and capable of expanding to become a significant employer in the inner city. As one of but a few black manufacturers in the city, even the state, he was a potentially important example for others. The awkwardness of a counseling program built on an academic year became apparent in this situation. Hopefully, Creative Plastics will improve its situation during the summer and be able to use the services of a counseling team during the next year. Mr. Franklin is deserving of high quality help, and he ought to get it.

Appendix A

Course Outline

BUSINESS 792

PROBLEMS IN SMALL BUSINESS MANAGEMENT:
THE DISADVANTAGED ENTREPRENEUR

The general approach followed in this course will **combine** classroom instruction related to small business management, consulting techniques, and problems of the disadvantaged entrepreneur with field casework in a small business (operated by a disadvantaged entrepreneur). The majority of the student's time will be spent in the field, working with his team to identify the problems of the assigned client, to propose solutions to these problems, and to aid the client in carrying out the solutions. It is anticipated that the clients will be located in the Milwaukee and Madison areas. Travel expenses will be paid.

The purpose of the course is to provide students interested in small business an opportunity to work with the actual problems; to provide students concerned about the social responsibility of business and avenue for action; and to provide a mechanism for transferring business expertise to the disadvantaged entrepreneur.

Course Detail

Prerequisites: Second year MBA students in two-year programs, or students in one-year MBA programs under certain circumstances. Consent of instructor required in all cases.

Credit: **All** students are expected to take the course for **two** semesters, receiving three credits for **each** semester; under certain circumstances this requirement may be waived.

Schedule: We will meet twice the first week of the semester as an entire class, and eleven more times after that. Beginning the third week of the semester, each student team will meet for one hour each week with the instructor to discuss problems regarding its assignment. During the first semester, each student will spend forty hours in the classroom and individual meetings.

During the second semester, students and the instructor will meet ten times as a class and weekly on a team-professor basis, a total of thirty-five hours. The lower than usual number of hours of formal meetings is specifically designed to allow students to spend adequate time with their clients during the school year.

Assignments: The texts used in the course will be: **Consulting for Black Enterprise — A Challenge to the Business Establishment,** published by the Center for Venture Management, and **A Manual on Individual Counselling,** published by Howard University.

Several readings will be assigned, but students are encouraged to read selections from the bibliography that especially interest them, as well as other readings fitted to to the needs of their individual assignments (for instance, the team assigned to a construction company should read material about the construction industry).

Topics and Speakers, First Semester

"Experiences of MBA Consultants," students from the previous year

"The Responsibilities of a Consultant," president of a management consultant organization

"The Problems of a Small Black Businessman," president of a black-owned and managed manufacturing company

"Problems of a Small Black Businessman," the black owner-manager of a recently-opened retail shoe store

"Case Histories from the 1969-70 Program," students from the previous year

"A Small Business Success Story," president of a local manufacturing company that began with $15 and grew to a million dollars in annual sales

"A Small Business Success Story," president of a local men's clothing chain that achieved $4 million annual sales after four years

"Planning in the Small Business," Professor Strang

Topics and Speakers, Second Semester

"A Small Business Success Story," president of a local manufacturing company that grew from $2 million annual sales to $50 million in ten years under his leadership

"Problems of a Small Black Businessman," a black painter who had recently begun his business

"The Small Businessman who Wants to Remain Small," president of a local manufacturing company

"The Problems of Providing Loan Capital for Black Business," the officer in charge of a minority business loan program in a major bank

"Financing and Other Problems of the Black Businessman," director of a Minority Enterprise Small Business Investment Company (MESBIC

"Minority Business in the United States," Professor Strang

"The Pro's and Con's of Black Capitalism," Professor Strang

"Existing Minority Enterprise Development Programs," Professor Strang

"Speeding Minority Enterprise Development — Alternatives and Conclusions," Professor Strang

**Remaining class periods will be used to discuss team problems and findings before the entire class.

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