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MANAGEMENT TRAINING AND ECONOMICS EDUCATION IN
CENTRAL AND EASTERN EUROPE

QUARTERLY PROGRESS REPORT

OCTOBER 1, 1993 - DECEMBER 31, 1993

AID Cooperative Agreement No.: Grant EUR-0029-G00-3029-00

AID Project Officer: Stephen French

Midwest Universities Consortium for
International Activities, Inc.
66 East 15th Avenue
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Introduction

During the fourth quarter final grant activities were conducted with counterparts at Budapest University of Economics Sciences (BUES) and University of Economics, Prague (UEP). Requested fall modules were successfully delivered in Budapest and Prague, counterpart faculty participated in a non-USAID funded program on developing and delivering executive education programs, and consulting visits occurred in Budapest and the US. This quarter also produced the completed Hungarian casebook as published in BUES journal, AULA.

Efforts toward project sustainability continued in the last quarter through additional guidance provided in consulting sessions and an executive education workshop in Budapest. The increased role of counterpart administration and faculty in the preparation and execution of the final MTC course should also increase the ability of BUES and UEP to continue to administer and deliver these programs.

Proposed Activities

The proposed activities and targets for 1993 are reflected in Table 1.

TABLE 1: 1993 PROPOSED ACTIVITIES AND TARGETS

DATE	ACTIVITIES
January, 1993	Preparation for Spring delivery of Professional Managers Program in Hungary and Czech Republic.
January, 1993	Purchase of \$15,000 worth of additional computing equipment for both counterpart institutions.
January, 1993	Development of evaluation system.

DATE	ACTIVITIES
February, 1993	Preparation for Spring delivery of Professional Managers Program in Hungary and Czech Republic.
February, 1993	US and counterpart faculty development activities.
March, 1993	Delivery of Human Resource Management and Managerial Accounting Modules in Czech Republic and Hungary.
March, 1993	Consultation with counterpart Academic Coordinators on development of executive education centers.
April, 1993	Completion of First Quarterly report for year two.
April, 1993	Completion of "MUCIA NEWS" internal newsletter.
April, 1993	Delivery of Total Quality Management and Marketing Modules in Czech Republic and Hungary.
May, 1993	Delivery of Managerial Economics & Industrial Organization Modules in Czech Republic and Hungary.
May, 1993	Evaluation and consulting by US project personnel.
June, 1993	Delivery of Finance and Strategy Modules in Czech Republic and Hungary.
July, 1993	Completion of Second Quarterly report for year two.
July, 1993	Completion of evaluation for Spring Professional Managers Program.
July, 1993	Preparation of Fall week-long export module to be delivered in Czech Republic and Hungary.
July, 1993	Three Czech and three Hungarian faculty attend Executive Education Programs at two MUCIA institutions.
August, 1993	Evaluation and planning meeting for remainder of year-two activities. Meeting to be attended by Project Personnel.
September, 1993	Delivery of Export Module in Czech Republic and Hungary.
October, 1993	Evaluation report on total delivered program.
October, 1993	Completion of Third Quarterly report for year two.

Completed Activities

Under technical guidance from USAID, the MUCIA/MTC project has completed the activities listed in Table 2. This table shows that all proposed activities for the quarter have been completed plus supplementary achievements, including the delivery of a Department of Education sponsored workshop on Executive Education Programs to MTC counterpart faculty.

TABLE 2: 1993 COMPLETED ACTIVITIES

DATE	ACTIVITIES
January, 1993	Preparation for Spring, '93 delivery of Professional Managers Program (PMP) in the Czech Republic and Hungary.
January, 1993	Development of evaluation system.
February, 1993	Preparation and shipment of PMP notebooks.
February, 1993	Transfer of funds (\$24,700 each) to Budapest University of Economic Sciences and University of Economics, Prague for preparation and execution of PMP activities.
February, 1993	Completion of US Faculty Information Aid.
February, 1993	US and counterpart faculty development activities.
February, 1993	Contribution by Harper Collins Publishers.
March, 1993	Recruitment of 34 PMP participants in Czech Republic and 31 PMP participants in Hungary.
March, 1993	Delivery of Human Resource Management and Managerial Accounting Modules in the Czech Republic and Hungary.
March, 1993	Visit to USAID in the Czech Republic and Hungary by Project Director, Robert Klemkosky.
March, 1993	Consultation with counterpart Academic Coordinators on development of executive education centers.
March, 1993	Completion of October - December, 1992 Quarterly and Final Reports for year one.

April, 1993	Completion of First Quarterly report for year two.
April, 1993	Completion of "MUCIA NEWS" internal newsletter.
April, 1993	Delivery of Total Quality Management and Marketing Modules in Czech Republic and Hungary.
April, 1993	Visit to USAID in the Czech Republic and Hungary by Professor Gilbert Harrell, Marketing Module Coordinator.
May, 1993	Delivery of Managerial Economics & Industrial Organization and Production & Logistics Modules in Czech Republic and Hungary.
May, 1993	Cam Danielson, Project Coordinator, meets with Academic Coordinators and counterpart faculty to discuss evaluation of the program and consult on executive education development activities.
May, 1993	Visit to USAID in Czech Republic by Professor Jaffee, ME&IO Module Coordinator, and Cam Danielson.
June, 1993	Delivery of Finance and Strategy Modules in Czech Republic and Hungary.
June, 1993	Robert Klemkosky, Project Director, meets with Academic Coordinators and counterpart faculty to discuss evaluation of the program and consult on executive education development activities.
June, 1993	PMP Graduation Ceremony in Czech Republic and Hungary.
June, 1993	Visit to USAID in Hungary by Project Director, Robert Klemkosky.
July, 1993	Completion of Second Quarterly report for year two.
July, 1993	Completion of "MUCIA NEWS" internal newsletter.
July, 1993	Visit of 6 counterpart faculty to Indiana University to participate in executive education activities.
July, 1993	Project Director's Meeting in Budapest attended by Project Director and MUCIA Associate Executive Director.
July, 1993	Transfer of funds (\$15,000 each) to BUES and UEP for purchase of computer equipment.
August, 1993	Project personnel meet with USAID Program Officer in Washington, DC.
September, 1993	Visit of Professor Kovar to University of Wisconsin to meet with Strategy module counterpart faculty.
September, 1993	Submission of MUCIA/MTC continuation proposal.

October, 1993	Completion of Third Quarterly report for year two.
October, 1993	Completion of "MUCIA NEWS" internal newsletter.
October, 1993	Visit of Project Director Robert Klemkosky and other MTC staff to Budapest to meet with BUES, UEP, and USAID representatives.
October, 1993	BUES and UEP representatives participate in a FIPSE sponsored workshop on Executive Education Programs.
November, 1993	Visit of Professor Temesi, MTC Academic Coordinator at BUES, to Indiana University.
November, 1993	Professor Harrell delivers International Marketing Module in Budapest to 39 participants.
November, 1993	Professor Harrell delivers Strategic Marketing Module in Prague to 37 participants.
December, 1993	Publication of Hungarian casebook in AULA.

MTC Project Staff and Faculty visit Budapest

In October, Project Director Robert Klemkosky, Project Advisor Cam Danielson, Faculty member Bruce Jaffee and Program Assistant Pam Elmore visited Budapest to meet with BUES, UEP, and USAID representatives. Discussions included the finalizing of the fall module in Budapest and Prague and evaluation of MTC programs in relation to future executive education planning. The possibility of further USAID funded activities and the planning of future management programs in Hungary and the Czech Republic was examined.

This visit allowed for a review of the continuing relationship between MUCIA and counterpart institutions. The networking and planning sessions held will be valuable to current programs and the ability to develop suitable future management training activities.

FIPSE Sponsored Executive Education Workshop

A select group of MTC faculty from BUES and UEP participated with other Central European faculty at a Fund for the Improvement of Post-Secondary Education (FIPSE) sponsored workshop in Budapest. Through Department of Education funding, Indiana University presented a three day workshop on Executive Education Programs at BUES Management Development Center. The workshop was taught by Professor John Boquist and MTC Project Advisor Cam Danielson.

The workshop was designed to inform participants step by step how to develop and deliver successful programs through examples and hands on experience. Workshop activities included: general class discussions, break-out sessions of institutional teams, team presentations and proposals, and a company visit. Topics discussed encompassed business development, needs assessment, market/program development, curriculum proposal development, and implementation. Participants received handouts of an actual strategic plan, company prospectus, program budgets, and program brochures. The workshop Schedule and Outline located in Exhibit A, provides a more detailed look at workshop activities.

This further shows the commitment of MUCIA member institutions to better management education in Central & Eastern Europe. Additionally, this workshop further strengthens the sustainability of MTC developed programs. Activities which reinforce the goal of USAID funding were performed without USAID funds. Moreover, the FIPSE workshop enhanced the value of USAID funds by augmenting the consultation MTC staff has provided to BUES and UEP faculty on executive education programs.

Professor Temesi visits Indiana University

Professor Temesi, BUES, met with MTC staff and faculty in November. Activities included follow-up discussions from October meetings in Budapest on developing future management training programs in Hungary. Recommendations included BUES developing customized programs with major companies and a partnership program with middle-size companies in Hungary.

While at Indiana University, Professor Temesi was also able to meet with program chairs to discuss future student exchanges. Student exchanges are another sample of activities that occur between MUCIA institutions and counterparts without USAID funds. Furthermore, this is an example of the developed and sustainable relationship between MUCIA universities and counterpart institutions.

Specialized MTC Fall Modules

In November Professor Gilbert Harrell presented Strategic Marketing in Prague and International Marketing in Budapest. Program notebooks are provided in Exhibit B. The Marketing module of the Professional Managers Program received a high evaluation ranking and was one of the most popular modules. Moreover, both marketing modules were developed at the request of each counterpart institution. Course pictures appear in Exhibit C. A brief report prepared by Professor Harrell appears in Exhibit D.

TABLE 3: FALL MODULE SCHEDULE

Strategic Marketing Prague, Czech Republic November 18 - 20, 1993	International Marketing Budapest, Hungary November 22 - 24, 1993
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Counterparts

Professor Harrell was assisted by Petr Záruba and Milan Mály in Prague and Csaba Mádi in Budapest. With the goal of project sustainability in mind, counterpart faculty and administrators continue to play a greater role in the planning and execution of grant activities. This resulted in a fall program with good logistics and overall performance in each country.

Location

While the Strategic Marketing program in Prague was again held at UEP training center in the Hotel Krystal, BUES administrators selected a training center 60 miles outside of Budapest. The International Marketing program was hosted by Babolna Rt, an agricultural corporation. The 100 percent state-owned company solicited BUES to initiate a joint management development program and provided the International Marketing course with good and relatively cheap facilities. Having the courses outside of Budapest allowed for all participants and faculty to spend the entire term of the course together at the same facility, with less distractions from everyday work.

Participants

A total of 76 participants attended the two fall courses. Participant lists are located in Exhibit E. Data collect from Participant Information Cards show a variety of participant attributes. For instance, the average age of the participants was 33. The percent of female participation in the courses was 24 percent. Each course drew attendees from outside of the capital city with International Marketing recruiting 31 percent and Strategic Marketing recruiting 45 percent of participants from surrounding cities.

A breakdown of participant's professional category is displayed below in Table 4. As in the Professional Managers Program, Table 4 shows that the majority of attendees are members of the business community, especially business managers. Also note worthy is the significant number of working MBA students attending the program in Prague. Each country also exceeded the estimated class size of 35 participants.

TABLE 4: FALL MODULE PARTICIPANT SUMMARY

	Czech Republic	Hungary
Total Enrollments	37	39
Faculty	3%	0%
Students	35%	10%
Other	3%	7%
Business Owners	3%	4%
Business Managers	56%	79%
Government Officials	0%	0%

Evaluation

The 14 question evaluation form that was introduced during the Professional Managers Program was again used this fall. A sample evaluation form is included in Exhibit F. The electronically scannable evaluation asks participants to respond by marking one of five choices, which range from strongly disagree to strongly agree. Participant responses were calculated on a five point scale with 5 ranking as a perfect score. Table 5 shows the average scores for each course. Individual question scores are located in Exhibit G. Dr. Koltai's questionnaire was also used again. Unfortunately, only a small percent were returned. A summary of the evaluation data requested by Dr. Koltai is located in Exhibit H.

TABLE 5: FALL MODULE EVALUATION DATA SUMMARY

International Marketing - Budapest, Hungary	4.50
Strategic Marketing - Prague, Czech Republic	4.53

Publication of Hungarian Casebook

Ten Hungarian cases developed through the MTC grant were published in the BUES journal, AULA. This issue marks the first time that AULA has published case studies of business organizations. The ten studies selected for this issue attempt to provide a broad, multi-functional view of the problems organizations are dealing with in the rapidly changing environment of Eastern Europe.

The primary purpose of the cases published in this issue is to provide practical background material for business education. These cases will be used in both Eastern and Central Europe and in the United States. These cases fill a much-needed gap because there is not a large number of cases developed that fully examine the difficulties facing transforming economies. Hopefully the publication of this selection will provide both US and European faculty with a tool to study the transformation.

The cases published in AULA will be distributed to universities throughout the world on AULA's mailing list, all MTC European faculty and administrators, and all MUCIA faculty, plus additional requested lists. A total of 600 copies of the relevant issue of the journal have been published through USAID funding. The casebook publication appears in Exhibit I.

Additional Logistics Materials sent to Prague

Professor Closs, forwarded requested simulation materials to his counterpart faculty member in Prague. One of the two games forwarded is a computer simulation in which students use spreadsheets to examine the field of materials management. The team related simulations are designed to allow students to compete in a market economy.

This is another example of the sustainable relationship established between MUCIA institutions and their counterparts. The materials forwarded to Prague were a contributed cost of \$100.

MUCIA/MTC Newsletter

A copy of the recent edition of *MUCIA/MTC Newsletter* is included in Appendix J. The newsletter is distributed to MUCIA and counterpart MTC project faculty and other interested parties.

EXHIBIT A

Schedule and Outline
FIPSE Executive Education Workshop
Indiana University
Graduate School of Business
Budapest, Hungary October 4-7, 1993

OCTOBER 4

Introduction and Orientation - 8:30 to 9:30

Business Development - 9:30 to 12:30

Note: Each topic will be discussed in a general session of the entire class and then in break-out sessions of institutional teams, building toward team presentations at the end of the day. The day concludes with a brief introduction to the company visit the next day.

- I. Assessment - Situation/Market Analysis
 - A. What do you want to do and where do you want to do it, i.e., what is your market?
 - B. What are your institutional capabilities?
 - C. What are the market opportunities and threats?
 - C. What are your institutional strengths and weaknesses which you must use and improve upon in order to successfully take advantage of the market opportunities while overcoming the barriers posed by the market threats?
- II. Vision/Mission/Values Statement - Becoming is Being
 - A. What will you look like in the future, i.e., what is your desired state of existence?
 - B. How will you know you have gotten there, i.e., what are your measures of success?

(2)

- C. How will you make the future happen, i.e., what are the characteristics you want to be known for?

Lunch - 12:30 to 13:30

Business Development - Continued - 13:30 to 16:30

III. Mapping - Strategic Objectives & Tactical Goals

- A. What are the critical gaps between your current state and your desired state of existence, i.e., what are your objectives? These are outcomes which plot a course toward your desired end state.
- B. Where are you going to place a stake in the ground and risk commitment, i.e., what are your goals? These are highly measurable targets which indicate where you are in your journey.

IV. Implementing - Operations & Management Systems

- A. What are your resource requirements to achieve your goals, i.e., what is your organizational plan, investment costs, and administrative support structure (accounting, purchasing, inventory control systems, etc.)?
- B. How are your values communicated or translated in your organizational requirements, i.e., how are you marshalling resources to achieve your goals?

Presentations - 16:30 to 17:30

Each institutional team will deliver a 10 minute summary of their market assessment, vision & values, strategic objectives, and tactical goals.

Introduction to Conducting Needs Assessments - 17:30 to 18:30

(3)

OCTOBER 5

Market/Program Development - 8:30 to 12:30

Note: Cross-institutional teams will be formed for this day. A prospectus is produced by the end of the day, including the night session. Planning templates will be supplied to each team to aid in their preparation.

I. Company Visitation

- A. Discussion on how to pick a target company, i.e., why current company was chosen as a target.
- B. Conduct interviews to review company's business performance, assess their future direction by means of their business strategy & objectives, and determine their management development needs.

Lunch - 12:30 to 13:30

Market/Program Development - Continued - 13:30 to 17:30

II. Creating A Client-Driven Strategy

- A. Create a data-base of target companies and contacts within each company.
- B. Develop a schedule for conducting needs assessment of targeted companies.
- C. Complete needs assessment. Report findings in a prospectus to include an understanding of what the business challenge is, how to assist them meet their business objectives by means of an educational program, and a price range for services to be offered (a general program budget is needed to quote any price).

(4)

OCTOBER 6

Market/Program Development - Continued - 8:30 to 12:30

Note: The morning session will begin in cross-institutional teams. The afternoon sessions will be conducted in institutional teams with each team producing a curriculum proposal by the end of the day, including the night session.

- III. "Staff Meeting" to Critique Prospectuses
 - A. Roundtable discussion of all plans.
 - B. Agreement on one revised prospectus.
- IV. Client-Driven Strategy to Develop a Custom-designed Program
 - A. Follow-up with the client, review your prospectus with them, and negotiate around need, concept, timing, and cost.
 - B. Revise the response after meeting with key faculty, e.g., upgrade to a curriculum proposal to include dates, teaching schedule, program objectives, educational outcomes, and faculty assignments. A detailed program budget would be created at this time (an example is enclosed in the notebook).
 - C. Finalize negotiations with the client on timing, cost, objectives, schedule, and content. Sign contract (an example is enclosed in the notebook).
 - D. Teaching contracts are signed (an example is enclosed in the notebook). Develop teaching materials, write content outlines with educational objectives, and order required reading materials. As necessary, schedule meetings with the clients or visit business operations to collect information pertinent to the objectives of the program.

(5)

- E. Deliver and evaluate the program.
- F. Hold post program review and follow up sessions with participants. Use data to plan revisions and future educational programs.

Lunch - 12:30 to 13:30

Market/Program Development - Continued - 13:30 to 14:30

- V. Faculty-Driven Strategy to Develop "Public" Programs
 - A. Organize a faculty committee.
 - B. Develop a program proposal to incorporate elements of both the above prospectus and curriculum proposal.
 - C. Write a brochure.
 - D. Buy a mailing list or create a data-base and distribute the brochure.
 - E. Sell the program by means of advertising, employing a sales force, and creating marketing events such as open houses, breakfast or luncheon forums, and alumni reunions.
 - F. Teaching contracts signed. Program teaching materials completed.
 - G. Collect registrations, deliver program, and evaluate.

Curriculum Proposal Development - 14:30 to 17:30

Each team will work together in developing either a curriculum proposal for a custom-designed program or for a "public" program.

(6)

OCTOBER 7

Curriculum Proposal Development - Continued 8:30 to 10:30

Each team, as a panel, will present their curriculum proposal and answer questions from the audience.

Implementation - 10:30 to 12:30

- I. Budgets
 - A. Cost accounting records.
 - B. Accounting forecast for programs.
- II. Program/Teaching Materials Development
 - A. Outlines and learning objectives.
 - B. Structuring classroom activities
 - 1. Lectures.
 - 2. Cases.
 - 3. Discussion groups.
 - C. Scheduling of all logistics.
 - D. Evaluating performance.
- III. Program Delivery
 - A. Logistics coordination.
 - B. Customer service measures

(7)

1. Program management.
2. Focus groups.

IV. Program Assessment

- A. Teaching evaluations (an example is in the notebook).
- B. Participant/Company follow-up.
- C. Organizational learning
 1. Program design and content.
 2. Faculty development.

International Marketing

ADVANCED MARKETING MODULE
MUCIA: MANAGEMENT TRAINING & ECONOMICS EDUCATION

Developed By:

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International Marketing

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Gil Harrell is Professor of Marketing at Michigan State University. His international research, consulting and teaching interests focus on marketing, strategic planning, sales management, marketing research and buyer behavior. His publications have appeared in the Journal of Marketing, Journal of Retailing, Journal of Long Range Planning, Journal of Marketing Research, Journal of Consumer Research, Journal of Consumer Affairs, Journal of Industrial Marketing Management, Cornell Quarterly, Journal of Health Care Marketing, Michigan State University Business Topics, International Marketing Managerial Perspectives, and other journals. Several publications have become classics in their field.

Dr. Harrell's text, Consumer Behavior, Harcourt, Brace & Jovanovich, has been adopted widely by major universities. He is a regular participant in American Marketing Association Conferences and the Association for Consumer Research. He is past Dean of Sales Management Institute for Sales/Marketing Executives International. He has consulted with executives from hundreds of corporations and has been on executive programs with over a hundred leading universities and national associations. His work has included the development of strategic planning, marketing planning and new product ventures systems that are currently used by several Fortune 500 companies.

Professor Harrell specializes in systems for marketing strategy, marketing management, and planning. He has worked with numerous corporations in over 15 countries to create organizational change through the application of tools for effective marketing. Clients include ARA Services, Foremost, SCM Corporation, Asea Brown Boveri, Westinghouse, Eastman Kodak, General Motors, Brunswick Corporation, UPS, Detroit Edison, Packard Electric, Delco Remy, AC-Rochester, Motor Wheel, Diversitec (Blue Cross/Blue Shield), Sisters of Mercy Corporation as well as others.

Dr. Harrell is a regular participant in American Marketing Association conferences and the Association for Consumer Research. His doctorate degree is from Pennsylvania State University, where he was elected to the Phi Kappa Phi Honorary and to the American Marketing Association Doctoral Consortium. His Ph.D. students have won numerous AMA awards for distinguished research. His loyalty to Michigan State University is understandable because both his undergraduate and M.B.A. degrees are from there. He is past director of the Marketing Ph.D. program at Michigan State University. Prior to obtaining the doctorate, Dr. Harrell worked in marketing planning and research at the Upjohn Company.

International Marketing

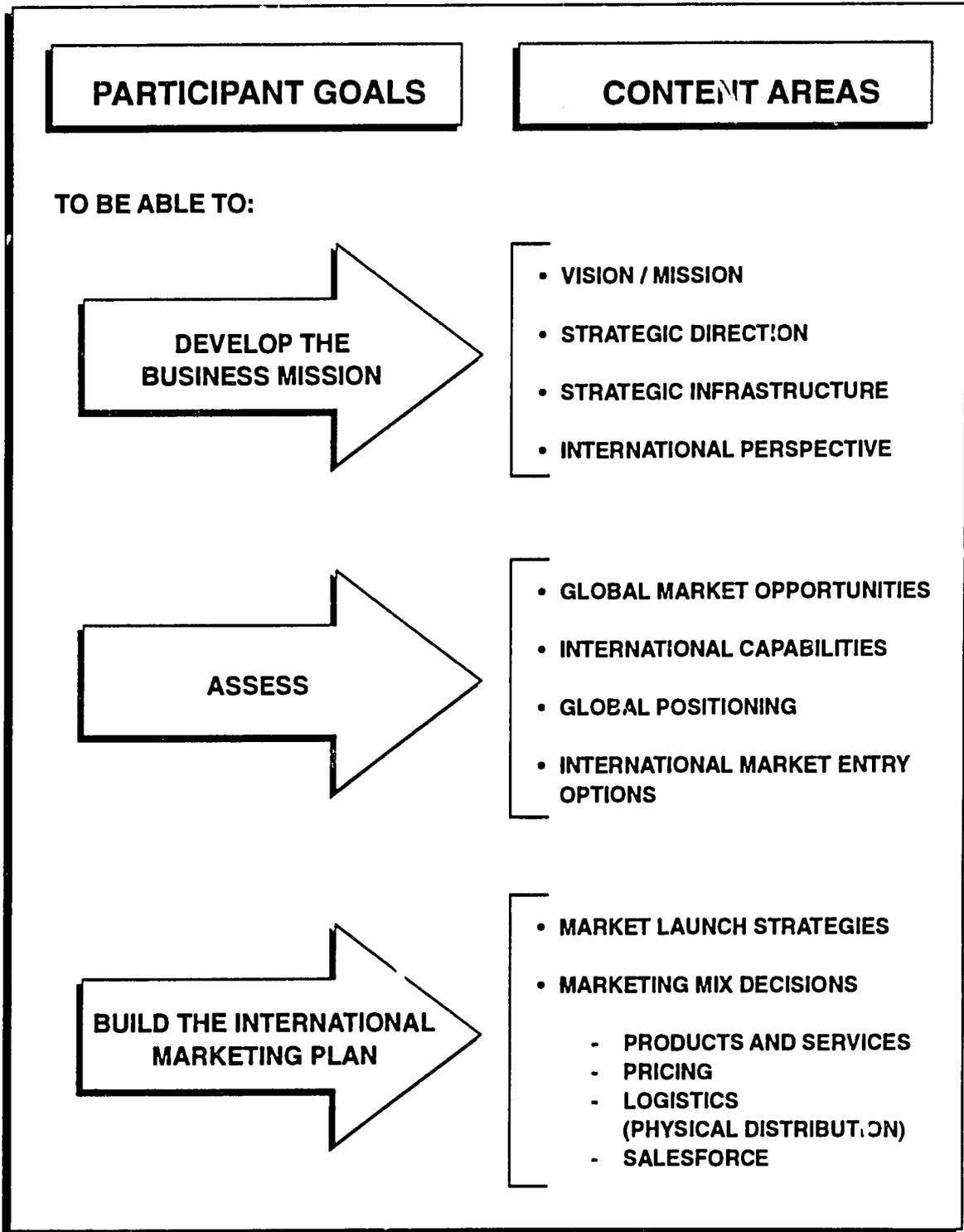
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International Marketing Overview

International Marketing





The Strategic System

I. BUSINESS VISION

A. ROLES OF A BUSINESS

- Innovation and Marketing

B. REQUIREMENTS

- Beacons
- Visual Not Numbers
- What Are We Going To Be,
Not What We Are Going To Do

II. BUSINESS MISSIONS & MYOPIA

A. WHAT BUSINESS ARE WE IN?

- Railroads
- Drills

B. EXAMPLES

- IBM
- ABB (Think Global-Act Local)

- C. **BENEFIT RICH DEFINITION OF HOW WE WILL SERVE (BE BROAD, BASIC, FUNDAMENTAL & FUTURISTIC)**

(Project)

III. STRATEGIC DIRECTION

- A. **ESSENCE OF WINNING**

"Lead, Follow, Or Get Out Of The Way!"

"Unseat The Best Or Remaining The Best Worldwide."

"AT&T - "Leading Provider Of Anytime, Anywhere Communication."

- B. **MARKET SHARE AND CAPACITY FOR GROWTH**

- **Double Digit?**
- **J&J Or GE Share**

- C. **WHAT IS YOUR DEFINITION OF WINNING?**

- D. **CLEAR ENDS AND FLEXIBLE MEANS**

- E. **FLEXIBILITY AND SPEED TO MARKET**

(Project)

IV. FUNDAMENTAL OF STRATEGIC INFRASTRUCTURES

A. STRATEGIC INFRASTRUCTURES-CAPABILITIES OF THE FIRM TO CAPTURE, DEVELOP AND CONTROL RESOURCES REQUIRED TO ENGAGE IN BATTLES TO OBTAIN MARKET VALUE

B. CORE COMPETENCIES

- **Base Technologies**
- **Process Technologies**
- **Service Technologies**
- **People Systems**

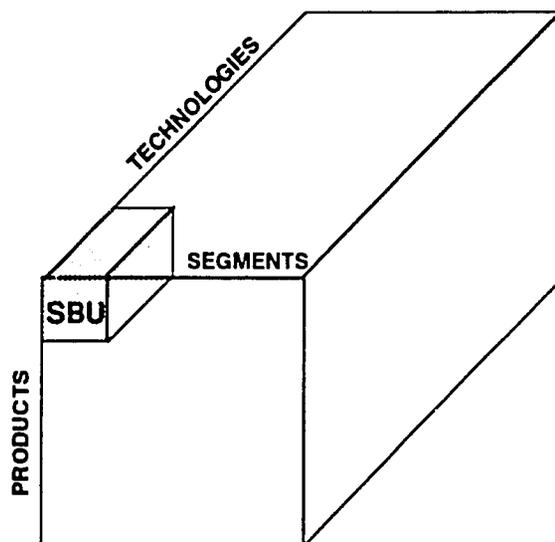
C. COMPETENCIES AND RESOURCES ARE RELATED

- **Develop A List Of Resources**
- **Your Resources Are My Resources!
Society's Resources Are My Resources!
My Resources Are My Resources!**

V. STRATEGIC BUSINESS UNITS (SBU) AND RELATED PLANNING DEVICES

A. SBU DEFINED-DIVIDING AND GROUPING BUSINESSES

1. Products
2. Segments
3. Technologies



B. BUSINESS PORTFOLIO PROGRAMS

1. Too Many Products-
Too Many Markets-
Too Many Customers

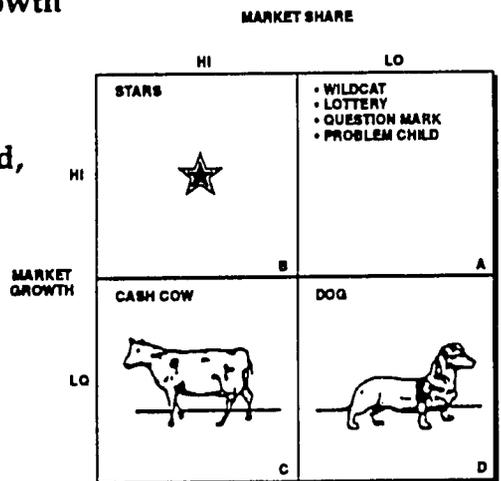
The Strategic System	Discussion Notes
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2. The Basic Grid

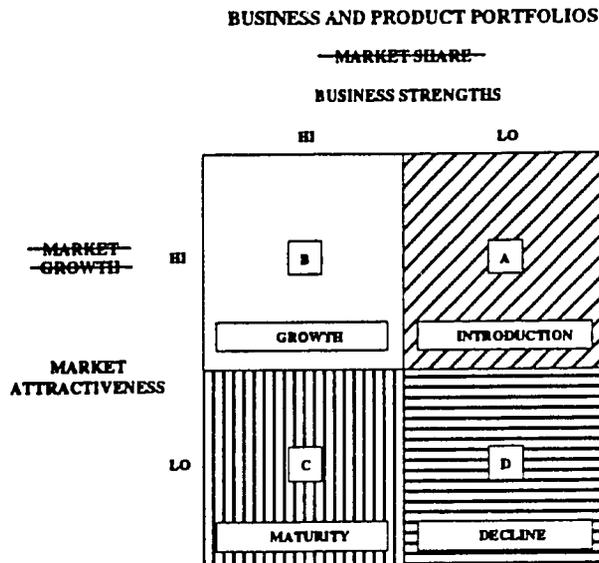
- The Experience Curve
- Market Share and Market Growth

3. Categories of Business

- Sweepstakes, ?, Problem Child, Wildcat
- Stars
- Cash Cows
- Dogs



4. Management Implications



5. Too Simplistic

- **Problem with Share Growth**
- **Resource and Opportunity Elements**
- **Creation of Measures**
 - **“Mark with Micrometer-Cut with Axe”**
- **Basically a Theoretical Cash Flow Model**

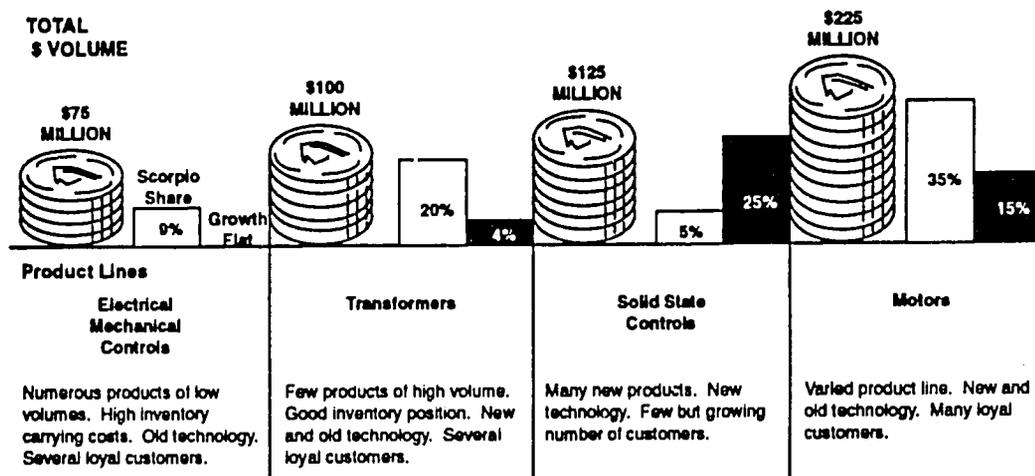
C. MORE ELABORATE DIMENSIONS

- 1. Market Attractiveness Project**
- 2. Business Strengths Project**

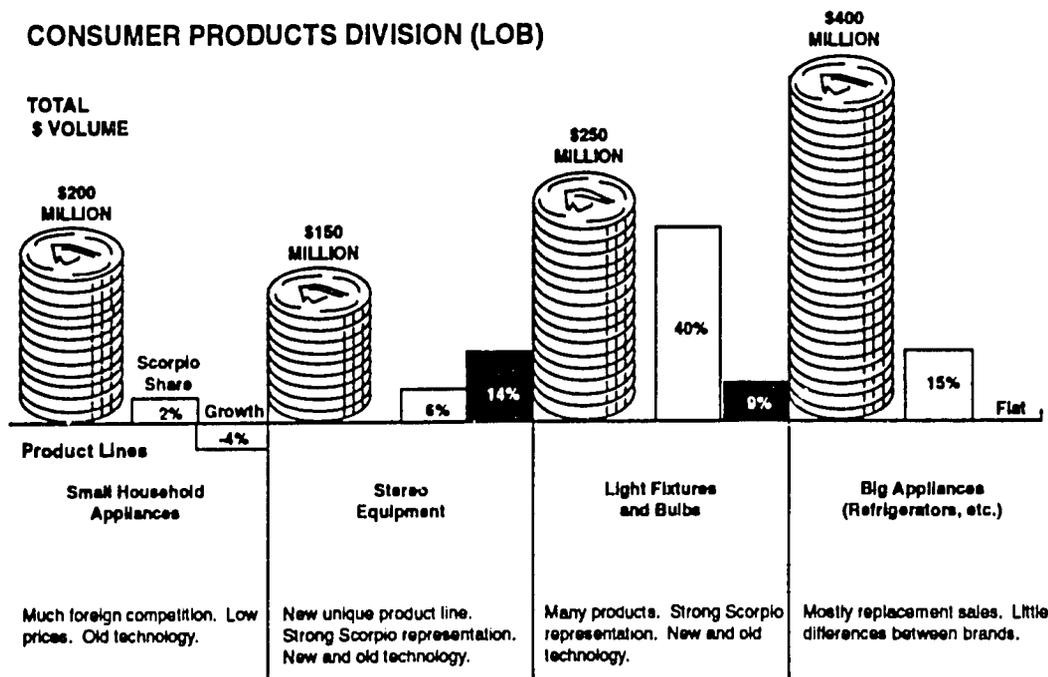
PROJECT

SITUATION: LOOK AT THIS SITUATION FROM THE VIEWPOINT OF A PLANNER IN SCORPIO CORPORATION. SCORPIO ELECTRIC CORPORATION HAS TWO MAJOR BUSINESSES-AN INDUSTRIAL DIVISION AND A CONSUMER DIVISION. THEIR PRODUCT LINES ARE AS FOLLOWS:

INDUSTRY PRODUCTS DIVISION (LOB)



CONSUMER PRODUCTS DIVISION (LOB)



DO THE FOLLOWING FOR EACH DIVISION:

- A. Evaluate each Scorpio product line according to market attractiveness.**
- B. Evaluate Scorpio's business strength regarding each product line.**
- C. For each division, put the product lines on the matrix based on your evaluations.**

		Business Strength			
		HI		LO	
Market Attractiveness	HI				
	LO		B		A
			C		D

VI. PERSPECTIVES ON STRATEGY

- A. SELF / CUSTOMER VS. CUSTOMER / COMPETITION / ENVIRONMENT / SELF**

- B. THE IMPORTANCE OF PROFIT AND VOLUME (SHARE) IN MARKETING SUCCESS**
 - **Profit Fuels Your Economy**
 - **Profit Fuels Your Company**
 - **Profit is Tied to Value**

VII. DEVELOPING A CUSTOMER CENTERED PHILOSOPHY

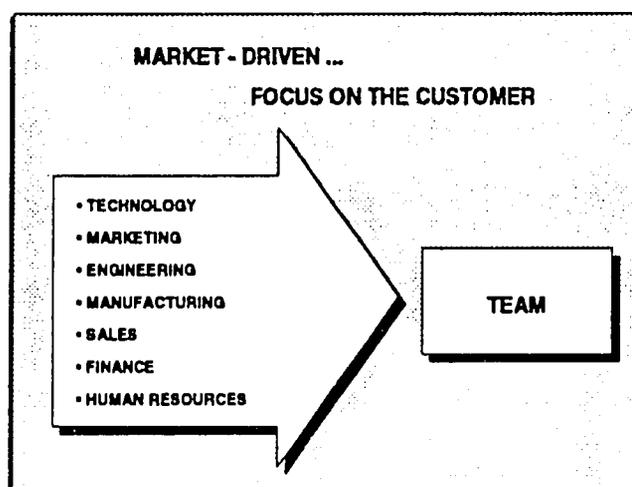
- A. CUSTOMER BENEFITS VS. PRODUCT CHARACTERISTICS**

- B. VALUE AND PRICE**

- C. UNDERSTANDING VS. PERSUASION**

VIII. DEFINITION OF STRATEGIC MARKETING

- A. UNDERSTANDING NEEDS, WANTS AND VALUES OF TARGET MARKETS
- B. DEVELOPING THE ORGANIZATION TO PROVIDE SATISFACTION
- C. MORE EFFECTIVELY, EFFICIENTLY AND PROFITABLY THAN COMPETITORS
- D. IN ORDER TO INCREASE THE VALUE OF THE BUSINESS
- E. **MARKETING DRIVEN = FOCUS ON THE CUSTOMER**
ALL FUNCTIONS CONTRIBUTE TO MARKETING



Developing An International Perspective

I. AN INTERNATIONAL PERSPECTIVE IS CRITICAL

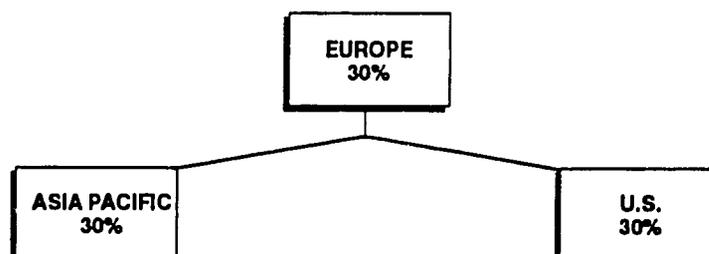
A. THREE ENVIRONMENTAL ORIENTATIONS

- Ethnocentric
- Polycentric
- Geocentric

B. CLASSES OF CORPORATIONS

- Domestic
- Regional
- International
- Multinational
- Global

C. TRIAD OF ADVANCED WORLD NATIONS



D. TWO MAJOR FORCES

- **Tendency Toward Globalization**
- **Increasing Importance of Technology**

E. REASONS FOR INTERNATIONALIZATION*

1. Internal Reasons

- **Attractive Overseas Markets**
- **Perceptive Management**
- **Saturated or Closed Domestic Markets**
- **New Management**
- **Greater Profitability**

2. External Reasons

- **Market Factors**
- **Product-Generated Inquiries**
- **Outside Experts**
 - **Export Agents**
 - **Chambers of Commerce**
 - **Banks / Financial Institutions**
- **Government**
- **Preempt Competition**

***Adapted from International Marketing: Planning and Practice, by Samli, Still, and Hill**

Global Assessment Of Markets

- I. SEGMENTATION HELPS FOCUS YOUR ORGANIZATION ON THE CUSTOMER**
 - A. THE FALLACY OF THE "MASS" MARKET CONCEPT**
 - B. MARKET SEGMENTATION DEFINED**
 - C. SEGMENTATION PROJECT**
 - 1. Consumer Project**
 - 2. Industrial Project**
 - D. GLOBAL MARKET SEGMENTS**
 - 1. Geographic Sizes and Growth**
 - Europe**
 - North America**
 - Pacific Rim**
 - 2. Competitive Philosophies**
 - North America - Independent of Joint Venture**
WIN - WIN
 - European - Regional / National - Alliances**
WIN - WIN
 - Pacific Rim - Keiretsu - Exclusive**
WIN - LOSE

International Marketing

Global Assessment of Markets

Discussion Notes

II. QUANTITATIVE INFORMATION ABOUT EACH SEGMENT

A. CUSTOMERS

B. VOLUME

C. CURRENCY

D. MARKET SHARE

- 1. Ours**
- 2. Theirs**
- 3. Ability and Need**
- 4. Need and No Ability**

III. TARGET MARKETS & THREE BASIC STRATEGIES

A. UNDIFFERENTIATED

B. DIFFERENTIATED

C. CONCENTRATED

IV. WHY SEGMENT?

- A. UNDERSTAND CUSTOMER NEEDS**
- B. UNDERSTAND COMPETITORS STRENGTHS**
- C. BUILD THE MARKETING APPROACH**

V. REQUIREMENTS FOR GOOD SEGMENTS

- A. HOW AND WHY THEY BUY AND CONSUME**
- B. UNIQUE CHARACTERISTICS**
- C. BIG ENOUGH**

VI. SEGMENT PORTFOLIOS

- A. COUNTRY ATTRACTIVENESS**
 - 1. Market Size and Need**
 - 2. Market Growth**

Global Assessment of Markets	Discussion Notes
-------------------------------------	-------------------------

3. Government Regulations

- Price Controls
- Homologation
- Local Content and Compensatory Export

4. Economic and Political Stability

5. Distribution Availability

B. COMPETITIVE STRENGTH

1. Market Share Potential

2. Product Fit

- As It Is
- Adjustments Required

3. Profit Potential and Margin

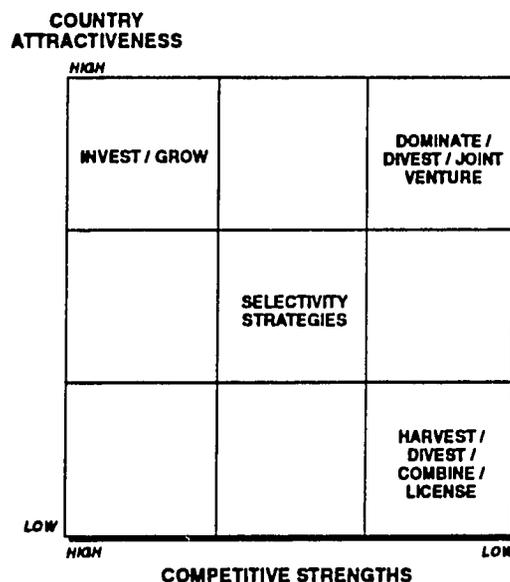
4. Market Support

- Representation
- Promotion
- Technical Service Support

C. STRATEGIC IMPLICATIONS

1. Invest / Grow Countries

- Corporate Commitment
- Substantial Financial Investments
- Substantial Personnel Investments
- Research and Development
- Local Production
- Extensive Marketing Support



2. **Harvest / Divest / Combine / License Countries**
 - **Harvest Profits or Sell Business**
 - **Sacrifice Share for Profit**
 - **Frequent Cash Flow Calculations**
 - **Short Term Pricing Policy**
 - **Reduced Marketing Spending**
 - **Combine Countries**
 - **Export**
 - **Subsidiary**
 - **Licensing Arrangement**
3. **Dominate / Divest / Joint Venture Countries**
 - **Difficult Strategic Decision**
 - **Careful Analysis of Cash Requirements / Availability**
 - **Joint Venture**
4. **Selectivity Strategies Countries**
 - **Extreme Competition**
 - **Value Based Analysis**
 - **Focus on Current Customers**
 - **Manufacturing Efficiency**
 - **R&D Focused on Maintaining Full Product Line**

Global Assessment of Markets	Discussion Notes
-------------------------------------	-------------------------

COMPETITIVE STRENGTH WEIGHTS

1) Market Share

a) Percentage of Market		b) Position	
Share	Rating	Rank	Rating
30 +	10	1	10
27 - 21	9	2	8
.	.	3	6
.	.	4	4
.	.	5	2
4	1		

2) Product Fit

Because this scale suggests Ford's competitive product strategy, we decided not to publish it. In general, a 10-point subjective index was created to match product characteristics with key local product needs.

3) Contribution Margin

Again, this is proprietary, but it reflects two factors.

a) Profit Per Unit		b) Profit Percentage of Net Dealer Cost	
Amount	Rating	Amount	Rating
\$5,000	10	40% +	10
(example)	.	.	.
.	.	.	.
.	.	.	.
\$1 - 400	1	5% -	1

4) Market Support

a) Market Representative		b) Market Support	
Evaluation	Rating	Evaluation	Rating
Quantity and quality of Ford distributors and service are clearly "best in country".	10	Ford market support in advertising promotion is clearly "best in country".	10
Ford representation is equal to leading competitor's.	8	Ford support is equal to leading competitor's.	8
Ford representation is behind several leading competitor's.	2	Ford support is behind several leading competitor's.	2

COUNTRY ATTRACTIVENESS SCALE WEIGHTS

1) Market Size

Units	Rating
25,000	10
22,500-24,999	9
20,000-22,499	8
.	.
.	.
.	.
5,000	1

2) Market Growth

Amount %	Rating
5 Plus	10
4-4.9	9
3-3.9	8
.	.
.	.
.	.
Under 3	1

3) Government Regulations

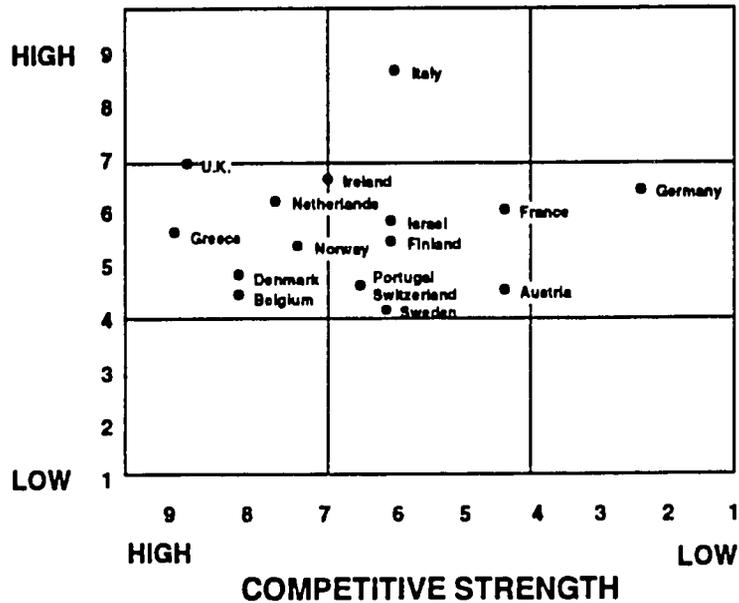
a) Price Control		b) Homologation		c) Local Content / Compensatory Exports	
Type	Rating	Type	Rating	Type	Rating
None	10	None	10	None	10
Easy to Comply	8	Easy	8	Easy to Comply	6
Moderately Easy to Comply	4	Moderate	4	Moderately Easy to Comply	4
Rigid Controls	2	Tough	2	Rigid Controls	2

4) Economic and Political Stability

a) Inflation		b) Trade Balance		c) Political Stability	
Amount (%)	Rating	Amount (%)	Rating	Type	Rating
7 and Under	10	5 and Over	10	Stable Market	10
.	.	-0-4.9	9	Moderate	9
.	.	-5.0	8	Unstable	8
40 and Over	1	.	.		
		.	.		
		.	.		
		-36%	1		

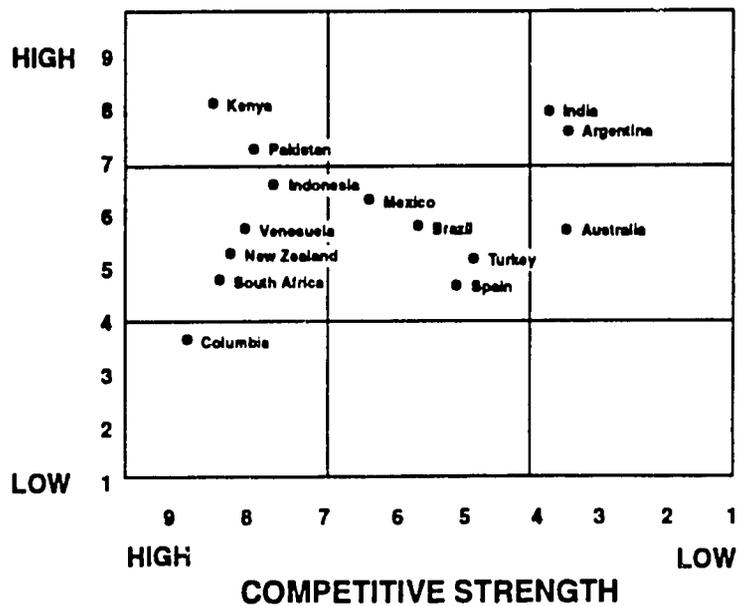
EUROPEAN MATRIX

COUNTRY ATTRACTIVENESS



KEY COUNTRY MATRIX

COUNTRY ATTRACTIVENESS



Evaluating A Company's International Capabilities

I. IS YOUR COMPANY READY TO GO INTERNATIONAL?

A. MANAGEMENT

- **Orientation (Polycentric → Geocentric)**
- **International Talent**
 - **Multicultural Personnel**
 - **Speak Foreign Languages**
 - **International Business Experience**
- **Training / Educational Needs**
- **Commitment (Money, Time, ...)**

B. COMPANY RESOURCES

- **Domestic Operations "Under Control"**
(Going International Rarely a Good Escape from Domestic Problems)
- **Sources of Differential Advantage**
 - **High Quality Image**
 - **Cost Leadership**
 - **Manpower Skills**
 - **Patents**
 - **High Liquidity**
 - **Marketing Know-How**

C. COMPANY OBJECTIVES / PHILOSOPHIES

- **Growth Rate**
- **Means of Growth (Growth in Current Products Vs. Unrelated Products, Finance Growth from Within, Attitude Toward Acquisitions and Mergers)**
- **Sources of Differential Advantage**
- **Profitability, Return on Investment Required**
- **Risk Preferences**
- **Liquidity Preferences**
- **Market Share Desired, Etc.**

D. PRODUCTS

- **Performance in Home Market**
- **Competitiveness of Technology and Product**
- **Amount of Adaptation**
 - **Design**
 - **Content**
 - **Brand and Packaging**
 - **Components**
- **Customer Service Requirements**

E. DISTRIBUTION / PROMOTION

- Overseas Contacts
- Capabilities of Partner
 - Effectiveness
 - Reliability
 - Trustworthy
- Amount of Promotion Required
- Adaptation Required for Promotional Campaigns

(Project)

Positioning For Competitive Success

- I. POSITIONING DEFINED**
 - A PERCEPTION OF BUYERS POSITIONING AND IMAGE**

- II. DIMENSIONS OF POSITION**
 - A. OBJECT TO ATTRIBUTE**

 - B. OBJECT TO OBJECT**

 - C. OBJECT TO CONSUMER**

- III. EXAMPLES OF POSITIONING**
 - A. PRICE AND VALUE ADDED**

 - B. QUALITY AND PRICE**

 - C. POSITIONING EXERCISE**

IV. BASIC POSITIONING STRATEGIES

A. COMMODITY OR CONVENIENCE

B. COMPARISON OR SHOPPING

C. SPECIALTY OR UNIQUE

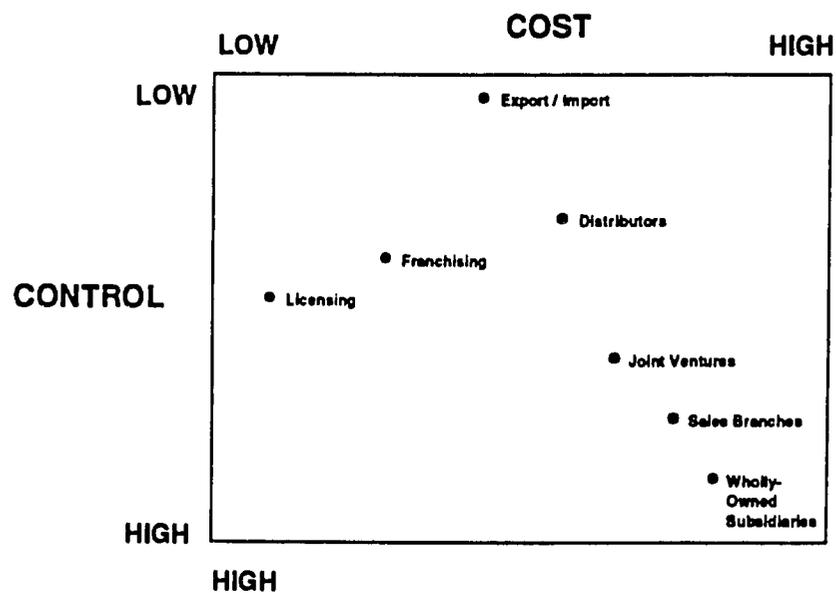
V. LIVING CASE

PARTICIPANTS POSITION THEIR
COMPANY'S MAJOR PRODUCT

International Market Entry Strategies

I. INTERNATIONAL MARKET ENTRY STRATEGIES

A. MARKET ENTRY OPTIONS*



*Adapted From International Marketing: Planning and Practice, by Samli, Still, and Hill

1. Licensing (Subcontracting)

- Grant Permission to Foreign Producer to Manufacture Unique, Patented Product

- **Pros:**
 - **Fast**
 - **Minimum Investment**
 - **Sales and Distribution Channels Established**
 - **Licensee has Experience Dealing with Government**
 - **Eliminates Risk of Expropriation / Nationalization**
 - **Cons:**
 - **Quality May Decline**
 - **Possibility of Licensee Making Similar Product**
 - **Difficult to Secure Patent Protection**
- 2. Franchising**
- **Gives Franchisee Right to Use Certain Manufacturing Process and Brand Name**
 - **May be Appropriate if:**
 - **Well Known Product or Brand**
 - **Similar Overseas Marketing Needs**
 - **Limited Production Capital Needed**
 - **Only Small Amount of Imported Materials**
 - **Most Materials Available Locally**
 - **High Transportation Costs from Home Country**
 - **Sales Sensitive to Local Advertising**

3. Export / Import

- **Export Commissioners**
 - **Bring Together Suppliers and Overseas Customers**
 - **Usually 5-7% Commission**
 - **Represent Manufacturer**
- **Wholesalers / Retailers**
 - **Based in Foreign Country**
 - **Represent Own Interests**
- **Exclusive Agents**
 - **Represent Exporting Company; Sell to Wholesalers and Retailers**
 - **Exporter Ships Directly to Customers**
 - **Cover Large Geographic Areas**
 - **Often Work with Subagents**

4. Distributors

- **Exclusive Agents / Sole Importers**
- **Independent Merchants, Free to Choose Own Customers and Set Conditions of Sale**
- **Often Own / Operate Wholesale, Retail, Warehouse, Repair, and Service Facilities**
- **Allows Exporter to Deal with One Agent, Take One Credit Risk, Ship to One Destination**

5. Joint Ventures

- **Equity and Management Partnership Between International Company and Local Company**
- **Generally for New Undertaking, Such as New Product Line or New Hotel Chain**
- **Each Partner Gains Access to Skills, Resources, Knowledge of Other Partner**
- **Potential Problems**
 - **Fundamental Differences in Objectives**
 - **One Partner Attempts to Get Better Deal**
 - **Cultural Differences Affecting Decision Making, Labor Relations, Etc.**
 - **Difficult to Establish / Enforce Contractual Agreement**

6. Sales Branches

- **Extension of Company's Domestic Business**
- **Puts Emphasis on Sale / Service of Company's Products**
- **Effective for Highly Technical Products Requiring Support Services**

7. Wholly-Owned Subsidiaries

- **Local Management**
 - **Custom Built Subsidiary or Acquire Local Company**
 - **Acquisition Gives Instant Access to Distribution and Suppliers but Difficulty in Meshing Companies Together**
 - **Custom Built Subsidiary Follows Parent Company Specifications but Must Start from Scratch**
- **Home-Country Management**
 - **Use Expatriates, Then Eventually Turn Over to Trained Locals**
 - **Rarely Used Because Almost Impossible to Maintain**
 - **Foreign-Managed Companies Become Target of Local Politicians**

B. CHOOSING THE PROPER ENTRY STRATEGY

- 1. Not Necessarily the Same Across Entire Global Market**

2. External Criteria

- **Risk**
- **Competition**
- **Political Conditions**
- **Market Conditions**
- **Future Market Potential**
- **Availability of Desired Distribution Outlets**
- **Availability of Venture Capital**
- **Availability of Know-How**

3. Internal Criteria

- **Time Orientation**
- **Need for Control**
- **Degree of Internationalization**
- **Urgency in Going Forward**
- **Ability to Handle International Risk**

Market Launch Strategies

I. DEVELOPING STRATEGIES

***“STRATEGY IS THE ART OF MEETING THE ENEMY
IN BATTLE UNDER ADVANTAGEOUS
CONDITIONS.”***

A. THE SAMURAI & FUJI

1. Three characteristics of strategy
2. Fuji & Kodak

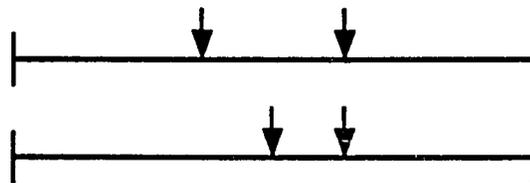
B. CREATING THE ATTACK

1. Strategies for powerhouses
 - Defense or offense
 - Reaction time
 - Spreading too thin
2. Strategies for number 2 to become number one
3. Frontal attacks and concentration
 - Ford Example
 - Wendy’s Example
4. Flanker attacks
 - Kodak Copiers
 - Requirements and Problems

5. **Guerrilla Approaches**
6. **Looking for Loose Bricks and Niche Markets**

C. SUSTAINABLE COMPETITIVE ADVANTAGE VS. COMPETITIVE ADVANTAGE

1. **Value to the Market and Performance
Difficulty**
2. **Deployment of Resources**



D. CRITICAL CHALLENGES FOR STRATEGY FORMULATION

1. **Developing a Powerful Marketing Strategy**
 - **Team Effort**
 - **Competitive Leadership**
2. **Discipline to Fulfill the Game Plan**
3. **Develop a Committed Infrastructure to
Support it**

Marketing Mix Decisions

I. PRODUCT AND SERVICE DECISIONS

A. BROAD / NARROW LINE

B. DEEP / SHALLOW LINE

Examples:

	BROAD	NARROW
DEEP	DEPARTMENT STORE	SPECIALTY STORE
SHALLOW	DISCOUNT STORE	CONVENIENCE STORE

II. PRODUCT LIFE CYCLE

A. STAGES

- **Development**
- **Introduction**
- **Growth**
- **Maturity**
- **Decline**

B. ALL PRODUCTS AND SINGLE BRAND

C. PROFITS AND THE LIFE CYCLE

D. PRODUCT POSITIONS OVER THE LIFE CYCLE

- **Specialty**
- **Comparison**
- **Commodity**

E. OBJECTIVES OVER THE LIFE CYCLE

- **Market Share**
- **Customer**

III. ADOPTION CURVE

- A. INNOVATORS
- B. EARLY ADOPTERS
- C. EARLY MAJORITY
- D. LATE MAJORITY
- E. LAGGARDS

STRATEGY IMPLICATIONS

IV. PRODUCT DEVELOPMENT

- A.

	EXISTING SEGMENTS	NEW SEGMENTS
EXISTING PRODUCTS		
NEW PRODUCTS		

B. MARKETING ACTIONS

- 1. Penetration**
- 2. Market Development**
- 3. Product Development**
- 4. Diversification**

I. PRICING

A. PRICING AFFECTS ALL PARTS OF THE COMPANY

B. PRICING FOR VALUE ADDED

1. Examples of Value Added

2.

CUSTOMER EXPECTATION	PRICE OF ENTRY	WASTE	VALUE ADDED (PERCENTAGE GAINED)	VALUE LOSS
_____	_____	_____	_____	_____
_____	_____	_____	_____	_____
_____	_____	_____	_____	_____
_____	_____	_____	_____	_____
_____	_____	_____	_____	_____
_____	_____	_____	_____	_____
_____	_____	_____	_____	_____

C. PRICE AS A DEMAND GENERATOR

1. Margin - Profit Relationship

2. Price - Demand Relationship

II. ADMINISTRATION OF PRICES

A. COST-ORIENTED PRICING

1. Cost-Plus Pricing Limitation

2. Rate of Return Pricing

B. CUSTOMER-ORIENTED PRICING

- 1. Customary Pricing**
- 2. Psychological Pricing**
- 3. Promotional Pricing**

C. COMPETITION ORIENTED PRICING

- 1. Going Rate**
- 2. Discount or Premium**
- 3. Leader-Follower, Price Leaders**

III. NEW PRODUCT STRATEGY

A. MARKET SKIMMING CHARACTERISTICS

B. PENETRATION PRICING

NEW PRODUCT PRICING STRATEGY		
OBJECTIVE	STRATEGY	WHEN USED
HIGH SHORT-TERM PROFIT (WITHOUT REGARD FOR LONG-TERM)	SKIM	<ul style="list-style-type: none"> • NO COMPETITIVE PRODUCTS • NEW PRODUCT • LARGE NUMBER OF BUYERS • BLOCKED COMPETITOR ENTRY DUE TO HIGH PRICE, PATENT CONTROL, HIGH R & D COSTS, HIGH PROMOTION COSTS, AND/OR RAW MATERIAL CONTROL • UNCERTAIN COSTS • SHORT LIFE CYCLE • PRICE INSENSITIVITY
EFFICIENT MANUFACTURER BEFORE COMPETITORS GET ENTRENCHED, WITHOUT SACRIFICING LONG-TERM OBJECTIVES	SLIDING-DOWN DEMAND CURVE	<ul style="list-style-type: none"> • BY ESTABLISHED COMPANIES LAUNCHING INNOVATIONS • SLIGHT BARRIERS TO ENTRY BY COMPETITION • MEDIUM LIFE SPAN
ENCOURAGE OTHERS TO PROMOTE THE PRODUCT TO STIMULATE PRIMARY DEMAND	PRICE UMBRELLA LEADERSHIP	<ul style="list-style-type: none"> • SEVERAL COMPARABLE PRODUCTS • GROWING MARKET • MEDIUM-TO-LONG PRODUCT LIFE SPAN • KNOWN COSTS
STIMULATE MARKET GROWTH BUT CAPTURE MARKET SHARE AT A PROFIT THROUGH LOW PRICES.BECOME ENTRENCHED TO GENERATE LONG-TERM PROFITS	MARKET PENETRATION	<ul style="list-style-type: none"> • LONG PRODUCT LIFE • MASS MARKET • EASY MARKET ENTRY • DEMAND SENSITIVE TO PRICE • UNIT COSTS DECREASE AS OUTPUT INCREASES • NEWER PRODUCT • NO "ELITE" MARKET WILLING TO PAY PREMIUM
KEEP COMPETITORS OUT OF MARKET OR ELIMINATE EXISTING ONES	PRE-EMPTIVE/ EXTINCTION	<ul style="list-style-type: none"> • USE THIS ON ONE OR TWO PRODUCTS, WITH OTHER PRICES MEETING OR HIGHER THAN THOSE OF COMPETITORS

I. DEFINITION

PLANNING, IMPLEMENTING AND CONTROLLING THE PHYSICAL FLOW OF MATERIALS AND FINAL GOODS FROM POINT OF ORIGIN TO POINT OF USE TO MEET NEEDS OF CUSTOMERS AT A PROFIT (PLACE UTILITY)

II. TYPES OF DISTRIBUTION

A. EXCLUSIVE

- Rolex

B. SELECTIVE

- Seiko

C. EXTENSIVE (INTENSIVE)

- Timex

III. MARKETING AND LOGISTICS OBJECTIVES

A. MARKETING ALLOCATES RESOURCES TO 4P'S TO IMPLEMENT THE MARKETING STRATEGY

Develop The Organization To Provide Satisfaction

B. LOGISTICS MINIMIZES TOTAL COSTS GIVEN THE CUSTOMER SERVICE OBJECTIVE

- I. IMPORTANCE OF (VALUE OF) PERSONAL SELLING**
 - A. CRITICAL MARKETING FUNCTION**
 - B. HIGHLY PAID JOB**

- II. FUNCTIONS OF SALES PEOPLE**
 - A. TEAM LEADER OF THE FIRMS INTERFACE WITH CUSTOMERS**
 - B. ANALYSIS OF OPPORTUNITIES**
 - C. PULL & PUSH**
 - D. SALES & NEGOTIATION**
 - E. CUSTOMER SERVICE**
 - F. MARKET LOYALTY**

- III. STEPS IN SELLING**
 - A. PLANNING – MARKETING MANAGER OF THE TERRITORY**

B. PROSPECTING

- 1. Finding Customers**
- 2. Evaluating Competition**

C. PRE-APPROACH AND APPROACH**D. PRESENTATION OF THE COMPANY'S
PHILOSOPHY AND CAPABILITIES****E. NEGOTIATING****F. CLOSING****G. SERVICING****IV. TYPICAL SALES STRUCTURES****A. VERTICAL MARKET VS. GEOGRAPHY****B. REGIONAL & DISTRICT MANAGERS****C. SALES TERRITORIES****D. TOP MANAGEMENT INVOLVEMENT**

Components Of The Strategic Marketing Plan

I. MISSION STATEMENT

II. SITUATION ANALYSIS

A. CUSTOMERS

- 1. Segments**
- 2. Quantitative Analysis**
- 3. Customer Attitudes -
Needs, Wants and Expectations**

B. CHANNELS

**MAP OF PRODUCT FLOW FROM COMPANY
TO CUSTOMERS**

C. COMPETITION

- 1. Evoked Set & Product Class**
- 2. Industry Structure**

D. PRODUCT AND SERVICE LIFE CYCLES

E. ENVIRONMENTAL ASPECT

III. STRENGTHS, WEAKNESSES, OPPORTUNITIES AND THREATS

IV. SELECTION OF OBJECTIVES BY SEGMENT

A. NEW CUSTOMERS

B. GREATER VOLUME FROM EXISTING CUSTOMERS

V. STRATEGY FORMULATION

A. TARGET MARKETS & APPROACH

B. COMPETITIVE POSITIONING

C. STRATEGIES AGAINST GIANTS

- Unique
- Opportunistic

D. DEFENDING POSITIONS

E. PROGRAM DEVELOPMENT

- **Segments**
- **Products**
- **Marketing Mix Elements**

VI. FORECASTING & FINANCE

VII. REVIEW PROCEDURES

Strategic Marketing

ADVANCED MARKETING MODULE
MUCIA: MANAGEMENT TRAINING & ECONOMICS EDUCATION

Developed By:

**Gilbert D. Harrell, Ph.D.
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Michigan State University**

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Okemos, Michigan, U.S.A.**

Strategic Marketing

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Gil Harrell is Professor of Marketing at Michigan State University. His international research, consulting and teaching interests focus on marketing, strategic planning, sales management, marketing research and buyer behavior. His publications have appeared in the Journal of Marketing, Journal of Retailing, Journal of Long Range Planning, Journal of Marketing Research, Journal of Consumer Research, Journal of Consumer Affairs, Journal of Industrial Marketing Management, Cornell Quarterly, Journal of Health Care Marketing, Michigan State University Business Topics, International Marketing Managerial Perspectives, and other journals. Several publications have become classics in their field.

Dr. Harrell's text, Consumer Behavior, Harcourt, Brace & Jovanovich, has been adopted widely by major universities. He is a regular participant in American Marketing Association Conferences and the Association for Consumer Research. He is past Dean of Sales Management Institute for Sales/Marketing Executives International. He has consulted with executives from hundreds of corporations and has been on executive programs with over a hundred leading universities and national associations. His work has included the development of strategic planning, marketing planning and new product ventures systems that are currently used by several Fortune 500 companies.

Professor Harrell specializes in systems for marketing strategy, marketing management, and planning. He has worked with numerous corporations in over 15 countries to create organizational change through the application of tools for effective marketing. Clients include ARA Services, Foremost, SCM Corporation, Asea Brown Boveri, Westinghouse, Eastman Kodak, General Motors, Brunswick Corporation, UPS, Detroit Edison, Packard Electric, Delco Remy, AC-Rochester, Motor Wheel, Diversitec (Blue Cross/Blue Shield), Sisters of Mercy Corporation as well as others.

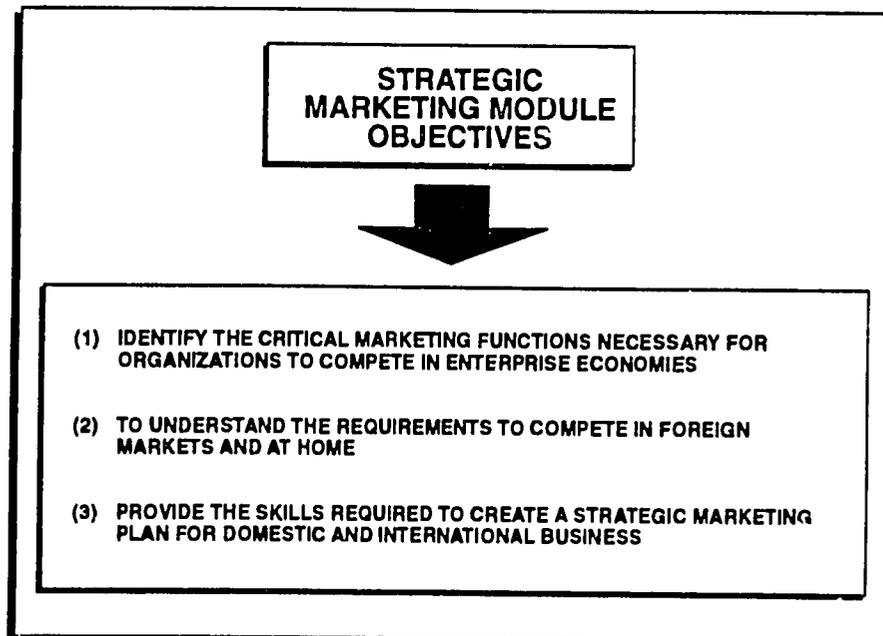
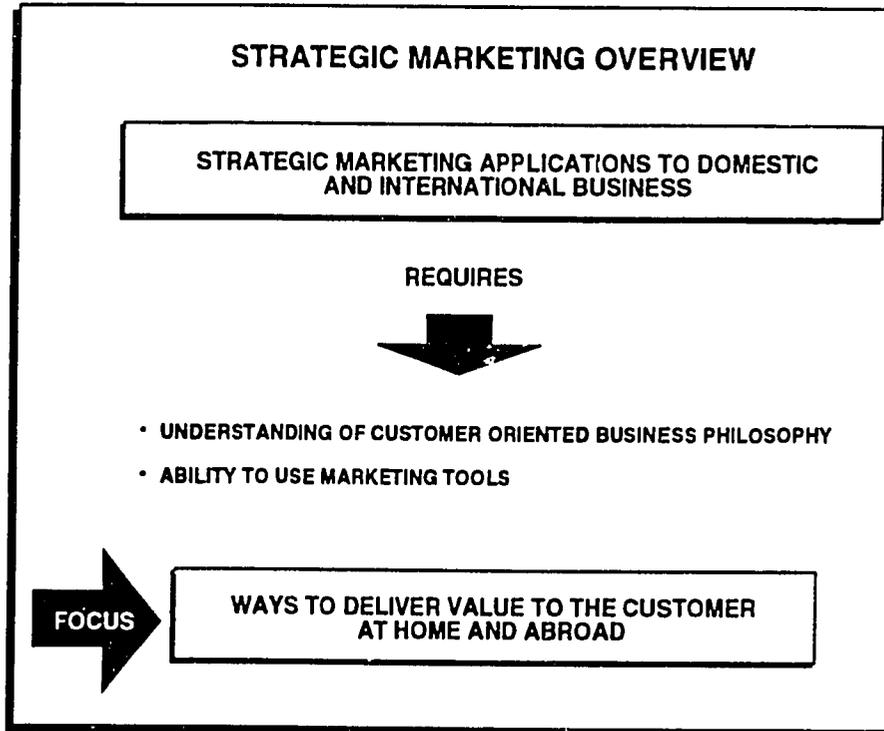
Dr. Harrell is a regular participant in American Marketing Association conferences and the Association for Consumer Research. His doctorate degree is from Pennsylvania State University, where he was elected to the Phi Kappa Phi Honorary and to the American Marketing Association Doctoral Consortium. His Ph.D. students have won numerous AMA awards for distinguished research. His loyalty to Michigan State University is understandable because both his undergraduate and M.B.A. degrees are from there. He is past director of the Marketing Ph.D. program at Michigan State University. Prior to obtaining the doctorate, Dr. Harrell worked in marketing planning and research at the Upjohn Company.

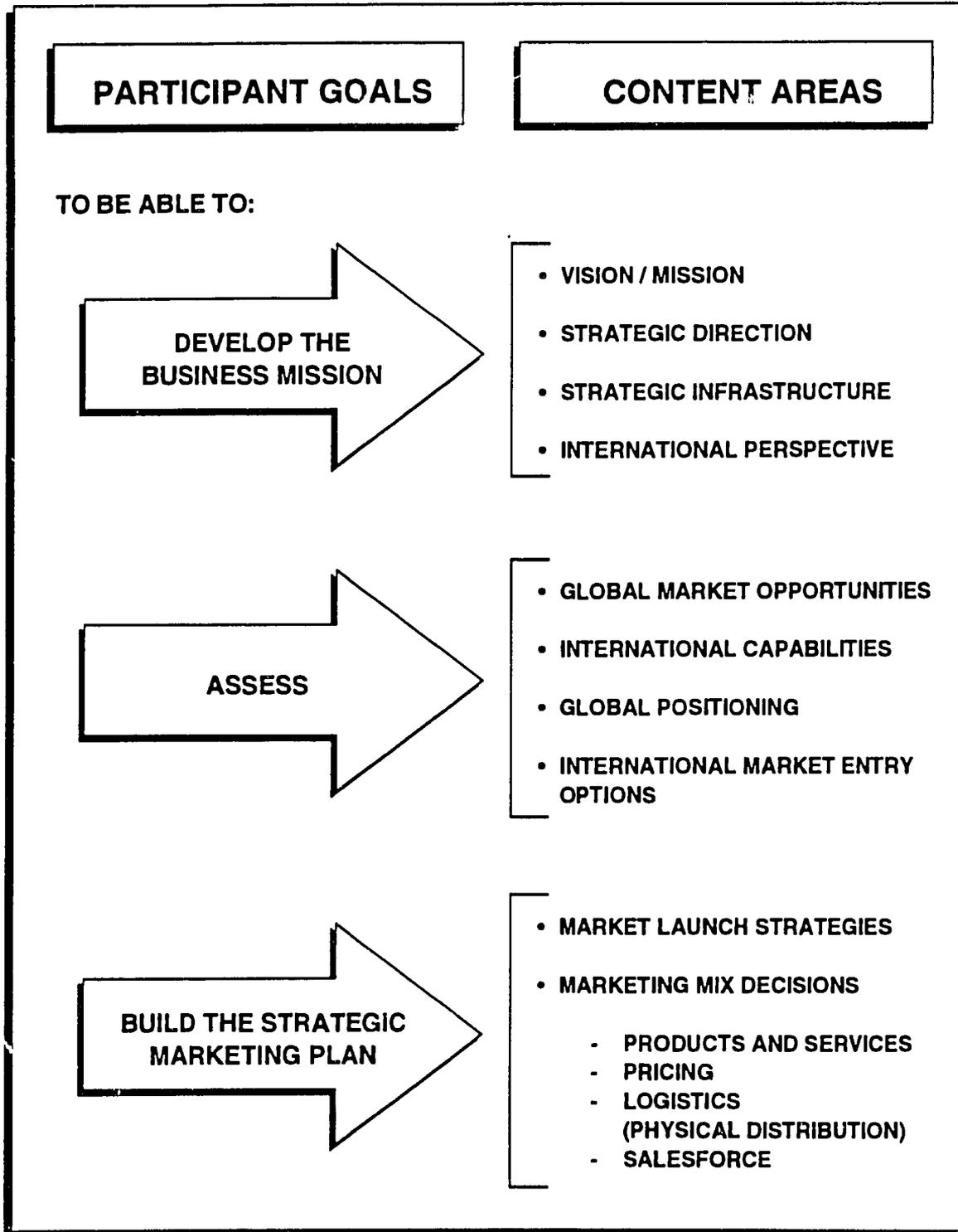
Strategic Marketing

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INTERNATIONAL MARKET ENTRY STRATEGIES	33
MARKET LAUNCH STRATEGIES	40
MARKETING MIX DECISIONS	43
• Products and Services	44
• Pricing	48
• Logistics (Physical Distribution)	51
• Salesforce	52
<u>DAY THREE</u>	
COMPONENTS OF THE STRATEGIC MARKETING PLAN	54

Advanced Strategic Marketing Overview





The Strategic System

I. BUSINESS VISION

A. ROLES OF A BUSINESS

- Innovation and Marketing

B. REQUIREMENTS

- Beacons
- Visual Not Numbers
- What Are We Going To Be,
Not What We Are Going To Do

II. BUSINESS MISSIONS & MYOPIA

A. WHAT BUSINESS ARE WE IN?

- Railroads
- Drills

B. EXAMPLES

- IBM
- ABB (Think Global-Act Local)

- C. **BENEFIT RICH DEFINITION OF HOW WE WILL SERVE (BE BROAD, BASIC, FUNDAMENTAL & FUTURISTIC)**

(Project)

III. STRATEGIC DIRECTION

A. ESSENCE OF WINNING

"Lead, Follow, Or Get Out Of The Way!"

"Unseat The Best Or Remaining The Beat Worldwide."

"AT&T - "Leading Provider Of Anytime, Anywhere Communication."

B. MARKET SHARE AND CAPACITY FOR GROWTH

- Double Digit?
- J&J Or GE Share

C. WHAT IS YOUR DEFINITION OF WINNING?

D. CLEAR ENDS AND FLEXIBLE MEANS

E. FLEXIBILITY AND SPEED TO MARKET

(Project)

IV. FUNDAMENTAL OF STRATEGIC INFRASTRUCTURES

A. STRATEGIC INFRASTRUCTURES-CAPABILITIES OF THE FIRM TO CAPTURE, DEVELOP AND CONTROL RESOURCES REQUIRED TO ENGAGE IN BATTLES TO OBTAIN MARKET VALUE

B. CORE COMPETENCIES

- **Base Technologies**
- **Process Technologies**
- **Service Technologies**
- **People Systems**

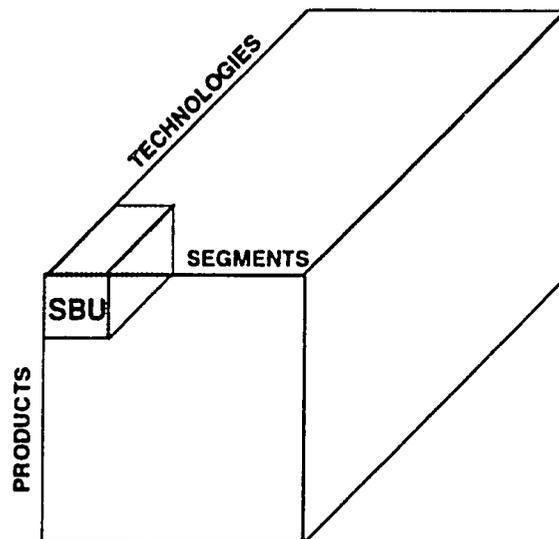
C. COMPETENCIES AND RESOURCES ARE RELATED

- **Develop A List Of Resources**
- **Your Resources Are My Resources!
Society's Resources Are My Resources!
My Resources Are My Resources!**

V. STRATEGIC BUSINESS UNITS (SBU) AND RELATED PLANNING DEVICES

A. SBU DEFINED-DIVIDING AND GROUPING BUSINESSES

1. Products
2. Segments
3. Technologies



B. BUSINESS PORTFOLIO PROGRAMS

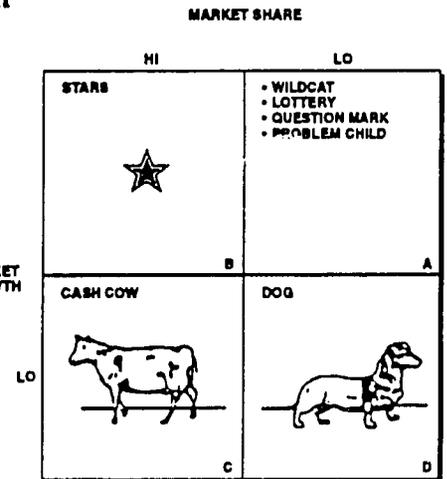
1. Too Many Products-
Too Many Markets-
Too Many Customers

2. The Basic Grid

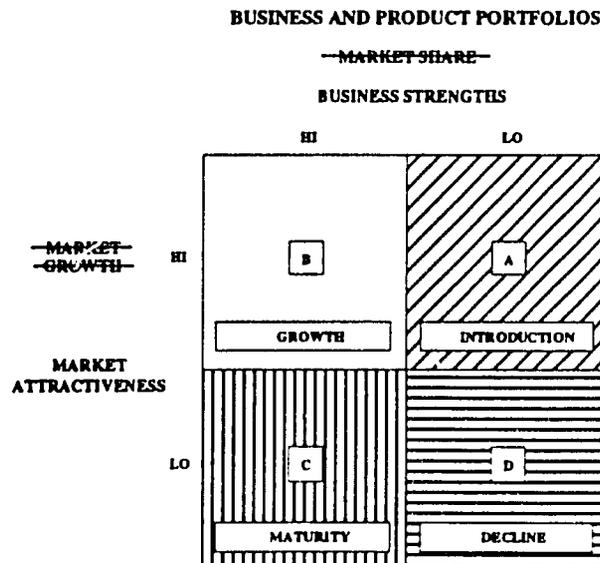
- The Experience Curve
- Market Share and Market Growth

3. Categories of Business

- Sweepstakes, ?, Problem Child, Wildcat
- Stars
- Cash Cows
- Dogs



4. Management Implications



5. Too Simplistic

- **Problem with Share Growth**
- **Resource and Opportunity Elements**
- **Creation of Measures**
 - **“Mark with Micrometer-Cut with Axe”**
- **Basically a Theoretical Cash Flow Model**

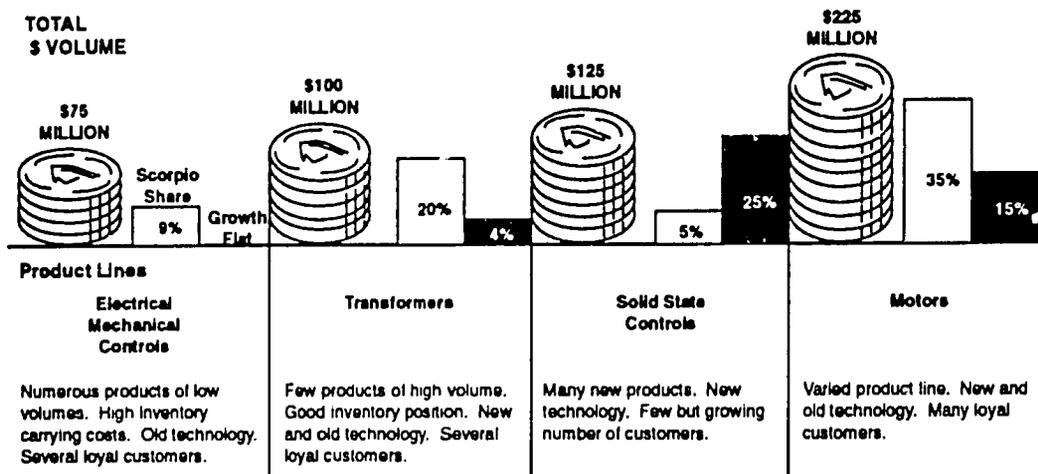
C. MORE ELABORATE DIMENSIONS

- 1. Market Attractiveness Project**
- 2. Business Strengths Project**

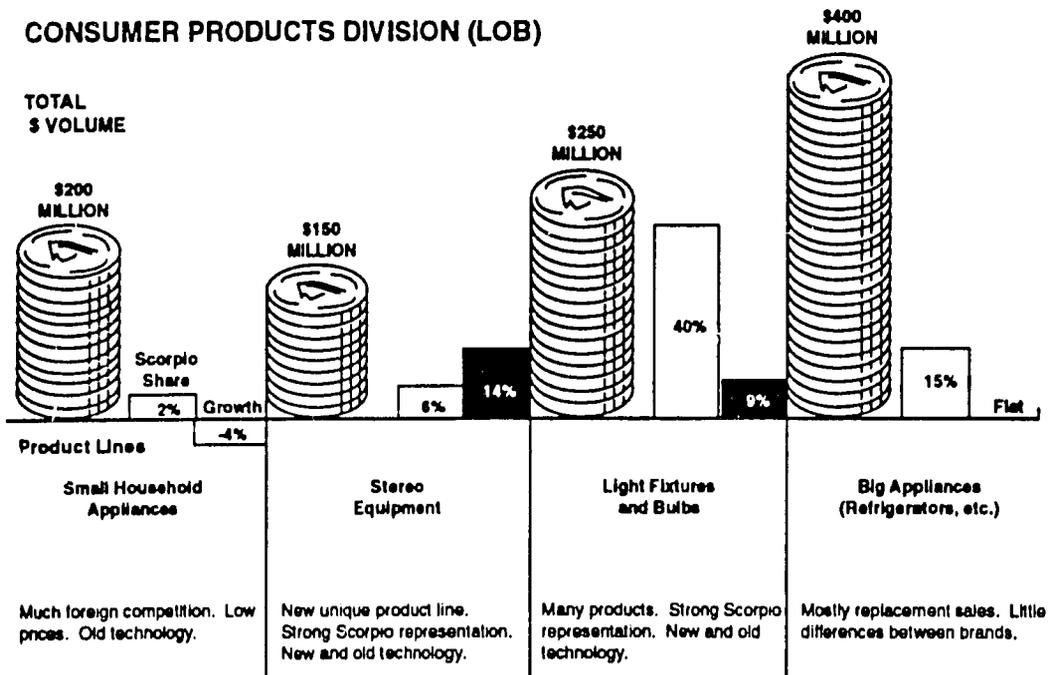
PROJECT

SITUATION: LOOK AT THIS SITUATION FROM THE VIEWPOINT OF A PLANNER IN SCORPIO CORPORATION. SCORPIO ELECTRIC CORPORATION HAS TWO MAJOR BUSINESSES-AN INDUSTRIAL DIVISION AND A CONSUMER DIVISION. THEIR PRODUCT LINES ARE AS FOLLOWS:

INDUSTRY PRODUCTS DIVISION (LOB)



CONSUMER PRODUCTS DIVISION (LOB)



DO THE FOLLOWING FOR EACH DIVISION:

- A. Evaluate each Scorpio product line according to market attractiveness.**
- B. Evaluate Scorpio's business strength regarding each product line.**
- C. For each division, put the product lines on the matrix based on your evaluations.**

		Business Strength			
		HI		LO	
Market Attractiveness	HI				
	LO		B		A
			C		D

VI. PERSPECTIVES ON STRATEGY

- A. SELF / CUSTOMER VS. CUSTOMER / COMPETITION / ENVIRONMENT / SELF

- B. THE IMPORTANCE OF PROFIT AND VOLUME (SHARE) IN MARKETING SUCCESS
 - Profit Fuels Your Economy
 - Profit Fuels Your Company
 - Profit is Tied to Value

VII. DEVELOPING A CUSTOMER CENTERED PHILOSOPHY

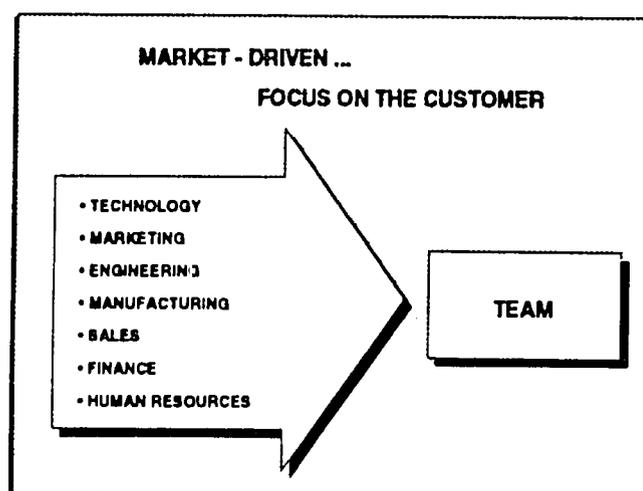
- A. CUSTOMER BENEFITS VS. PRODUCT CHARACTERISTICS

- B. VALUE AND PRICE

- C. UNDERSTANDING VS. PERSUASION

VIII. DEFINITION OF STRATEGIC MARKETING

- A. UNDERSTANDING NEEDS, WANTS AND VALUES OF TARGET MARKETS
- B. DEVELOPING THE ORGANIZATION TO PROVIDE SATISFACTION
- C. MORE EFFECTIVELY, EFFICIENTLY AND PROFITABLY THAN COMPETITORS
- D. IN ORDER TO INCREASE THE VALUE OF THE BUSINESS
- E. MARKETING DRIVEN = FOCUS ON THE CUSTOMER
ALL FUNCTIONS CONTRIBUTE TO MARKETING



Developing An International Perspective

I. AN INTERNATIONAL PERSPECTIVE IS CRITICAL

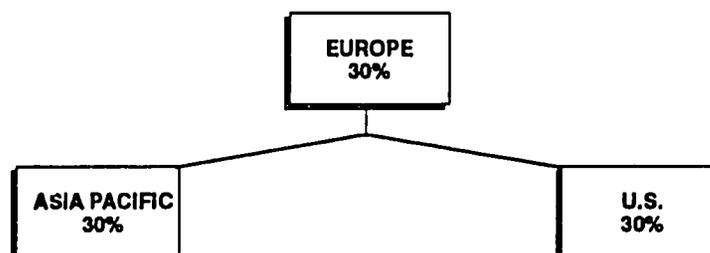
A. THREE ENVIRONMENTAL ORIENTATIONS

- Ethnocentric
- Polycentric
- Geocentric

B. CLASSES OF CORPORATIONS

- Domestic
- Regional
- International
- Multinational
- Global

C. TRIAD OF ADVANCED WORLD NATIONS



D. TWO MAJOR FORCES

- Tendency Toward Globalization
- Increasing Importance of Technology

E. REASONS FOR INTERNATIONALIZATION*

1. Internal Reasons

- Attractive Overseas Markets
- Perceptive Management
- Saturated or Closed Domestic Markets
- New Management
- Greater Profitability

2. External Reasons

- Market Factors
- Product-Generated Inquiries
- Outside Experts
 - Export Agents
 - Chambers of Commerce
 - Banks / Financial Institutions
- Government
- Preempt Competition

*Adapted from International Marketing: Planning and Practice, by Samli, Still, and Hill

Global Assessment Of Markets

- I. SEGMENTATION HELPS FOCUS YOUR ORGANIZATION ON THE CUSTOMER**
 - A. THE FALLACY OF THE "MASS" MARKET CONCEPT**
 - B. MARKET SEGMENTATION DEFINED**
 - C. SEGMENTATION PROJECT**
 - 1. Consumer Project**
 - 2. Industrial Project**
 - D. GLOBAL MARKET SEGMENTS**
 - 1. Geographic Sizes and Growth**
 - **Europe**
 - **North America**
 - **Pacific Rim**
 - 2. Competitive Philosophies**
 - **North America - Independent of Joint Venture**
WIN - WIN
 - **European - Regional / National - Alliances**
WIN - WIN
 - **Pacific Rim - Keiretsu - Exclusive**
WIN - LOSE

II. QUANTITATIVE INFORMATION ABOUT EACH SEGMENT

A. CUSTOMERS

B. VOLUME

C. CURRENCY

D. MARKET SHARE

- 1. Ours**
- 2. Theirs**
- 3. Ability and Need**
- 4. Need and No Ability**

III. TARGET MARKETS & THREE BASIC STRATEGIES

A. UNDIFFERENTIATED

B. DIFFERENTIATED

C. CONCENTRATED

IV. WHY SEGMENT?

- A. UNDERSTAND CUSTOMER NEEDS
- B. UNDERSTAND COMPETITORS STRENGTHS
- C. BUILD THE MARKETING APPROACH

V. REQUIREMENTS FOR GOOD SEGMENTS

- A. HOW AND WHY THEY BUY AND CONSUME
- B. UNIQUE CHARACTERISTICS
- C. BIG ENOUGH

VI. SEGMENT PORTFOLIOS

- A. COUNTRY ATTRACTIVENESS
 - 1. Market Size and Need
 - 2. Market Growth

Global Assessment of Markets	Discussion Notes
-------------------------------------	-------------------------

3. Government Regulations

- Price Controls
- Homologation
- Local Content and Compensatory Export

4. Economic and Political Stability

5. Distribution Availability

B. COMPETITIVE STRENGTH

1. Market Share Potential

2. Product Fit

- As It Is
- Adjustments Required

3. Profit Potential and Margin

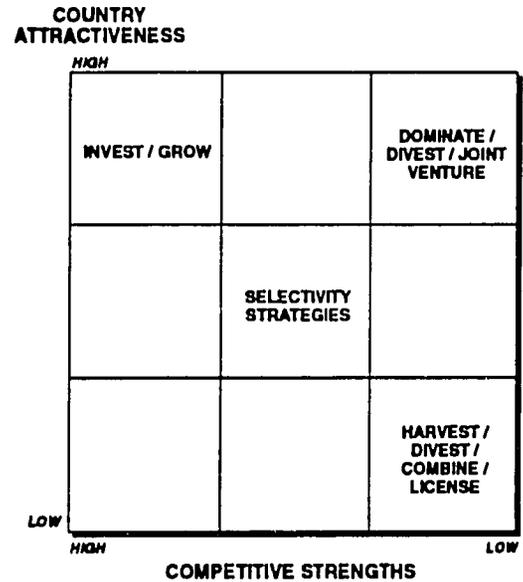
4. Market Support

- Representation
- Promotion
- Technical Service Support

C. STRATEGIC IMPLICATIONS

1. Invest / Grow Countries

- Corporate Commitment
- Substantial Financial Investments
- Substantial Personnel Investments
- Research and Development
- Local Production
- Extensive Marketing Support



2. **Harvest / Divest / Combine / License Countries**
 - **Harvest Profits or Sell Business**
 - **Sacrifice Share for Profit**
 - **Frequent Cash Flow Calculations**
 - **Short Term Pricing Policy**
 - **Reduced Marketing Spending**
 - **Combine Countries**
 - **Export**
 - **Subsidiary**
 - **Licensing Arrangement**
3. **Dominate / Divest / Joint Venture Countries**
 - **Difficult Strategic Decision**
 - **Careful Analysis of Cash Requirements / Availability**
 - **Joint Venture**
4. **Selectivity Strategies Countries**
 - **Extreme Competition**
 - **Value Based Analysis**
 - **Focus on Current Customers**
 - **Manufacturing Efficiency**
 - **R&D Focused on Maintaining Full Product Line**

Global Assessment of Markets	Discussion Notes
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COMPETITIVE STRENGTH WEIGHTS

1) Market Share

a) Percentage of Market		b) Position	
Share	Rating	Rank	Rating
30 +	10	1	10
27 - 21	9	2	8
.	.	3	6
.	.	4	4
.	.	5	2
4	1		

2) Product Fit

Because this scale suggests Ford's competitive product strategy, we decided not to publish it. In general, a 10-point subjective index was created to match product characteristics with key local product needs.

3) Contribution Margin

Again, this is proprietary, but it reflects two factors.

a) Profit Per Unit		b) Profit Percentage of Net Dealer Cost	
Amount	Rating	Amount	Rating
\$5,000	10	40% +	10
(example)	.	.	.
.	.	.	.
.	.	.	.
\$1 - 400	1	5% -	1

4) Market Support

a) Market Representative		b) Market Support	
Evaluation	Rating	Evaluation	Rating
Quantity and quality of Ford distributors and service are clearly "best in country".	10	Ford market support in advertising promotion is clearly "best in country".	10
Ford representation is equal to leading competitor's.	8	Ford support is equal to leading competitor's.	8
Ford representation is behind several leading competitor's.	2	Ford support is behind several leading competitor's.	2

COUNTRY ATTRACTIVENESS SCALE WEIGHTS

1) Market Size

Units	Rating
25,000	10
22,500-24,999	9
20,000-22,499	8
.	.
.	.
.	.
5,000	1

2) Market Growth

Amount %	Rating
5 Plus	10
4-4.9	9
3-3.9	8
.	.
.	.
.	.
Under 3	1

3) Government Regulations

a) Price Control		b) Homologation		c) Local Content / Compensatory Exports	
Type	Rating	Type	Rating	Type	Rating
None	10	None	10	None	10
Easy to Comply	6	Easy	6	Easy to Comply	6
Moderately Easy to Comply	4	Moderate	4	Moderately Easy to Comply	4
Rigid Controls	2	Tough	2	Rigid Controls	2

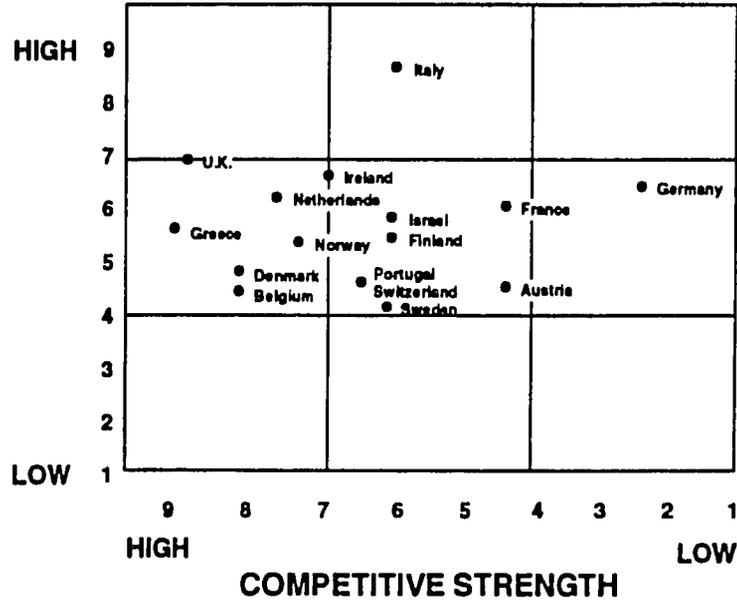
4) Economic and Political Stability

a) Inflation		b) Trade Balance		c) Political Stability	
Amount (%)	Rating	Amount (%)	Rating	Type	Rating
7 and Under	10	5 and Over	10	Stable Market	10
.	.	-0-4.9	9	Moderate	9
.	.	-5.0	8	Unstable	8
40 and Over	1	.	.		
		.	.		
		.	.		
		-36%	1		

Global Assessment of Markets	Discussion Notes
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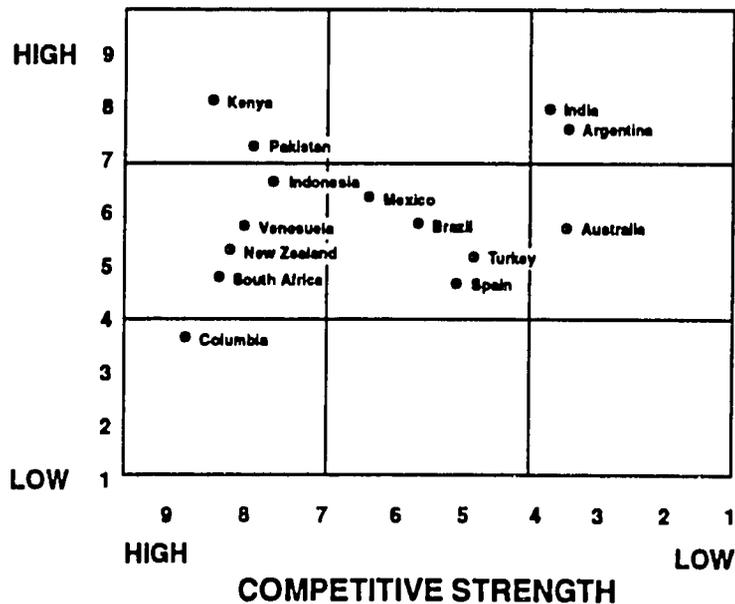
EUROPEAN MATRIX

COUNTRY ATTRACTIVENESS



KEY COUNTRY MATRIX

COUNTRY ATTRACTIVENESS



Evaluating A Company's International Capabilities

I. IS YOUR COMPANY READY TO GO INTERNATIONAL?

A. MANAGEMENT

- **Orientation (Polycentric → Geocentric)**
- **International Talent**
 - **Multicultural Personnel**
 - **Speak Foreign Languages**
 - **International Business Experience**
- **Training / Educational Needs**
- **Commitment (Money, Time, . . .)**

B. COMPANY RESOURCES

- **Domestic Operations "Under Control"**
(Going International Rarely a Good Escape from Domestic Problems)
- **Sources of Differential Advantage**
 - **High Quality Image**
 - **Cost Leadership**
 - **Manpower Skills**
 - **Patents**
 - **High Liquidity**
 - **Marketing Know-How**

C. COMPANY OBJECTIVES / PHILOSOPHIES

- **Growth Rate**
- **Means of Growth (Growth in Current Products Vs. Unrelated Products, Finance Growth from Within, Attitude Toward Acquisitions and Mergers)**
- **Sources of Differential Advantage**
- **Profitability, Return on Investment Required**
- **Risk Preferences**
- **Liquidity Preferences**
- **Market Share Desired, Etc.**

D. PRODUCTS

- **Performance in Home Market**
- **Competitiveness of Technology and Product**
- **Amount of Adaptation**
 - **Design**
 - **Content**
 - **Brand and Packaging**
 - **Components**
- **Customer Service Requirements**

E. DISTRIBUTION / PROMOTION

- **Overseas Contacts**
- **Capabilities of Partner**
 - **Effectiveness**
 - **Reliability**
 - **Trustworthy**
- **Amount of Promotion Required**
- **Adaptation Required for Promotional Campaigns**

(Project)

Positioning For Competitive Success

I. POSITIONING DEFINED

**A PERCEPTION OF BUYERS POSITIONING
AND IMAGE**

II. DIMENSIONS OF POSITION

A. OBJECT TO ATTRIBUTE

B. OBJECT TO OBJECT

C. OBJECT TO CONSUMER

III. EXAMPLES OF POSITIONING

A. PRICE AND VALUE ADDED

B. QUALITY AND PRICE

C. POSITIONING EXERCISE

IV. BASIC POSITIONING STRATEGIES

A. COMMODITY OR CONVENIENCE

.B. COMPARISON OR SHOPPING

C. SPECIALTY OR UNIQUE

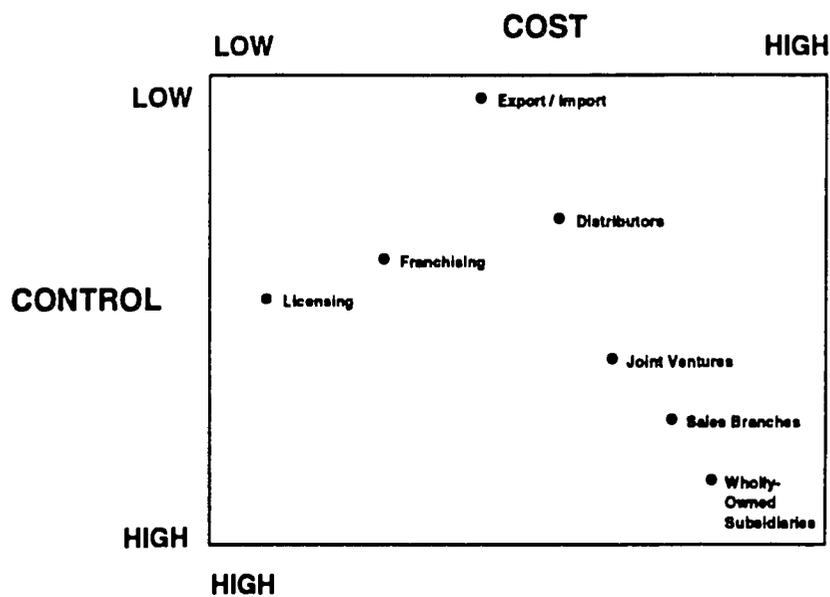
V. LIVING CASE

**PARTICIPANTS POSITION THEIR
COMPANY'S MAJOR PRODUCT**

International Market Entry Strategies

I. INTERNATIONAL MARKET ENTRY STRATEGIES

A. MARKET ENTRY OPTIONS*



*Adapted From International Marketing: Planning and Practice, by Samli, Still, and Hill

1. Licensing (Subcontracting)

- Grant Permission to Foreign Producer to Manufacture Unique, Patented Product

International Market Entry Strategies

Discussion Notes

- **Pros:**
 - **Fast**
 - **Minimum Investment**
 - **Sales and Distribution Channels Established**
 - **Licensee has Experience Dealing with Government**
 - **Eliminates Risk of Expropriation / Nationalization**
- **Cons:**
 - **Quality May Decline**
 - **Possibility of Licensee Making Similar Product**
 - **Difficult to Secure Patent Protection**

2. Franchising

- **Gives Franchisee Right to Use Certain Manufacturing Process and Brand Name**
- **May be Appropriate if:**
 - **Well Known Product or Brand**
 - **Similar Overseas Marketing Needs**
 - **Limited Production Capital Needed**
 - **Only Small Amount of Imported Materials**
 - **Most Materials Available Locally**
 - **High Transportation Costs from Home Country**
 - **Sales Sensitive to Local Advertising**

3. Export / Import

- **Export Commissioners**
 - **Bring Together Suppliers and Overseas Customers**
 - **Usually 5-7% Commission**
 - **Represent Manufacturer**
- **Wholesalers / Retailers**
 - **Based in Foreign Country**
 - **Represent Own Interests**
- **Exclusive Agents**
 - **Represent Exporting Company; Sell to Wholesalers and Retailers**
 - **Exporter Ships Directly to Customers**
 - **Cover Large Geographic Areas**
 - **Often Work with Subagents**

4. Distributors

- **Exclusive Agents / Sole Importers**
- **Independent Merchants, Free to Choose Own Customers and Set Conditions of Sale**
- **Often Own / Operate Wholesale, Retail, Warehouse, Repair, and Service Facilities**
- **Allows Exporter to Deal with One Agent, Take One Credit Risk, Ship to One Destination**

5. Joint Ventures

- **Equity and Management Partnership Between International Company and Local Company**
- **Generally for New Undertaking, Such as New Product Line or New Hotel Chain**
- **Each Partner Gains Access to Skills, Resources, Knowledge of Other Partner**
- **Potential Problems**
 - **Fundamental Differences in Objectives**
 - **One Partner Attempts to Get Better Deal**
 - **Cultural Differences Affecting Decision Making, Labor Relations, Etc.**
 - **Difficult to Establish / Enforce Contractual Agreement**

6. Sales Branches

- **Extension of Company's Domestic Business**
- **Puts Emphasis on Sale / Service of Company's Products**
- **Effective for Highly Technical Products Requiring Support Services**

7. Wholly-Owned Subsidiaries

- **Local Management**
 - **Custom Built Subsidiary or Acquire Local Company**
 - **Acquisition Gives Instant Access to Distribution and Suppliers but Difficulty in Meshing Companies Together**
 - **Custom Built Subsidiary Follows Parent Company Specifications but Must Start from Scratch**

- **Home-Country Management**
 - **Use Expatriates, Then Eventually Turn Over to Trained Locals**
 - **Rarely Used Because Almost Impossible to Maintain**
 - **Foreign-Managed Companies Become Target of Local Politicians**

B. CHOOSING THE PROPER ENTRY STRATEGY

- 1. Not Necessarily the Same Across Entire Global Market**

2. External Criteria

- **Risk**
- **Competition**
- **Political Conditions**
- **Market Conditions**
- **Future Market Potential**
- **Availability of Desired Distribution Outlets**
- **Availability of Venture Capital**
- **Availability of Know-How**

3. Internal Criteria

- **Time Orientation**
- **Need for Control**
- **Degree of Internationalization**
- **Urgency in Going Forward**
- **Ability to Handle International Risk**

Market Launch Strategies

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I. DEVELOPING STRATEGIES

***“STRATEGY IS THE ART OF MEETING THE ENEMY
IN BATTLE UNDER ADVANTAGEOUS
CONDITIONS.”***

A. THE SAMURAI & FUJI

1. Three characteristics of strategy
2. Fuji & Kodak

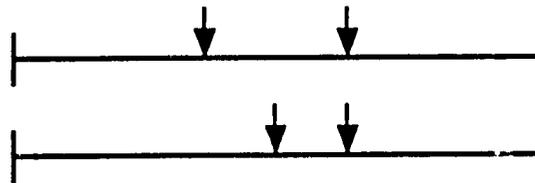
B. CREATING THE ATTACK

1. Strategies for powerhouses
 - Defense or offense
 - Reaction time
 - Spreading too thin
2. Strategies for number 2 to become number one
3. Frontal attacks and concentration
 - Ford Example
 - Wendy's Example
4. Flanker attacks
 - Kodak Copiers
 - Requirements and Problems

5. **Guerrilla Approaches**
6. **Looking for Loose Bricks and Niche Markets**

C. SUSTAINABLE COMPETITIVE ADVANTAGE VS. COMPETITIVE ADVANTAGE

1. **Value to the Market and Performance Difficulty**
2. **Deployment of Resources**



D. CRITICAL CHALLENGES FOR STRATEGY FORMULATION

1. **Developing a Powerful Marketing Strategy**
 - **Team Effort**
 - **Competitive Leadership**
2. **Discipline to Fulfill the Game Plan**
3. **Develop a Committed Infrastructure to Support it**

Marketing Mix Decisions

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I. PRODUCT AND SERVICE DECISIONS**A. BROAD / NARROW LINE****B. DEEP / SHALLOW LINE**

Examples:

	BROAD	NARROW
DEEP	DEPARTMENT STORE	SPECIALTY STORE
SHALLOW	DISCOUNT STORE	CONVENIENCE STORE

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II. PRODUCT LIFE CYCLE

A. STAGES

- Development
- Introduction
- Growth
- Maturity
- Decline

B. ALL PRODUCTS AND SINGLE BRAND

C. PROFITS AND THE LIFE CYCLE

D. PRODUCT POSITIONS OVER THE LIFE CYCLE

- Specialty
- Comparison
- Commodity

E. OBJECTIVES OVER THE LIFE CYCLE

- Market Share
- Customer

III. ADOPTION CURVE

- A. INNOVATORS
- B. EARLY ADOPTERS
- C. EARLY MAJORITY
- D. LATE MAJORITY
- E. LAGGARDS

STRATEGY IMPLICATIONS

IV. PRODUCT DEVELOPMENT

A.

	EXISTING SEGMENTS	NEW SEGMENTS
EXISTING PRODUCTS		
NEW PRODUCTS		

B. MARKETING ACTIONS

- 1. Penetration**
- 2. Market Development**
- 3. Product Development**
- 4. Diversification**

I. PRICING

A. PRICING AFFECTS ALL PARTS OF THE COMPANY

B. PRICING FOR VALUE ADDED

1. Examples of Value Added

2.

CUSTOMER EXPECTATION	PRICE OF ENTRY	WASTE	VALUE ADDED (PERCENTAGE GAINED)	VALUE LOSS
_____	_____	_____	_____	_____
_____	_____	_____	_____	_____
_____	_____	_____	_____	_____
_____	_____	_____	_____	_____
_____	_____	_____	_____	_____
_____	_____	_____	_____	_____
_____	_____	_____	_____	_____

C. PRICE AS A DEMAND GENERATOR

1. Margin - Profit Relationship

2. Price - Demand Relationship

II. ADMINISTRATION OF PRICES

A. COST-ORIENTED PRICING

1. Cost-Plus Pricing Limitation

2. Rate of Return Pricing

B. CUSTOMER-ORIENTED PRICING

- 1. Customary Pricing**
- 2. Psychological Pricing**
- 3. Promotional Pricing**

C. COMPETITION ORIENTED PRICING

- 1. Going Rate**
- 2. Discount or Premium**
- 3. Leader-Follower, Price Leaders**

III. NEW PRODUCT STRATEGY

A. MARKET SKIMMING CHARACTERISTICS

Marketing Mix Decisions: Pricing	Discussion Notes
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B. PENETRATION PRICING

NEW PRODUCT PRICING STRATEGY		
OBJECTIVE	STRATEGY	WHEN USED
HIGH SHORT-TERM PROFIT (WITHOUT REGARD FOR LONG-TERM)	SKIM	<ul style="list-style-type: none"> • NEW COMPETITIVE PRODUCTS • NEW PRODUCT • LARGE NUMBER OF BUYERS • BLOCKED COMPETITOR ENTRY DUE TO HIGH PRICE, PATENT CONTROL, HIGH R & D COSTS, HIGH PROMOTION COSTS, AND/OR RAW MATERIAL CONTROL • UNCERTAIN COSTS • SHORT LIFE CYCLE • PRICE INSENSITIVITY
EFFICIENT MANUFACTURER BEFORE COMPETITORS GET ENTRENCHED, WITHOUT SACRIFICING LONG-TERM OBJECTIVES	SLIDE-DOWN DEMAND CURVE	<ul style="list-style-type: none"> • BY ESTABLISHED COMPANIES LAUNCHING INNOVATIONS • SLIGHT BARRIERS TO ENTRY BY COMPETITION • MEDIUM LIFE SPAN
ENCOURAGE OTHERS TO PROMOTE THE PRODUCT TO STIMULATE PRIMARY DEMAND	PRICE UMBRELLA LEADERSHIP	<ul style="list-style-type: none"> • SEVERAL COMPARABLE PRODUCTS • GROWING MARKET • MEDIUM-TO-LONG PRODUCT LIFE SPAN • KNOWN COSTS
STIMULATE MARKET GROWTH BUT CAPTURE MARKET SHARE AT A PROFIT THROUGH LOW PRICES. BECOME ENTRENCHED TO GENERATE LONG-TERM PROFITS	MARKET PENETRATION	<ul style="list-style-type: none"> • LONG PRODUCT LIFE • MASS MARKET • EASY MARKET ENTRY • DEMAND SENSITIVE TO PRICE • UNIT COSTS DECREASE AS OUTPUT INCREASES • NEWER PRODUCT • NO "ELITE" MARKET WILLING TO PAY PREMIUM
KEEP COMPETITORS OUT OF MARKET OR ELIMINATE EXISTING ONES	PRE-EMPTIVE/ EXTINCTION	<ul style="list-style-type: none"> • USE THIS ON ONE OR TWO PRODUCTS, WITH OTHER PRICES MEETING OR HIGHER THAN THOSE OF COMPETITORS

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I. DEFINITION

PLANNING, IMPLEMENTING AND CONTROLLING THE PHYSICAL FLOW OF MATERIALS AND FINAL GOODS FROM POINT OF ORIGIN TO POINT OF USE TO MEET NEEDS OF CUSTOMERS AT A PROFIT (PLACE UTILITY)

II. TYPES OF DISTRIBUTION

A. EXCLUSIVE

- **Rolex**

B. SELECTIVE

- **Seiko**

C. EXTENSIVE (INTENSIVE)

- **Timex**

III. MARKETING AND LOGISTICS OBJECTIVES

A. MARKETING ALLOCATES RESOURCES TO 4P'S TO IMPLEMENT THE MARKETING STRATEGY

Develop The Organization To Provide Satisfaction

B. LOGISTICS MINIMIZES TOTAL COSTS GIVEN THE CUSTOMER SERVICE OBJECTIVE

I. IMPORTANCE OF (VALUE OF) PERSONAL SELLING

- A. CRITICAL MARKETING FUNCTION**
- B. HIGHLY PAID JOB**

II. FUNCTIONS OF SALES PEOPLE

- A. TEAM LEADER OF THE FIRMS INTERFACE WITH CUSTOMERS**
- B. ANALYSIS OF OPPORTUNITIES**
- C. PULL & PUSH**
- D. SALES & NEGOTIATION**
- E. CUSTOMER SERVICE**
- F. MARKET LOYALTY**

III. STEPS IN SELLING

- A. PLANNING – MARKETING MANAGER OF THE TERRITORY**

B. PROSPECTING

1. Finding Customers
2. Evaluating Competition

C. PRE-APPROACH AND APPROACH**D. PRESENTATION OF THE COMPANY'S
PHILOSOPHY AND CAPABILITIES****E. NEGOTIATING****F. CLOSING****G. SERVICING****IV. TYPICAL SALES STRUCTURES****A. VERTICAL MARKET VS. GEOGRAPHY****B. REGIONAL & DISTRICT MANAGERS****C. SALES TERRITORIES****D. TOP MANAGEMENT INVOLVEMENT**

Components Of The Strategic Marketing Plan

I. MISSION STATEMENT

II. SITUATION ANALYSIS

A. CUSTOMERS

1. Segments
2. Quantitative Analysis
3. Customer Attitudes -
Needs, Wants and Expectations

B. CHANNELS

MAP OF PRODUCT FLOW FROM COMPANY
TO CUSTOMERS

C. COMPETITION

1. Evoked Set & Product Class
2. Industry Structure

D. PRODUCT AND SERVICE LIFE CYCLES

E. ENVIRONMENTAL ASPECT

**III. STRENGTHS, WEAKNESSES, OPPORTUNITIES
AND THREATS**

IV. SELECTION OF OBJECTIVES BY SEGMENT

A. NEW CUSTOMERS

**B. GREATER VOLUME FROM EXISTING
CUSTOMERS**

V. STRATEGY FORMULATION

A. TARGET MARKETS & APPROACH

B. COMPETITIVE POSITIONING

C. STRATEGIES AGAINST GIANTS

- **Unique**
- **Opportunistic**

D. DEFENDING POSITIONS

E. PROGRAM DEVELOPMENT

- **Segments**
- **Products**
- **Marketing Mix Elements**

VI. FORECASTING & FINANCE

VII. REVIEW PROCEDURES

EXHIBIT C
Participant Photographs
International Marketing, Budapest Hungary



EXHIBIT D

MICHIGAN STATE
UNIVERSITY

January 26, 1994

Report on Recent Trip

In December we completed the International Marketing Module in Budapest and the Strategic Marketing Module in Prague. Clearly, the hard work of the U.S., Budapest, and Prague MUCIA teams was evidenced by the quality of the participants, the excellent facilities, and the smooth administration of every aspect of the project.

One significant goal established by the U.S. team three years ago, was to attract bright, upward mobile managers as participants. In each country, we had approximately 35 students from the ranks of business. They were bright, motivated, and hard working. Certainly, a lot of energy went into recruiting and screening to find these participants. Without a doubt, business practice in the organizations represented by these people will be improved because of their ability to apply contemporary tools and techniques to the economic challenges they face.

A second goal was to provide experience in executive education for counterpart faculty. The program represented a joint effort in material preparation and teaching. A major benefit was learning from each other by working with faculty and administrators in each country. I believe the participants benefited greatly from a combination of the expertise from the U.S. and the on site experience of local faculty.

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Michigan State University

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The coordination of the facilities and other arrangements were excellent. The schedule was like clock work, and participants were well informed. It was a real pleasure to hear from past MUCIA module participants about the tremendous success of those courses. Numerous compliments were made about the excellent teaching faculty that delivered programs earlier in the year.

Also, in Budapest and Prague AID personnel attended parts of the program. I believe this is particularly useful because they have knowledge of the local environment as well as the extent of our efforts.

Finally, my hat is off to the people from Indiana University who have done a fantastic job of providing leadership and administering the project. The activity has been enjoyable and rewarding for me, and beneficial in helping people from the Czech Republic and Hungary compete, grow and prosper economically.

Gil Harrell
Professor of Marketing

EXHIBIT E

**INTERNATIONAL MARKETING
Participant List**

Budapest, Hungary

ALAN BOWSHER	LÁSZLÓNÉ RUDOLF TERÉZ
GÁBOR TURI	TAMÁS TANKÓ
ROBERT LADOCSI	MIHÁLY SZUHÁR
ÉVA VINCZE	JÁNOS ZEITVOGEL
JÁNOS ORBÁN	LAKATOS ZOLTÁN
ANDRAS KOVACS	BALAZS TÓTH
BÉLA KROMMER	FERENC JÁRAI
LÁSZLÓ MARX	GÁBOR SURÁNY
GÁBOR MAKKOS	TAMÁS SEREGDY
GÁBOR HORVATH	ANDRÁS VINCZE
NARI SADARANGANI	LÁSZLÓ FEKETE
JULIANNA SZABÓ	ZSOLT KERÉKGYÁRTÓ
ANTAL PÁLMAI	PÉTER TÓTH
KELETI ZSOLT	MÁRTONNÉ NAGY BIANCA
KATALIN VÁRKONYI-GILLEMOT	BÉLA ENDREDI
LAJOS BALÁZSOVITS	LÁSZLÓ GUBICZA
CECILIA BELLA	ZOLTÁN KÖVESDI
SZÁSZ ATTILA	ÁKOS FARKAS
DOBI ETELKA	LÁSZLÓ GÁBOR
	KATALIN EIBEL

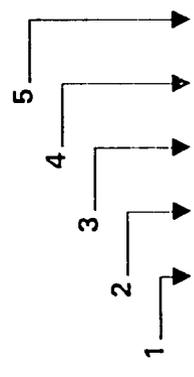
**STRATEGIC MARKETING
Participant List**

Prague, Czech Republic

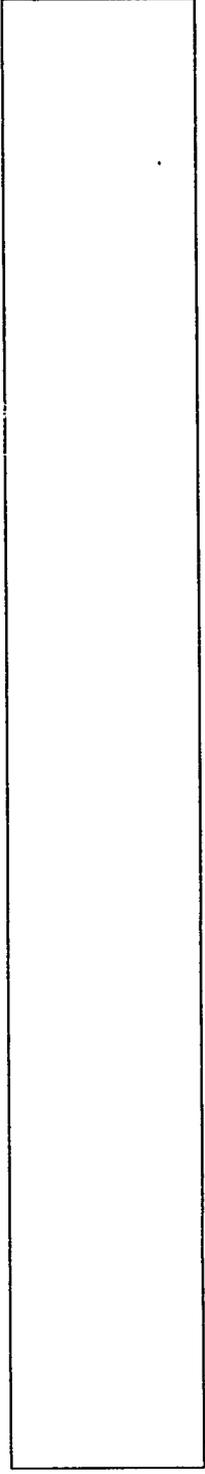
ZDENĚK PROCHÁZKA
JAN HLADIŠ
ALICE ČERVENÁ
ZUZANA MALÁ
ROLF ŠRUTA
MILAN PACLÍK
JACEK KSIAZCZAK
KAREL ŽBÁNEK
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LUBOMÍR MUSIL
TOMÁŠ BEREŠ
STANISLAV KUKRÁL
FRANTIŠEK SVOBODA
JOSEF CÍLEK
ARNOŠT SIX
VLADIMÍR VÁGNER
JIRÍ REBENDA
ALES KUTHAN
JAN MAZANEC
OTOMAR SOLDAT
IGOR NOVAK
ONDŘEJ HIRMAN
JAN KRÁL
RADIM STACH
IGOR STRATIL

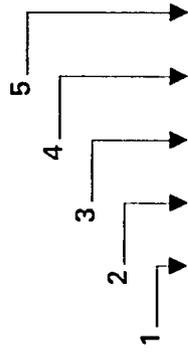
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EXHIBIT G
INTERNATIONAL MARKETING PROGRAM
Evaluation Data

Budapest, Hungary
November 1993

Number of respondents: 31

Items are rounded percentages; mean based on five-point scale

	SA	A	U	D	SD	NR	MEAN
1. The objectives of this course were clear to me.	71%	29%					4.71
2. The course exceeded my expectations.	60%	34%	6%				4.54
3. The instructor communicated effectively.	94%	6%					4.94
4. The instructor made the subject matter more meaningful through the use of examples.	77%	23%					4.77
5. The instructor encouraged participants to be involved in discussions.	74%	26%					4.74
6. The instructor presented up-to-date material and information.	63%	34%				3%	4.51
7. The instructor was well prepared and organized.	94%	6%					4.94
8. The instructor did a good job of relating this course with the total program.	34%	43%	6%			17%	3.60
9. The quantity and depth of material covered were appropriate for the allotted time.	49%	37%	14%				4.34
10. I feel that I have a good understanding of the topics covered.	46%	46%	8%				4.37
11. This course helped me gain useful knowledge and/or skills.	51%	43%	6%				4.46
12. I was pleased with the amount of interaction I had with this faculty member.	60%	31%	6%			3%	4.43
13. The participants enriched the course by sharing their ideas and experiences.	37%	51%	12%				4.26
14. Overall, I would rate this course as an outstanding educational experience.	83%	14%	3%				4.80

**STRATEGIC MARKETING PROGRAM
Evaluation Data**

Prague, Czech Republic
November 1993

Number of respondents: 35

Items are rounded percentages; mean based on five-point scale

	SA	A	U	D	SD	NR	MEAN
1. The objectives of this course were clear to me.	68%	29%	3%				4.65
2. The course exceeded my expectations.	35%	48%	16%				4.19
3. The instructor communicated effectively.	94%	6%					4.94
4. The instructor made the subject matter more meaningful through the use of examples.	81%	19%					4.81
5. The instructor encouraged participants to be involved in discussions.	74%	26%					4.74
6. The instructor presented up-to-date material and information.	61%	39%					4.61
7. The instructor was well prepared and organized.	87%	13%					4.87
8. The instructor did a good job of relating this course with the total program.	32%	32%	29%			7%	3.77
9. The quantity and depth of material covered were appropriate for the allotted time.	39%	55%	3%	3%			4.29
10. I feel that I have a good understanding of the topics covered.	39%	48%	10%			3%	4.16
11. This course helped me gain useful knowledge and/or skills.	61%	36%	3%				4.58
12. I was pleased with the amount of interaction I had with this faculty member.	55%	42%	3%				4.52
13. The participants enriched the course by sharing their ideas and experiences.	22%	68%	10%				4.13
14. Overall, I would rate this course as an outstanding educational experience.	74%	26%					4.74

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EXHIBIT H
Participant Evaluation Form Summary - Hungary

	Strongly Agree	Agree	No Opinion	Disagree	Strongly Disagree
1. The quality of instruction was excellent.	8	5			
2. The instructional materials are well designed.	4	8			
3. The content of this course is relevant to my needs.	3	7	2		
4. The instructor covered material that was beyond my understanding.	2	1	1	2	7
5. The instructor seem to be concerned about the participants progress.	7	6			
6. The instructors seemed to be well versed in the topic as it relates to my country.	7	3	2	1	
7. The course met my expectations.	6	5	2		
8. The course was not relevant to the business situation I am currently experiencing.			3	4	5
9. The instructional materials are difficult to understand.		1		4	8
10. The facility was well suited for this program.	3	4	1	2	2
11. The classroom equipment is well suited for this program.	3	3	4	1	1
12. I would take this course again.	4	6	1		
13. I would recommend this course to other interested parties.	7	5			
14. The Video Presentations were well suited to the course.	1	2	9		
15. The Video portion of the course was of high quality.		2	9		
16. Translators/Interpreters were very helpful in helping me to understand the material.	1	1	9		

As a result of my participation in this program I have achieved:	Strongly Agree	Agree	No Opinion	Disagree	Strongly Disagree
1. Professional Advancement	4	5	2		1
2. Greater Professional Skills	2	8	2		
3. Exposure to Professional and/or Personal Contacts	2	9	1		
4. Diploma or Certificate of Completion	4	3	5		
5. Salary Increase			4	4	4
As a result of my participation/training in this program I am now:					
6. Better Able to Manage People	1	4	3	3	1
7. Better Able to Complete Research	4	5	3	2	
8. Better Able to Direct Projects	3	8	1		
9. Better Able to Teach Others	3	3	5		1
10. Better Able to Make Policy	3	4	4		
11. Better Able to Lead Company	1	5	4	1	1
12. I attend the program regularly	3	6	2		1
13. The project staff is very helpful	8	3	1		
14. The overall program will increase my understanding of the free market economy	8	3	1		
15. The overall program will have long lasting benefits	6	6			
16. The overall program seems to be well organized	5	7			
17. Access to instructors and project staff is quite good	7	4	1		
18. I have been able to establish valuable business contacts	1	6	3	1	1

EXHIBIT H
Participant Evaluation Form Summary - Hungary

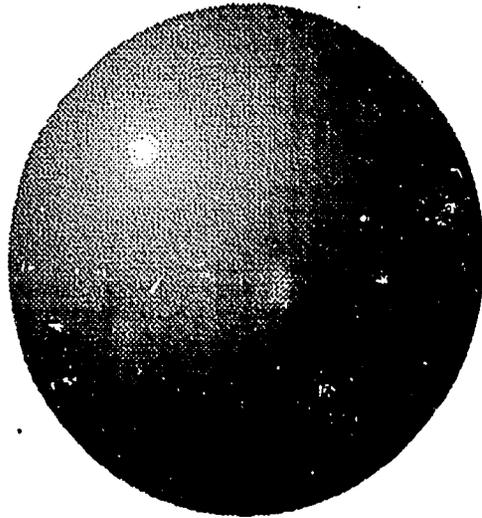
Comments on the overall quality of the program:

If was very usefull but the time was very short. That is why we were not able to discuss all questin in details.

Very well conducted, not principles adn concrete applications, cases etc of teh subject.
There is only one thing which may be considered as disadvantage: very much "American."

AKUVA

1993/4.



**SOCIETY
AND
ECONOMY**

QUARTERLY JOURNAL OF
BUDAPEST UNIVERSITY OF
ECONOMIC SCIENCES



162

**Journal of the Budapest
University of Economic Sciences**

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GYÖRGY PINTÉR , associate professor	College of Foreign Trade, Budapest
JÁNOS STAHL , professor	Budapest University of Economic Sciences
JÓZSEF TEMESI , associate professor	Budapest University of Economic Sciences
LÁSZLÓ TIHANYI , doctoral student	Indiana University, School of Business
PÁL VÁRJAS , associate professor	Budapest University of Economic Sciences
GYULA VASTAG , senior research fellow	The Kenan Institute, University of North Carolina at Chapel Hill
JÓZSEF VÖRÖS , associate professor	Janus Pannonius University, Pécs, School of Economics and Business

Introduction to the Special Issue on Hungarian Case Studies

LÁSZLÓ THANYI
Guest Editor

This issue marks the first time that AULA has published case studies of business organizations. Since it was founded, AULA focused primarily on the economic and sociological aspects of Hungarian society. While the exploration of these macro issues will continue to be a major part of AULA's mission, the journal has recently broadened its scope to include contributions that also examine changes in the micro sphere of Hungary and Eastern Europe. As a guest editor, it is my honor to be a part of this new exploration.

Case studies play a critical role in many scientific areas. In the area of business, cases serve at least two major purposes. First, from a practical point of view, case studies can provide a focused snapshot of the real world. Case studies can be incorporated into working managers' cognitive maps, helping them to understand basic elements of real problems. This is why case studies are a significant part of almost every business school's curriculum. The primary purpose of the cases published in this issue is to provide practical background material for business education.

A second purpose of case studies is to contribute to theory building. Some researchers argue that case studies provide a valuable resource for scientific research (Eisenhardt, 1989, 1991). The best known example of this is probably Chandler's (1962) classic work tracking the early histories of some of America's largest corporations. Not all business researchers are in agreement over the theoretical usefulness of case studies. Some scholars contend that the results of case studies are not readily generalizable for research purposes (Gibb and Wilkins, 1991; Bailey, 1992). For this reason, the cases in this issue are intended primarily for use in the classroom, although they may also prove to be valuable in formulating questions for future research.

This project began three years ago and is among the first case study projects in Eastern Europe. The project's mission has been to serve four interrelated purposes. As mentioned above, the first of these is to provide material for classroom use. There is a high demand for case studies in the newly established institutions of business education in Eastern Europe. It is no doubt important for students attending these institutions to learn of the problems faced by organizations in the leading industrial nations of Western Europe, North America, and Asia, but it is also essential that these students learn how to adjust to changes, learn how to manage transitions, and learn how to survive in their own Eastern European environment.

A second aspect of this project's mission has been to learn more about the particular changes occurring in the micro sphere in the region. These studies may prove to be a valuable source of information for those who are interested in doing business in this region. Third, it is also hoped that these studies will shed light on the unique aspects of business culture in Hungary. Most of our current knowledge of organizational culture comes from the study of many US (and a few multinational) companies. These cases will help expand the breadth of that knowledge. Finally, this project has served as an opportunity for the authors to increase their case writing skills.

The ten studies selected for this issue attempt to provide a broad, multi-functional view of the problems organizations are facing in the rapidly changing environment of Eastern Europe. The cases are real life cases, however in some instances names were changed. The first case, written by Pál Varjas, describes the development of a marketing strategy for a new product being introduced by a large clothing manufacturer--FÉKON.

The case titled "Declaration of Independence", written by Gyula Vastag, analyzes the problems of RBA and its Magyarhegy Plant. It is a study of organizational transition and provides a base for understanding several organizational dilemmas that Hungarian companies are confronting. József Temesi's case, "Technology Selection", illustrates a major decision of a medical equipment company. The case was designed in a way that allows students to apply some important tools of decision science. The "Big Black" case, written by György Csébfalvi and József Vörös describes the crisis situation of a large state-owned coal-mining firm. Big Black's turnaround is also a serious macro issue, therefore the case incorporates social and economic problems related with the company. "The Austrian Tosh Company", written by György Pintér, addresses the decision of a West European company to invest in Eastern Europe. The case provides an opportunity for students to perform a broad environmental analysis of the Eastern European region. János Stahl's case, "The Courier Transportation Problems of a Bank", is an application of logistics in the setting up of branch banking operations. The "Mayflower" case, written by György Mundruczó, discusses an evaluation problem of a state-owned company in the clothing industry. "To Beer or Not to Beer", written by György Pintér is the case of the Hungarian Karancs Bottler. The case focuses on real strategic alternatives the company is facing. "Allibert Home Furnishing", György Pintér's third case illustrates a marketing strategy of a multinational company in the Eastern European market. Finally, Rollflex written by László Tihanyi, is a case of a successful small company operating in the shading business. This case illustrates the issues that a new generation of companies are dealing with in the Eastern European region.

The case studies are part of the Management Training and Economics Education for Central and Eastern Europe (MTC) project. The project was organized by the Midwest Universities Consortium for International Activities, Inc. (MUCIA), from a grant provided by the United States Agency for International Development (USAID). The membership of MUCIA includes the University of Michigan, Michigan State University, University of Minnesota, The Ohio State University, The Pennsylvania State University, Purdue University and the University of Wisconsin. Indiana University School of Business was selected to serve as the management entity for the project.

I am deeply indebted to the following individuals for their assistance and support in this project. Their evaluation and many useful suggestions was great help in developing these case studies.

From Indiana University:

John Boquist, professor,
 Patricia Eoyang, director of International Programs
 George Hettenhouse, professor
 Robert Klemkosky, associate dean and MTC project director
 Pam Elmore, MTC project coordinator
 Robert Stephens, doctoral student

From The University of North Carolina at Chapel Hill:

Gyula Vastag, senior research fellow
 Clay Whybark, professor

From Budapest University of Economic Sciences:

József Temesi, professor, dean
 Ferenc Forgó, professor

The cases in this issue were prepared as the basis for class discussion rather than to illustrate either effective or ineffective handling of an administrative situation.

Please send your comments to:

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Bloomington, IN 47406
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General Facts about Hungary

GYÖRGY PINTÉR

The centrally directed economy of Hungary has failed. Forty years of political and economic dictation have left the present generation with a monumental economic crisis and a challenge to meet this crisis with totally new policies. The pervasive economic role of the state, the discouragement of private initiative, and a legacy of coercive economic relations with other Eastern countries has left the economy in a partially weak and dependent condition—totally at odds with Hungary's promising potential.

Roots of the present disorder are found in the communist political and economical system imposed upon Hungary after the 2nd World War. In the first two decades of the regime, rapid but unbalanced economic growth was achieved through ambitious capital investment plans, ideologically dictated nationalization of the private sector, and the 19th century industrialization strategy. This economic model was soon exhausted.

Since the introduction of the "New Economic Mechanism" in 1968, which partially decentralized economic decision-making, Hungary has seen repeated, well-intentioned half-measures of reform of the command model. Politics did not permit a full transformation. But an economy only partially free, like people only partially free in their political life, ultimately is demoralized when false hopes are dashed by experience.

Today, Hungary has a structure of production which does not match demand on the world market, or even at home. The inflation rate is in the double digits. The currency is not convertible. Goods and services are not competitive abroad. Real wages have fallen, and with them the average person's standard of living. Hungarians are burdened with a USD 20 billion foreign debt (USD 2,000 per capita), one of the highest in the world.

Output is overwhelmingly dominated by state enterprises. The proportion of gross domestic product (GDP) channeled through public offers is 60%, a share related to redistribution in the form of transfers and subsidies to and from enterprises and consumers. While the proportion of those employed in industry is similar to those in the advanced market economies, the structure of industrial production is outmoded. Hungary manufactures goods that often can be sold only at deep discounts in price. International trade, though notably amounting to a large share of GNP, has not been sufficiently competitive to realize gains comparable to those enjoyed by market economies. Agriculture represents a relatively high proportion of employment in the population—some 10-12%. Employment in services, on the other hand, is relatively low.

The rapid development of the private sector is constrained by several factors. Investment of personal funds, whether one's own or those of families or friends (which in market economies often is the most common capital source for new businesses), is difficult in Hungary. Savings of the average person are low and are not increasing. Those savings that do exist are typically not invested in domestic business, but seek more "secure" opportunities such as foreign currency or real estate, which does not particularly help overall economic growth.

The most blinding constraint is access to capital. At present, the Hungarian banking system is poorly adapted to provide financing because the economy is dominated by a very few large banks that pay little attention to small business. At the same time, most of the two dozen or so small banks lack enough financial resources to help set up new businesses.

Bureaucratic obstacles, namely, compliance with central and local rules and regulations, are still extensive. The tax burden on entrepreneurs is high. Business rental property is scarce and expensive.

State enterprises and large cooperatives provide more than two-thirds of industrial production and own an even larger share of total industrial assets. Industrial organization, even after the introduction of the New Economic Mechanism in 1968, has remained highly concentrated. Hungary lacks a well-developed medium- and small-scale industrial and trade sector, which in most countries would provide many of the inputs and services that Hungarian enterprises now produce internally and inefficiently, if at all.

The 1984-1985 reforms established enterprise councils in the majority of state-owned Hungarian firms and transferred many of the (not always clearly defined) ownership rights to the councils. Contrary to expectations, this change did not improve economic efficiency. Although management and employees theoretically have 50-50 representation, the managers typically have had the dominant voice. At the end of 1988, this kind of enterprise-council "ownership" characterized approximately 2,000 of the 2,800 state-owned enterprises. But since enterprises remaining in state ownership are of larger size, on average, the total value of industrial production and assets of firms "owned" by enterprise councils are roughly equivalent to the total value of those owned by the state.

The Company Law (1988) and, to a lesser extent, the Law on Transformation (1989) have made it possible to develop new types of enterprises, such as subsidiaries, joint ventures, and joint stock and limited liability companies.

In January 1990, Parliament passed the Law on Protection of Property Entrusted to State Enterprises. The law founded the State Property Agency (SPA), which became operational on March 1, 1990.

The SPA was placed directly under Parliament. Its task is to monitor the privatization process: in some cases initiating it, or, when the initiative to privatize comes from the enterprise itself, the agency simply makes sure that the rules are followed.

In both of the former cases, the decision about privatization does not need a special state decision but can proceed "spontaneously", so long as it is consistent with the legislation.

Regrettably, the partial change of state ownership to self-management in the mid-1980's, and the early rules and steps that permitted half-hearted privatization, have become obstacles to a more comprehensive and economically sound transformation of ownership. Privatization, as it proceeded in 1989 and early 1990, had several undesirable features that have created a wholly justified negative reaction. Those include:

- When enterprise councils gained the right to sell an enterprise, there was nothing to prohibit negotiation for large and possibly unearned personal gains ("golden parachutes") for the old management;
- Practically no revenue accrued to the state from the sale of assets arising from privatization, since the ownership shares remained with the company;
- The financial records of state enterprises did not meet international standards, making valuation of these enterprises extremely difficult. This is one reason that the liabilities of the firms or units being privatized were often improperly handled;
- The law did not insist that the privatizing enterprise should be sold competitively, therefore they were often not properly valued. The law also did not require that the transaction be fully transparent, so there was little public scrutiny;
- In many cases, the transformation of an enterprise into a company did not represent real change or promote the creation of a genuinely new ownership structure, but was simply a pseudo-transformation that enabled the enterprise to continue doing business as before, but under a "modern" label;

- The law granted different tax favors to foreign investors in all sectors, thus placing Hungarian enterprises at a competitive disadvantage.

In the financial sector, Hungarian banking is poorly adapted to requirements for efficient financial intermediation. Money and capital markets and institutions are notably underdeveloped. The existing sector, moreover, is dominated by a few large banks that possess many non-performing assets, and are not impelled to foreclose on the debtors. The present financial institutions are also short of needed professional and technical skills.

Savings in Hungary are low, and much of the savings pool is not intermediated. The financial system and its instruments need to be developed further, competition needs to be introduced, and a sound regulatory framework needs to be created.

In housing, the present ownership patterns and methods of finance are economically inefficient and socially unjust. The state agencies that own much of the housing in the urban areas have not even been able to cover their operating expenses. Therefore, maintenance standards have declined and the housing shortage remains serious.

Other infrastructure, until now, has not been affected by reform. The overwhelming share of public utilities and all public transport, pipelines, and communications systems are government monopolies. All development decisions are made by the center.

The external costs of business operations on the environment are often not treated adequately as part of the market economic calculus. The state has a valid and important role to play in this area.

The social policies of communism in Hungary both failed the needy citizenry and damaged the economy. Social programs were constructed under the old system with the assumption that certain problems, such as unemployment, simply would not arise. It was also assumed that taking care of other social needs would be the full responsibility of the state. The resulting social programs imagined that the central authorities would know best the needs of each individual, and that it was not necessary to take into account individual personal motives, and incentives, or the individual desire to be self-reliant. The universal social programs built on these assumptions turned out to be dysfunctional and so costly as to be unsustainable in the budget. In practice, even the education and health systems became monopolies of the state. Social systems, such as market-conforming labor relations and unemployment compensation, are undeveloped.

Hungary's social expenditures are reflected in the following data:

- Housing subsidies alone consume 15% of the central budget. Much of this goes to middle- and higher-income individuals.
- Subsidies on other items, including, food, water, transportation and agriculture, consume another 13% of the central budget.
- Retirement and health care expenditures are financed by a social security fund that is balanced by a payroll tax amounting to 53% of salary, a percent that is significantly higher than that of Western Europe.
- The retirement system not only is costly but places Hungary at a substantial economic disadvantage relative to other nations. The retirement age is 55 for women and 60 for men. In most Western European nations it is 65 for both. Retirement benefits in Hungary are based on the wages paid by the employer over the last three years of employment, rather than being based largely on contributions made by the employee, as is the case in most developed nations.

The economy has suffered from this disequilibrium since at least the 1973 world energy crisis. Hungary's economic system does not motivate producers to adapt the structure of production nor to become demand-oriented. Disequilibrium is especially

pronounced in the balance of payments where the pressures are approaching crisis proportions. Monetary policy has not been an effective tool of macroeconomic management, partly because financial discipline on state-owned enterprises is weak, and also because the institutions of central and commercial banking are underdeveloped. Money does not fully integrate the economy.

Government debt exceeds 55% of GDP. The budget redistributes too large a share of the national income. In 1988, subsidies alone represented about 13% of GDP. The tax system is modern in principle, but it provides insufficient incentives for savings and the tax rates are too high. Since 1987, Hungary has had a separate central and commercial banking system, but the latter is oligopolistic. It lacks an appropriate level of reserves and a large share of its assets are of dubious quality or are outright non-performing. Inflationary pressures have accelerated, as has open inflation.

Partly in response to pressure from the IMF, monetary authorities have, in recent years, attempted to pursue a tight monetary policy.

The National bank of Hungary has succeeded in controlling the money supply quite well, as long as "money supply" is defined narrowly.

Tight monetary policy contributes to a phenomenon among enterprises known as "queuing", which is an unofficial source of mostly non-interest-bearing credit beyond the control of the government. This pool of pseudo-credit is a dangerous, uncertain quantity in any calculation of how to transform monetary policy. In Hungary today, when enterprises cannot get direct financing, they can post a bookkeeping gain by "selling" on credit to another enterprise with the intention of drawing on that credit at state controlled banks. In reality, the second enterprise may be unable to pay for the sale, but is itself engaged in demanding the same kind of pseudo-credit from its own customers, and so on down the line (or queue). In some cases, there is not even a market for the goods "sold", and, in fact, it is not even clear that goods actually may ever change hands. Economists are anything but certain as to how much pseudo-credit is in the "queue", or credit pipeline, but it is estimated at 20-25% of all enterprise credit.

Many enterprises also are in a monopoly or oligopoly situation, which makes it difficult to move against them. They can nearly always claim, with some justification, that the goods and services they produce for the domestic economy, and/or for convertible-currency exports, are essential. In the current precarious status of Hungary's balance-of-payments, a government threat to replace the production of delinquent enterprises with imports, or to do without their exports, is not taken seriously.

Politically, managers of large enterprises also represent a powerful lobby, forming a critical "interlocking directorate", with top ministry and other government and party officials, who, in effect, exercise many collective ownership functions. Together, they can present the continued bailout of this or that enterprise as necessary to "the national interest".

Foreign economic relations, until now, have been shaped largely by political considerations. Trade pacts with CMEA partners precluded competition, and foreign trade initiatives by Hungarian enterprises, until recently, were constrained and directed by central authorities. In an autarkic system, imports were not used to compete with domestic production but were used to cover shortages. Foreign loans, instead of creating new productive strength, were used to prop up a declining living standard and to finance investments, many of which were not soundly prepared. Foreign economic dealings, therefore, have not been the engine of growth in Hungary that they have been in Western Europe or in other market economies.

Hungary owes more than 20 billion USD to foreign creditors. Regrettably, this money was not used for sound investments that could generate the foreign exchange earnings to service the debt. Thus, even with the principal rolled over, Hungary has to obtain additional capital imports of about 1 or 1.5 billion USD per year for each of the next three years in order to turn a potentially large net outflow into a small net inflow.

Concerning the exchange rate vis-a-vis convertible currencies, Hungary today has a "fixed" exchange rate regime, with the Forint tied to a trade-weighted basket of convertible currencies. This official exchange rate is periodically adjusted by administrative decision. There also exists a grey-market rate which values the forint considerably lower than the official rate.

Hungary already has achieved significant partial convertibility for foreigners, on certain transactions, including guaranteed repatriation of the principal invested as well as profit. Partial convertibility has also been achieved for all imports by joint ventures or other foreign entities and for domestic businesses on liberalized imports (about two-thirds of total imports).

(The compilation of this essay was finished in 1991.)

I. CASES

FÉKON

PÁL VARJAS

Part One

It is the early 1980's, and winds of change are blowing through the Hungarian economy--again. Significant reforms, including greater independence for enterprises and a profit-orientation, had been introduced in 1968 but were quickly stifled for political reasons. Now these reforms have begun to slowly revive. The paternalistic, "Big Brother" approach to economic activity is trembling. Huge state-owned enterprises--burdened by overscaled administrative departments and surplus staff--are awakening to the difficulties caused by their inflexibility and slow reaction times, especially when they try to compete in competitive foreign markets.

Even in the domestic market, the enterprises are not self-sufficient. They are restricted by supplies-responsibilities, "hints," and expectations from their respective ministries. There's no real competition on the market, yet the situation of the producers is getting more and more difficult. Home consumers are becoming more demanding. "Fashion" - although with a delay - has arrived in the East as well. Shortages have begun to belong to the past. The only solution seems to be the transition from mere selling to **MARKETING**.

The producers are distant from the consumers, both in place and time. They do not know enough about consumers' needs and expectations.

The old routine and comfortable distribution channels (producer, wholesaler, retailer, consumer) do not work with the required efficiency anymore.

Even FÉKON, an enterprise that is well above average in its marketing abilities, is facing deteriorating marketability of its products, stagnation, and decreasing market share.

Management Considerations

The following notes were taken at a meeting of FÉKON's senior management:

First of all, we'd like to remain among the leaders of the Hungarian clothing industry. Now we belong to the 11 biggest enterprises, which supply 50 per cent of the overall clothing industry production. Our share alone is 7-8 per cent. We must take market activities seriously. Not because it appears to be a fashion now to talk about marketing, but because it offers practical tools and methods to achieve our goals. We have to improve the supply and constantly learn about the market in order to be able to satisfy the consumers.

We must become a more active and more reliable partner for trade.

We must strengthen our export-orientation, while maintaining cooperation with domestic producers of raw-materials.

We must decide on our main export directions (probably Germany and the Soviet Union) and concentrate on them.

It would not be a bad idea to gradually create a network of our own shops.

Our share of finished-goods exports should grow and our share of contract jobs should diminish.

We must get closer to the market.

We must know more about the buyers and distribution channels of our domestic

and foreign competitors.

We must make better use of our own statistical data.

Should we narrow, or widen, our product range?

Should we launch new product(s), or withdraw existing one(s)?

Should we change the name of the company?

Should we build our own warehouse?

Should we have a more precise profile of the company?

Should we invent a trade mark?

We might organize an advertising campaign!

We might organize sales promotions!

We might launch more than the habitual 2 collections a year!

We might produce at our own risk!

In Brief:

We must define ourselves anew and find our place in the new economic structure.

The world has changed and we must change, too. The challenge is great!

We should probably gradually open the direction of women's clothes...

It seems reasonable to follow a policy of small steps.

The following case outlines some of the decisions that FÉKON's management was confronted with. As you read the information below, please contemplate the following questions:

What steps should FÉKON take to improve sales?

What should FÉKON do immediately?

What should the company do in the medium- and long-term?

History of the company

FÉKON is a big industrial enterprise. Its main profile is clothing, above all manufacturing of underwear and shirts. By gradually making wide-ranging changes in the production structure, and by developing and marketing new products, the company hopes to improve its competitive position.

One of FÉKON's major aims is to make sure that customers who are looking for FÉKON products will never leave the shops disappointed.

Previously, the enterprise manufactured mostly underwear products. Zephyr and flannel men's boxer shorts, pajamas, and shirts of traditional (natural) raw materials were the major products. The shirts were attractive and of good quality, but they needed regular and thorough ironing, which meant substantial extra work at home.

At the end of the 60's, the first product made of synthetically mixed material was introduced. The FÉKON-FIX men's shirt needed hardly any ironing and maintained its original look for a long time. A limited production of women's blouses was started at the same time.

Growing demand, and the new economic conditions resulting from the reforms of 1968, stimulated growth at the company. This growth led to the introduction of FÉKON-PRESS shirts in the early 70's. This product carried the "Black Tulip - ironed for ever" (permanent press) trade mark.

Sales grew dynamically, and the staff of the Economic Department and the company's management continued their research and product-development activities.

They accepted the proverb that "a wise man learns from the losses of others." They knew well the likely fate of producers who "could not see further than their noses," and—satisfied with their present successes—neglected the future.

Their endeavors brought results. In 1973 the enterprise was able to launch the newest sensation in men's shirt fashions--the FÉKON-JERSEY. The company also began production of "jacquard" FÉKON-PRESS shirts, which were quickly in high demand.

In the meantime, the enterprise entered into a contract with a West German company to manufacture women's "house-dresses." The "house-dresses" were produced at FÉKON's factory in Békéscsaba (in southeast Hungary), while the materials and technology were supplied by the West German partner.

The universal character of the "house-dresses" (they were suitable for household work as well as for holidays, for the beach, or as work clothes) aroused the interest of the company's management. At the initiative of the Economic Department, FÉKON started thinking about the possibilities of producing "house-dresses" for the Hungarian market, too.

Description of the product

A FÉKONKA (the "house-dress" brand-name on the Hungarian market) is a gown-like women's article of clothing. Usually sleeveless, or in a short-sleeved version, it can be worn either over the upper clothes, to protect them while working, or instead of the upper clothes when relaxing. The dresses are made from 100% cotton, a cotton-synthetic blend, or woven nylon.

The producer's intention was to make women's daily lives easier, and to make their free-time more pleasant, both at home and away from home.

Most of the FÉKONKA models are buttoned the whole length in front, and thus can be put on quickly and easily.

The material is very easy to care for. Washing, even by hand, is simple. Ironing is either rarely, or almost never, necessary (depending on the fabric). The synthetic dresses are especially easy to care for and, if washed in the evening, are dry, fresh, clean, and ready to wear the next morning.

The competitive products vary depending on the occasion. A FÉKONKA might be worn in place of a gown, robe, work uniform, apron, apron-dress, or any simple, straight, sleeveless or short-sleeved women's dress.

The FÉKONKA's advantage, compared with the possible competitive products it replaces, is its substantial variety. The dresses are manufactured in short series, thus FÉKONKAs can be considered individual pieces. At the same time their relatively low price makes it possible for many women to buy two or more pieces for the same price as one average women's dress. Women from any age group, market-segment, or figure-type can find a reasonably-priced FÉKONKA that suits their individual taste due to the wide choice of models, cuts, and colors.

During the promotional campaign launching the product FÉKON used the slogan: "The only difficulty with FÉKONKA models is to choose one, because you will not find two identical pieces!"

Another argument in favor of launching this new product on the Hungarian market was the fact that, because of a more strategic placement of the cut-patterns, the factory could minimize raw material needs.

After completing the contract job for the West German company, a certain amount of the fabric remained that could be used domestic market production.

Unfortunately, the whole thing was too conditional. Even those experts within the company who knew the most about marketing talked in terms of "perhaps", "probably", "who knows" and "hopefully". Uncertainty was general, and many considered this undertaking risky.

One might be thinking now: "What happened to all these managers? Why were they suddenly so frightened?" When you consider it further, however, you soon find out that a careful, cautious courage is not the same as cowardice. Especially when such big sums are at stake.

That is why it is important for us to examine the situation and the possibilities of the company more closely, before we make a premature judgement.

The FÉKON Men's Underwear Factory has been following a correct and successful business-policy for years. Their marketing achievements were substantial. Their specialists had a lot of experience in developing new products. The buyers (mostly men) recognize FÉKON as a quality producer. This judgement was based mostly on the performance of shirts they bought previously. The company has received only a negligible number of complaints up to the present.

The company's products have positive associations among the buyers. Customers' perceptions of the company's name, however, present some possible difficulties. The company's present name--Men's Underwear Factory--could be a serious obstacle in marketing the FÉKONKA, which would be manufactured exclusively for women. The company hoped that women's products would soon amount to 30% of their entire production.

The company's management feels that changing the company's name would be a rather long, complicated, and expensive task.

The FÉKON name is already well-known among the buyers. Unfortunately, in many cases it brings to mind men's /FE-/ ready-made-clothes /-KON/¹, which are not produced by the company at all. In spite of this--just because of its high degree of recognition--it might be worthwhile to keep the "FÉKON" part of the name, even while changing the whole name of the enterprise.

In view of the above considerations, the doubts of the management regarding the expected market prospects of the new product seem perhaps more understandable.

But time is passing and something has to be done. The situation is even more urgent because of a slow but steady decrease in the sales of men's shirts. The reason for this decrease remains a mystery to the company's management.

The general manager decided that the best thing to do would be to summon together the enterprise's wider management and discuss the tasks. Representatives from the Marketing Department of the Budapest University of Economic Sciences, with whom the company already had a long, well-proven working relationship, were invited as well.

The company openly revealed their present situation and problems in front of the University collaborators and asked for their advice.

The Marketing Department offered to complete market-research within a 2 months' time-limit that would examine the marketability of the FÉKONKA and its probable reception in the circle of women-buyers.

The management of FÉKON was glad to receive the offer for marketing research because it promised--within a short time--a reliable, expert analysis.

There were, however, opponents to this offer in the enterprise as well. Most of their objections centered on the relatively high price of the research and on doubts as to the reliability of the results. The professional knowledge and competence of the researchers was not called into question, but those who objected wondered if the research would give enough information on which to base a decision.

At the same time (and with the aim of assisting the research work) the enterprise authorized a restricted launch of the product--under the name of FÉKONKA--to the market. The sales were conducted in four Budapest shops as a test-market. The enterprise guaranteed to supply the whole selection of items to the shops, but would not promote the items while the research work was being conducted (about one month).

Part two

About the market research...

The research consisted of a direct mail survey combined with a test-market experiment. A colorful product folder was mailed with the survey questionnaire, and respondents were asked to give their opinion of the models displayed in the folder.

The researchers wished to test the influence of the product folder as an advertisement. The folder and a survey were sent to a list of specific names and addresses. The researchers wanted to project the expected market acceptance of the product based on the responses to the mail survey. Respondents were asked to rate the product according to their like/dislike of the product and their willingness/unwillingness to buy the product based on the information in the folder. Respondents were also asked about what occasions they would find appropriate for wearing the product.

The researchers attempted to get information about the FÉKONKA based on a number of variables, such as its aesthetic qualities, its wearability, and its price.

The researchers also tested the name recognition of FÉKON, and attempted to assess FÉKON's image.

Survey respondents were chosen using a random sample of mostly young and middle-aged women.

The sample size was about 0.5 per mille of the female population. The researchers mailed 5000 questionnaires and product-folders. The response rate was 29.1 per cent.

The structure of the survey-report

Preface

The method of the research, sample size and reliability

The product models, liking-distribution

The product models, possible wearing occasions

The FÉKONKA's placement among the existing supply, comparison with competitive products, readiness of price-acceptance

The range of aspects and factors influencing the buyers' preference in women's clothing

The recognition and image of FÉKON

Experiences in shops, shop-managers' opinions
 Comments and opinions of the consumers
 Summary

Some important fragments from the market-research study

"Interest in FÉKONKA was initially very high, and sales grew rapidly."

"The majority of those who bought the products in the shops asked for the FÉKONKA by name and brought the product folder they had received with them to assist their purchase."

"According to our opinion (the researchers) FÉKONKA is first of all a leisure-dress and only secondarily work-clothes."

"The majority of women who had previously owned a house-dress was buying FÉKONKA at the price-range of about 150-300 Ft."

"As the expected place of purchases of FÉKONKA, both Department-Stores and special women's clothes shops seem equally important. Among those who had previously been buying house-dress-line clothes in working-clothes' shops, only 6 per cent would look for FÉKONKA in these shops. The rest--in about a fifty-fifty distribution--would choose department-stores or special women's clothes shops for buying FÉKONKA."

"The FÉKONKA is a popular, successful product. The buyers like to buy the products shown in the folder and seen at shops. (The choice in shops was, naturally, wider than the model-variety shown in the folder.)"

Comments of the shop-managers:

"At Corvin Department Store, FÉKONKA was being sold in the men's department as well. The point of sale advertising said, in big letters on each model: "CLOAK" (Gown)."

"The FÉKONKAs are not dresses for an occasion or office-events. They are nice, pretty, and that's why we hope that the consumers buy them, and later wear them with pleasure. Presumably there's no danger of getting bored with them, which is a frequent case with other, less popular working-clothes which are only worn out of necessity. Although it is true that getting bored with old clothes leads to new purchases (which is good for the producer and the seller), it may also be harmful for the image of the producer and the product (which can not be measured by the frequency of purchases)."

"The sizing of the dresses arouses objections. Often, the poor fit wrecks the purchase."

Consumers' opinions and comments:

"At last a cheap, easy-care product. It's much better than working-uniforms. That's what we consumers need!"

"Thank you for the many good ideas in your folder. These designs are not only pretty, but also so simple that I can cut and sew them myself. I bought a suitable fabric during last year's sale, so now at last I can make a dress with it."

"I've told all my acquaintances how great FÉKONKAs are!"

"I was sorry to notice that you had not thought about elderly and freckled (women). We would also wear FÉKONKAs if you had made it with long-sleeves as well

Table 1.

Distribution of liking of the models shown
by age-group (in % of respondents)

Age	Model No.								Total
	1	2	3	4	5	6	7	8	
under 20	20	5	6	13	11	28	3	14	100
20-29	19	6	10	17	8	24	3	13	100
30-39	15	8	12	18	8	18	7	14	100
40-49	13	7	13	17	11	15	7	17	100
50-59	12	10	12	15	13	13	7	18	100
60 and more	11	12	13	15	12	13	7	17	100
Average	15	8	11	17	10	19	5	15	100

Table 2.

Wearing occasions suggested by
respondents (in %)

Occasion	Model No.								all-together	Total
	1	2	3	4	5	6	7	8		
Household-job	2	9	8	23	15	14	21	8	100	17
Receiving guest	7	5	12	22	13	13	1	27	100	14
Office job	41	17	15	13	6	4	-	4	100	21
Relaxing at home	5	4	13	19	10	24	6	19	100	15
Travelling	8	4	3	11	6	29	1	38	100	7
Excursion	4	2	5	7	8	45	3	26	100	6
Holidays	4	1	8	9	7	44	10	16	100	20
Total									100	

Table 3.

Comparison of FÉKONKA to other house-dresses (in %)

in comparison to a house-dress owned before, FÉKONKA is:	The interviewed person		Total
	has owned before	has not owned before	
prettier	50	34	84
the same	1	1	2
less pretty	-	-	-
more practical	36	23	59
the same	4	3	7
less practical	-	-	-
more modern	39	26	65
the same	2	2	4
less modern	-	-	-
more variable	1	1	2
more expensive	-	-	-

Table 4.

Recognition of FÉKON (in %)

Do you know the name FÉKON	Know well	Have heard about it	Total	Do not know	Have not heard	Total
yes	43	48	91			
no				7	2	9

Table 5.

Major associations with the FÉKON-name (in %)

What do you know about the name FÉKON? /what does it mean to you?/	100
Easy washing	35
Black tulip - ironed for ever /=permanent press/	39
Good, pleasant, comfortable wear	12
Long-lasting, color-keeping /product/	7
Positive producer qualification	2
Bad experience /something not good/	5

Those surveyed listed the following preferences for women's clothes (in order of importance):

1. prettiness / good looks / neatness
2. price
3. usefulness
 - where you can wear it
 - at what age you can wear it
 - for which occasion you can wear it
4. variety
5. care - washing
 - ironing
6. How many women / can / have and / or wear similar or the same product? Will I see others wearing the same dress on the street? How unique will my dress be?

After reading the research-report, the managers' council held another meeting to discuss the problems once more. You are invited to this session too. Please, try to be helpful in finding any defects in the plans and help the management to make the final decision. Good luck!

Module A

The following additional information was brought forth at the management council meeting:

The price of the market research conducted by the Marketing Department of the University is 200.000 Forint. The reliability of the research method, independent of its results, can be guaranteed on the level of 90 per cent.

If FÉKONKA'S are produced for the home market, the enterprise will have to face the following expenditures:

- 350.000 Ft/series starting costs
- 70.000 Ft for buying the license and retooling the partly convertible production line

Each FÉKONKA series consists of 5.000 pieces.

The average price to consumers will be 200 Ft/piece.

Experienced clothing industry experts say that there is a 70% chance of high demand for this product. Demand is considered high if at least 95% of the series produced can be sold.

The probability of medium demand (60% of series sold) is 20%.

The probability of low demand (less than 40% of series sold) is only 10%.

Some useful advice:

- 1./ The 90 per cent reliability of the research methods applied by the Marketing Department means that in the case of medium real demand, for example, the probability of forecasting medium demand is 0,9: of forecasting favorable (high) demand or of forecasting failure (low demand) is 0,05 in each case. The situation is the same in the cases of high and low real demand.

- 2./ Management has decided to use the following sales estimates:
95 per cent sales in case of high demand
60 per cent sales in case of medium demand and
40 per cent sales in case of a failure.
- 3./ The utility function formula of FÉKON concerning this problem is the following:

$$u(x) = \sqrt{x+220}$$

In his closing words, the general manager of the enterprise summed up the results of the meeting and repeated the commonly defined problems waiting for solution:

"The main question we must decide upon is: Should we launch the new product, the house- dress FÉKONKA, to the market in Hungary or not? In this connection we must also decide whether we should order the research work offered by the University, and use it as a source of information for preparing our decision."

Now it is your job to help the factory find the optimal strategy. Good luck and thank you for your extra efforts!

NOTES:

1. In Hungarian "men" - FÉrfiak
ready-made-clothes - KONfekció

Declaration of Independence

GYULA VASTAG

With his face full of cares, Gábor Huszár, Vice-President for Finance at RBA, got in his Volga company car. The car accelerated with a dignified slowness as it rolled out of the main gate at the giant company. Ever since he began his career at RBA, Huszár was fully aware of the difficulties involved in negotiating the independence of the Magyarhegy plant.

Two months earlier the management of the Magyarhegy Plant announced that they wanted to regain their independence, and now the negotiations had reached their final phase. Today, representatives from the plant will insist that the company grant them complete independence, while Huszár will attempt to convince them to stay with RBA. Huszár knew the head of the Magyarhegy delegation, Ferenc Baráth, personally. Huszár also knew how difficult it was to negotiate with this uncompromising man. As the miles rolled by, Huszár reflected on the history of the strange marriage between RBA and Magyarhegy.

It all began at the end of the 1970's. At that time Huszár was the financial vice-president of the Magyarhegy company. The company employed about 3,000 workers and produced small agricultural machinery and poultry-keeping equipment (each piece of equipment was unofficially referred to as a "chicken farm"). These products were supplied to the then stable COMECON market. Everything went well and the company had no thought of giving up its independence. One day, the Ministry of Industry informed the company of a decision to merge Magyarhegy and RBA, and one month later the merger was complete. Only years later, after becoming one of the top managers of the RBA giant, did Huszár understand what had gone on behind the scenes.

In the late 1970's, RBA was the model of a successful company run by a president who was an illustrious and dynamic socialist manager. The president created a highly centralized company, in which no machine could be moved more than three yards without the president's own signature of approval. Because of the success of the company, this autocratic management style was counted as a virtue rather than a fault.

RBA was one of the glories of socialist industrial development. The company could produce trucks and trailers of a quality comparable to the global standard. RBA even produced some world-quality rear axles for export, and developed valuable connections with some American firms. This was a tremendous achievement at that time. In exchange for the rear axles, RBA received a license to build high-performance Steiger tractors and, from another company, a license to manufacture an entire family of products for tilling and crop growing. At the same time, RBA was active in adopting the American system of corn cultivation. It was obvious to the powerful president of RBA that the company needed to obtain new markets. The Steiger tractor seemed to be a good base from which to build. He only needed to acquire a company with experience in producing agricultural machinery. The Magyarhegy Company, with its long history and proven expertise, seemed to be an ideal choice. Moreover, this company was located only about 25 miles from the RBA headquarters. It was easy for the president to carry out his plan, because it seemed to make economic sense. He did not meet with any resistance at the upper levels of the communist party hierarchy. In these years, such decisions were very easily executed. The essence of the method was that the 'victim' was the last one to know about the decision, and therefore had no opportunity to resist.

"Oh, at the beginning everything was so beautiful," remembered Huszár. At the meeting where the merger was announced, the president of RBA, the Minister, and the

Responsible Comrade from the Party headquarters all gave addresses that were full of optimism. The speeches were so convincing, with their promises of higher wages, guaranteed contracts, and job security, that they even won over the old management of the Magyarhegy plant. This was a great victory because, with a 120 year history, the management of the company founded by Ede Kühle in the 1850s had every reason to pursue continued independence, despite the rationality of any economic arguments.

But what did this marriage really produce? Despite the promises, RBA began to centralize the organization by laying off Magyarhegy's former administration. Initially, Magyarhegy was organized in a traditional structure with two vice presidents (production and financial). This structure was gradually changed until, in the last year of the merger, Magyarhegy did not represent an independent management entity at all, but was entirely linked to RBA.

In the first years of the merger, however, the initial optimism seemed to be well-founded. The star of the dynamic president and his growing company was higher than ever. In addition to the Hungarian market, RBA felt it could get a big piece of the Russian market. Czechoslovakia was also interested in the most modern agricultural machinery the "peace camp" had to offer. ("Peace Camp" was used as a political label for and by the socialist countries contrasting them to the less peaceful imperialists.) As a result of COMECON's efforts to increase specialization, RBA was given not only tractor production but rear axles, engines, and trucks as well. The Hungarian market consisted of about 300 tractors per year and 1,000 pieces of agricultural machinery. Most of the agricultural machinery the company produced was licensed from International Harvester Company. Even the most pessimistic estimates projected the demand for "chicken farms" in Russia at 500 to 2,000 pieces of equipment per year, and that was for Ukraine alone.

The company also discovered the potential of the Middle East. "Those were the good old days," remembered Huszár. The Arab countries had money and the RBA appeared to have a virtual monopoly in poultry equipment. This favorable position had been attained through RBA's cooperation with the state farm BABOA, which had been world famous for its poultry programs. RBA bundled its equipment with BABOA's know-how. This cooperation, combined with Magyarhegy's unique technology (it was designed for 30-50 thousand chickens and was much bigger than the competitor's equipment) and solid governmental support, would certainly lead to phenomenal success.

The tractor line did not receive as much attention. No one at RBA seemed to recognize that the new tractors scheduled to be built at Magyarhegy were twice as big as the ones previously manufactured in facilities originally designed for much smaller products.

In the mid-1980's, the socialist economies began to experience a simultaneous downturn. In Moscow, the president of RBA shook hands with the Soviet Central Committee Secretary responsible for agriculture--a man named Gorbachev--but was unable to gain access to the Russian market because the Russians could not deliver anything in return. Meanwhile, sales in Hungary turned out to be smaller than expected. RBA was also knocked out of the Arab countries by competition from Brazil. After a fierce price war, RBA completely lost the mid-East market.

"We should have realized that we were in trouble," sighed Huszár. "It is obvious now, but at the time the seriousness of the economic problems in Hungary was not clear, and the dramatic political changes in Eastern Europe were not foreseen."

In a break with tradition, RBA's president began reorganizing and downsizing the company. The total number of employees went from 24,000 in 1979 to 14,500 by 1989.

Roughly one tenth of this number, 1,500 people, were working in Magyarhegy. The changing political environment had weakened the president's once powerful position.

As the success of the company began to decline, the voices of those at the Magyarhegy plant who had opposed the merger became louder and louder.

"In our plant, the profile and organization of the production is different," said these voices. "While RBA operates very much like an assembly line, traditionally, we have been operating in a small volume, job-shop environment".

Maybe the most important difference was the thinking. In the Magyarhegy plant there had been a large number of shop chiefs who were relatively independent. Their independence did not fit well in the centralized RBA structure, so these positions were eliminated. Of course, many within the company attributed the decline in success to this change. The euphoric atmosphere accompanying the merger had passed, and it became fashionable again to speak about the 150 year long history of the company.

Then, the last cause leading to this present negotiation flashed through Huszár's mind. RBA told the plant that 120 workers must commute the 25 mile distance between Magyarhegy and Gyar. RBA argued that sales of sewing machines manufactured in Magyarhegy were very low, while the company was having trouble meeting the tremendous demand for its rear axles produced in Gyar.

The Magyarhegy employees countered that this situation is due to the refusal of RBA to modernize the Magyarhegy plant. "It is obvious that nobody needs expensive products manufactured on outmoded machinery," argued the employees. "We have received almost nothing from the big investment fund in the last ten years, but our profits have continued to go into the fund. We didn't even get anything after the highly profitable chicken farm exports. Should we have to pay the price of this present reorganization? If we lose the best of our skilled workers, can we ever be independent again?"

"It is a difficult situation," pondered Huszár. "RBA's president is indeed pursuing a policy of cutting regional production so that all plants will be linked directly to the corporate center. This policy sometimes overshadows even economic considerations. RBA now has to face the consequences of this strategy. It is quite absurd, though, that a company as large as RBA should make decisions based on the interests of a single plant one-tenth the size of the company, even if this plant once was an independent company. Now the people from Magyarhegy seem to forget about the 160,000 square feet building which was transplanted from Budapest to Magyarhegy. The profit of such a big company can't be distributed according to one plant's wish list."

"And last, but not least, the politics!" sighed Huszár. "In these uncertain times all organizations involved in politics think that it is worthwhile to give a political flavor to economic issues. Because of this, RBA's president can be discredited if he no longer fits in with the new political situation. Although RBA's top management was motivated only by economic considerations when contemplating replacing the president, such a replacement could easily be used to make a political statement."

"Moreover, there is the Council of Workers," continued Huszár. "Dealing with this recreated organization, completely independent of the traditional trade unions, is my responsibility. Baráth, an engineer and the plant director, is a typical leader of workers with both the good and bad sides of it. His honesty and straightforwardness are very rare these days. The economic processes very often cross the interests of the workers, and sometimes short-run interests should be sacrificed for long-run ones. This type of short-term sacrifice for the long-term good of the company can't be expected from the Magyarhegy workers, however, since they don't even feel that they belong to RBA."

"Let's have a look at what they demand again!" Huszár said to himself as he

opened his brief-case and looked for the letter with the demands of Magyarhegy. He had a secret hope that the demands would have softened since the last time he read them, but they remained unchanged:

1. Independence, and profit sharing proportionate to the weight of the plant;
2. To ensure the right of the workers to free self-determination;
3. Re-employment of the 120 laid off Magyarhegy workers.

"What can the RBA say to these demands?," thought Huszár. He lit a cigarette to reduce his nervousness. "The trump card is obviously the size and goodwill of RBA. In their meeting yesterday, the directors decided to offer a divisional operating form to the Magyarhegy plant. In practice, this means an independent administration and almost full economic independence. The only important thing for RBA would be to have a share of the agricultural machinery market. But how can we be sure that the Kühle traditions will not strengthen the workers' aspirations for independence? Huszár continued to speculate as his Volga rolled through the gate of the Magyarhegy Plant.

Table 1

The Magyarhegy Plant

Economic Indicator	1977	1989	1990
Turnover (million HUF)	1,703	1,769	2,156
From the turnover:			
Agricultural machinery	579	701	717
Chicken farm equipment	844	974	1,134
Profits	331	30.8	101.4
Number of employees	3,185	1,616	1,537

Table 2

The RBA

Economic Indicator	1977	1989	1990
Turnover (million HUF)	13,062	25,642	16,540
From the turnover (%):			
Axles	32.9	43.3	51.1
Diesel engines	30.3	27.2	26.2
Trucks	9.0	9.8	6.6
Agricultural machinery	7.7	1.5	2.4
Profits	3,063	95	(3,077)

From the profits:			
Axles	1,237	136	(1454)
Diesel engines	974	(245)	(1239)
Trucks	241	302	(113)
Agricultural machinery	170	(93)	(217)

Table 3

Average Annual Gross Income of the Employees

	1978	1989
Magyarhegy	43,750	133,620
RBA	46,509	148,075
Industrial average in Hungary	42,312	127,944

Table 4

Labor productivity (in thousand HUFs)

	1977	1989
Magyarhegy	535	1,400
RBA	713	1,894

Table 5

Distribution of production in Magyarhegy (%)

	1978	1989
Tilling, sowing, planting machinery	12	2
International Harvester machinery	2	12
'Chicken farm' equipment	49	47
Spare parts for agricultural machines	22	15
Components of trucks, axles, engines	-	3
Other	7	3
Coproduction with the other RBA plants	3	12
Cast production	5	6

GYULA VASTAG

Questions:

1. What suggestions would you make for Huszár?
2. What are your suggestions for Baráth?

Figure 1

Management Org. Chart Mag. 1977

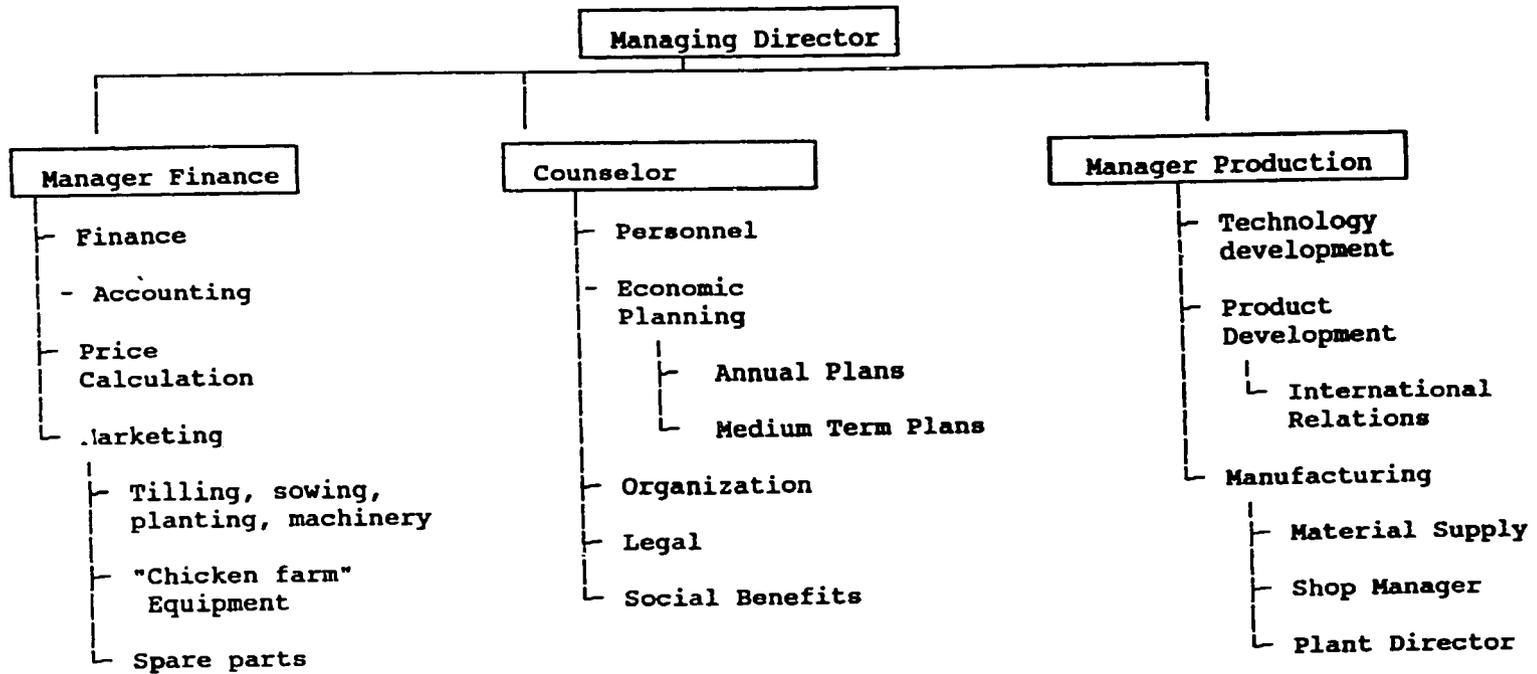


Figure 2

Mgmt. Org. Chart - RBA - Magyarhegy 1978

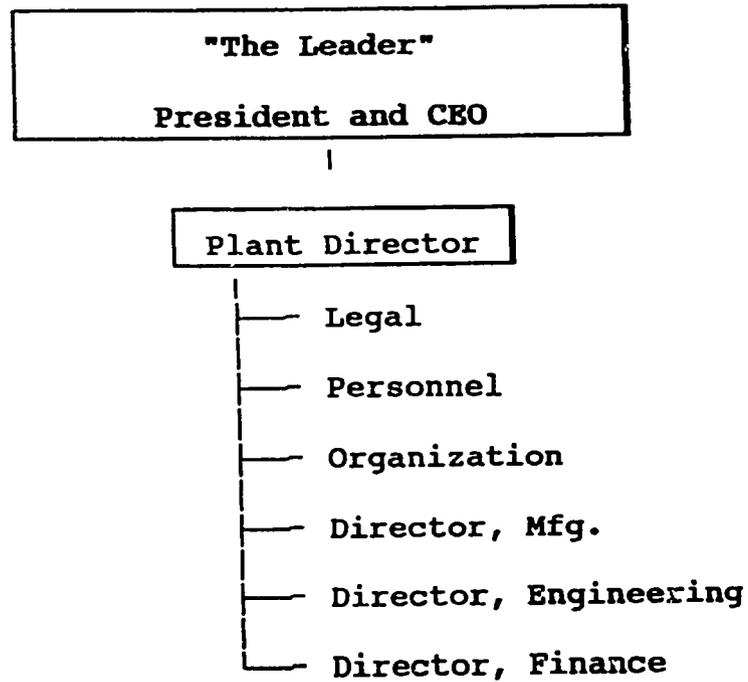
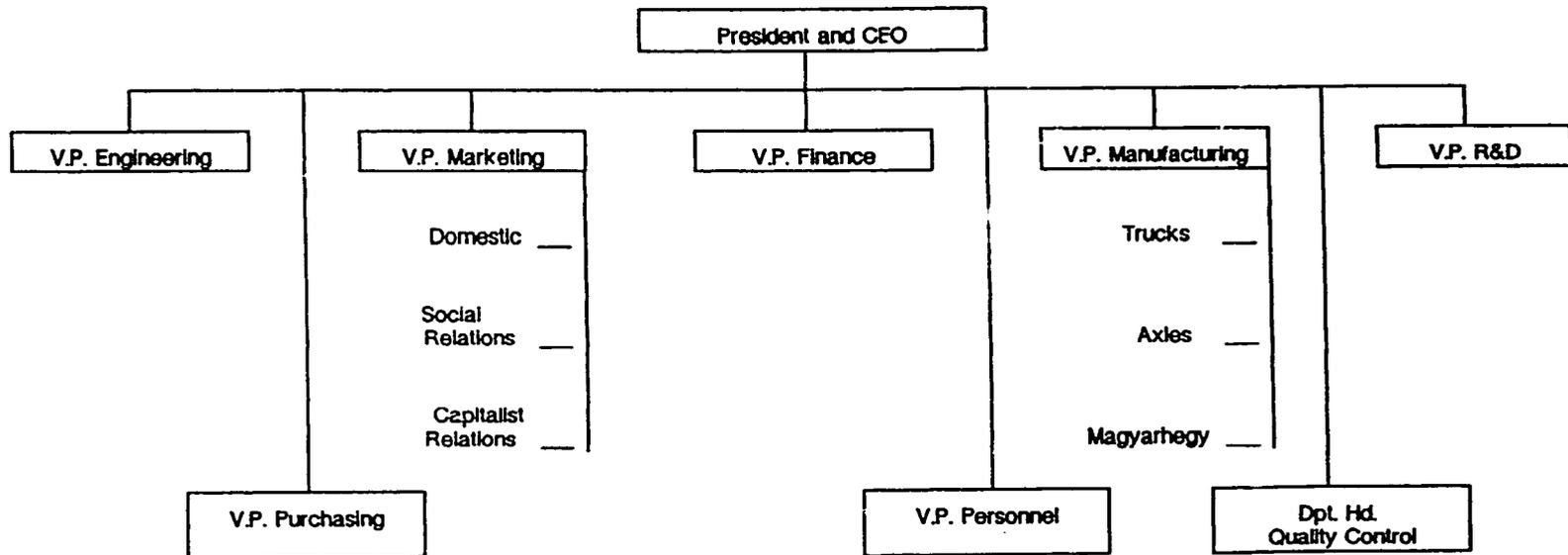


Figure 3

Management Organization Chart RBA 1983



Technology Selection

JÓZSEF TEMESI

Engineer Kun is a thorough-going person. As a member of the Company Council, he always prepares himself well before making decisions. He has just received the program for the next meeting and was a little shocked at the second item of the agenda: "Develop our own, or license, real-time linear scattered ultrasound diagnostic equipment."

He did not think that it was ideal for a committee to make such a decision, but he came to realize that this is a very sophisticated problem with many technological, financial and economic aspects. He decided to gather some additional facts before the meeting, and to listen to a few personal views to augment the information in the written proposal.

The opening paragraphs of the proposal read as follows:

Two years ago our company made a decision to start a multi-level development process to produce real-time ultrasound diagnostic equipment.

According to the decision, the first phase was to develop and implement some simple equipment, such as the cardiogram set for children. Simultaneously, the ultrasound development group began to work on developing a so-called "real-time linear scattered ultrasound diagnostic machine." As a result of this technological development process the following two alternatives were proposed :

1. Buying or licensing know-how for producing high-quality equipment.
2. Developing an in-house product of medium-quality, with or without a purchased transducer.

From further parts of the proposal it appeared to Engineer Kun that there were three licensing possibilities:

- a. French equipment (MEMOSCAN)
- b. German equipment (MULTISON)
- c. British equipment (SCANNER)

Kun works in production engineering and has no experience in research and development. Because of this, he had difficulties judging the technical parameters of the equipment (Table 1).

It appeared to Kun that MEMOSCAN met the technical requirements determined by the users for medium-quality equipment. These requirements included:

- electronic focusing
- digital scan-converter
- application of microprocessor for distance-measurement and patient identification.

Kun found that MULTISON is technologically out-of-date and is not even on the German supplier's most recent product list. It does not have digital display, its electronics are complicated, and the possibility of further developments are not given. The transducer with 54 elements can be utilized, but to buy a complete license only for the transducer does not seem to be wise.

It appeared to Kun that SCANNER has all the features the company needs. Its

special quality is 2 mm lateral scanning.

To make better comparisons among the data, Kun gave scores for every machine according to each criteria and then ordered a weight to every criterion. These subjective values (scores and weights) can also be seen in Table 1.

Technological data

Table 1

	Weight	MEMOSCAN SCORE	MULTISON SCORE
Transducer	3	64x1 elements 4	54X4 elements 5
Focusing	3	geometric 5	geometric 1
		electronic	
Scanning field	2	11.4 X 220 cm 5	10 X 15 cm 3
Axial and lateral display	3	1;3 mm 3	1.5;4 mm 1
Digital scan-converter	2	yes 5	no 0
Patient identification	3	alfanumeric 5	no 0
Microprocessor	3	yes 5	no 0
Other services	4	optimalization 2.5	no 0

	Weight	SCANNER SCORE	MEDISCAN SCORE
Transducer	3	55x7 elements 5	64X4 elements 5
Focusing	3	geometric 5	geometric 1
		electronic	
Scanning field	2	10.4 X 17.2 cm 4	10 X 18 cm 3
Axial and lateral display	3	1;2 mm 5	1, 3 mm 1
Digital scan-converter	2	yes 5	yes
Patientt identification	3	alfanumeric 5	alfanumeric 5
Microprocessor	3	yes 5	yes 5
Other services	4	user algorithms 5	user algorithms 5

In reading the proposal, Kun found that the French company offered to license the technology necessary to produce the equipment, but did not include a license to produce the transducer. If Kun's company chose this offer, they would have to buy, or develop their own, transducers. The British company offered to license their transducer technology, with the stipulation that Kun's company must buy the first one hundred transducers from them before beginning to manufacture their own. MULTISON offers to license both the equipment and the transducer separately.

The next day, Kun visited the Development Department and inquired after the company's own equipment (named MEDISCAN). His old friend, Lovas told him:

"In Hungary, it is typical to underestimate the capabilities in-house technology development teams, but our company has made a lot of things over the last two years. For example, we set up an ultrasound division. In connection with the development of some of the simple equipment, we met with all the well-known Hungarian producers in this area, and by testing the different types of equipment, we acquired the necessary knowledge for developing more sophisticated equipment. In addition, our department has significant experience in digital scanning technology. The result of our work over the last two years', and our broad experience, is that we can give a real alternative to the decision-makers."

Kun examined the data of MEDISCAN in Table 1. He estimated that the in-house product ranks somewhere between MEMOSCAN and SCANNER on a technological basis. Having the opportunity to talk to Lovas, he asked him what his personal view was about the advantages and disadvantages of the company's own development?

"I want to emphasize that we have a very important mission: to show the foreign partners and customers that we have the ability for developing technology in an area where we have little previous experience. Unfortunately, time is not on our side. It will take us longer to make the final product than to license the technology from someone else."

Lovas continued, "Because of the current state of the national economy, it is very important that the total dollar expenses of developing our own technology are lower than they would be if we licensed the technology from a foreign firm, so that our company's foreign currency balances will not be depleted. We checked up on the domestic materials and parts necessary for making our own transducer, and we have had successful negotiations with several companies. We can produce a transducer for about \$1000."

After examining the technical issues, Kun turned his attention to the financial data (an area that always seemed to be a little beyond his grasp). First, he wanted to know something about the license fees.

MEMOSCAN does not offer to license the transducer technology, but is willing to sell transducers. The license fee for the diagnostic equipment itself is \$250,000 and the price of a transducer is \$2,350. MULTISON is willing to license the complete technology for \$30,800. SCANNER's price is \$28,000, but requires that the licensee buy at least 100 transducers from them for \$186,000. According to the most recent negotiations, MEMOSCAN is willing to reduce their licensing fee.

To make an accurate estimate of the overall economic impact of this decision on the firm, Kun wanted to know both the intended sales price of the equipment and the forecasted annual sales. During a coffee-break, Kun came across the Deputy Head of the Marketing Department, who was discussing the development decision with some colleagues. Mr. Morva related the following:

"In the case of producing the equipment with licensed technology, the limited price would be approximately \$8,000, whereas the in-house product's price would be somewhere between \$6,500 and \$7,000. I think the market is saturated with equipment in this category, though, and the real demand is for the next generation product. We have a market forecast for the next four years in which the company counts on selling 60-100 machines per year. About 20 of these can be sold in Hungary."

Kun saw that the proposal submitted to the Company Council used Mr. Morva's numbers, but the authors mentioned that it was a very pessimistic market forecast. The British company sold 600 units per year in each of the last two years - at a price of \$15,500 each.

The Head of the Investment Department estimates sales of 80 units a year. He bases his computations on the data in Table 2.

Schedule of development, expenses and incomes

Table 2

LICENSE	0 year	1 year	2 year	3 year	4 year	5 year
Produced (piece)	0	20	80	80	80	80
Dollar income per year	0	80	480	480	480	480
Total dollar income	0	80	560	1040	1520	2000
Total dollar expenses	28	172	448	605	761	918
Total investment cost (m Ft)	2.56	6.26	8.22	0	0	0
Technology fund (m Ft) (aggregated)	0	0.93	4.26	7.35	10.44	13.53

OWN DEV.	0 year	1 year	2 year	3 year	4 year	5 year
produced (piece)	0	0	20	80	80	80
Dollar income per year	0	0	70	420	420	420
Total dollar income	0	0	70	490	910	1330
Total dollar expenses	0	100	156	382	528	673
Total investment cost (m Ft)	1.83	6.25	9.64	11.25	0	0
Technology fund (m Ft) (aggregated)	0	0	0.73	3.47	6.15	8.83*

* next year: 11.51

The facts behind these data are as follows:

- Size of development work force
 a. Technology: 7 people
 b. Own development: 11 people

- Wages and other expenses:
 a. 2.1 million Forints
 b. 4.95 million Forints

- Material costs:
 a. 1.2 million Forints (\$25,000 import)
 b. 1.4 million Forints (\$20,000 import)

- Investments in instruments:
 a. 2.2 million Forints (\$50,000 import)
 b. 3.5 million Forints (\$80,000 import)

By talking to Mr. Morva, Kun understood that the import rows of Table 2 included the total dollar expenses, so the computations took into consideration the import expenses via the actual import rates. One of the most important rates is the return on investment in dollars. The return is expected to be realized in both cases after the test run in the third or fourth year, depending on the type of development selected. The return of the total investment costs can be measured by a special aggregate: in every year the company has to put a well-defined part of its income, resulting from sales of this equipment, into a fund. The sum of this fund reaches the sum of investments at the end of the 3rd year in the case of licensing, and in the 6th year in the case of developing the technology in-house.

His head still humming with data, Kun decided to run through the facts once more before the Company Council meeting. At lunchtime, he met the Director's secretary and the topic came up casually. "I think it is a foregone conclusion" the secretary said. "Our company has very good connections with French companies--we have been producing medical equipment with them for years."

The secretary continued: "My boss speaks French and visits France (especially Paris) very often. I'm sure he is going to decide in favor of the French company. Rentability? Computations? Don't tell me that you cannot produce any predetermined result from conflicting data!"

Table 3

	MEMOSCAN	SCANNER	MEDISCAN
Import rate	50 - 55 %	55 - 60 %	50 - 55 %
Import rate with own transducer		40 - 45 %	35 - 40 %
Ft/\$ index	54.55	48.70	40.09
Ft/\$ index with own transducer		38.20	37.23

In the evening, Kun was sitting in his armchair at home thinking about the decision. In his mind the problem had two branches:

- a. Comparing the three offers from the foreign companies in order to choose the best alternative, and;
- b. Deciding between licensing and developing the technology in-house.

After re-analyzing the now familiar technological data and trying to take into account all of the conflicting aspects, Kun again ran into difficulties. What is best for the company? What is best for Hungarian industry as a whole? What is the effect of licensing on the company's development processes? Maybe it would be better to be independent so as not to waste a great amount of dollars? But can the home industry produce the required quality? Will the international market accept the home-made product?

How could a compromise be reached in the face of such conflicting criteria? What should the main objective of the whole project really be?

Kun went to bed without answering these questions, but he knew that he must soon make up his mind. His vote would be one of fifteen cast tomorrow morning at the Council meeting.

How would you vote if you were in Kun's position? Why?

Managing BIG BLACK Company GYÖRGY CSÉBFALVI AND JÓZSEF VÖRÖS

At the end of the 80's, in the period of the so called "silent revolution" in Hungary, BIG BLACK - a state owned coal-mining enterprise - asked NEW WINDS Business School to help the company solve its serious liquidity crisis. The Business School accepted this challenge, and a team of experts from the school was organized to work jointly with BIG BLACK's management.

Some characteristics of the enterprise

BIG BLACK is a large enterprise involved in coal mining, processing, and production. Coal is extracted from several mines and coal-beds in distant areas. Mechanized coal-mining is very difficult, so use of manual labor is extremely high. Coal-processing plants in each area make use of different technologies. This is necessitated by differences in the geological, heating-technical, mining, transportation and technological parameters of the coal-beds themselves. Despite these differences, plants cooperate in certain phases of technology, and several kinds of products can be made from the coal that is mined. There are wide differences, however, in production costs for the various products. Prices of the products are not set by BIG BLACK's management, but are fixed by government authorities. Rising production costs are offset by permanent subsidies and occasional price increases from the state. During the late 80's, however, the government was in the process of "cutting the umbilical cord" by gradually reducing subsidies, and price increases were getting more and more difficult to obtain.

This reduction in subsidies was not an easy step, even from the government's point of view. At the same time as subsidies were being reduced, the government instituted what it called the LIAS program. The LIAS program forced BIG BLACK into intensive mechanization, which was left incomplete. The original aim of mechanization was to raise productivity by replacing the considerable amount of manual labor used by the company, but the size and situation of the coal-source was not taken into account. Despite the increased mechanization, total coal-mining output is still determined primarily by manual labor. The end result of the LIAS program has been a large depreciation burden from unutilized investments in machinery, without any accompanying increase in productivity. The responsibility for this unfortunate situation lies not only with BIG BLACK's management, but also with the government due to its pressure on the company through the LIAS program.

The coal mined by the enterprise has decreased by about 20%, while its total costs are almost unchanged. This phenomenon is accounted for mostly by the fact that while the number of non-productive workers has been considerably decreased, the total number of people on the staff is unchanged. Moreover, the pressure for raising salaries is rather strong.

Because of the above mentioned two factors--the great depreciation burden, and the unfavorable ratio of income/operating cost--the management of the enterprise felt the need for restructuring.

The most important statements of the firm

1. The production and the productivity of the enterprise has decreased gradually over the last five years. Two factors have caused the decrease: (1) the decreasing number

of miners; and (2) the increasing portion of the disadvantageous coal-beds. The latter problem was due mainly to a lack of management training. Only 7% of the company management have any business education background. Most of the managers are former mine engineers. The engineering bias of management was reflected in the consulting team's discussions with managers, in which the managers could think only in terms of calorie-value of coal produced and not in terms of costs and incomes.

2. According to the opinion of the team, productivity was also affected in BIG BLACK by the way interplant accounting transfers of costs were handled. In BIG BLACK, transfers between plants were made at cost plus normal profit, which might be higher than the market price. This accounting practice is antagonistic to profit and does not encourage management effectiveness.

3. The total cost of wages remained fixed despite decreases in production. One of the reasons for this was that the number of white-collar workers in management and blue-collar workers in the service plants remained unchanged. Another reason was the employees' requests for wage increases which were granted, despite the poor financial situation of the enterprise. In addition, the management of the service plants was oversized, technology-oriented, inelastic, and some areas (such as cost-accounting and marketing) were underdeveloped. The characteristics of the centrally planned economy could be seen in the structure and work of the management. It was astonishing that the management did not get any data about the coal-beds which could have been used in the analysis of mining and processing costs. It was also startling that the control of technological flows was dominated primarily by manual operation. The annual plan of the firm consisted of only a few pages, which mentioned only the planned quantity and returns per plant without containing any cost or other data.

4. The fundamental reason for the liquidity crisis was the decrease in production which reached the "magic limit". The government subsidy and the occasionally successful forced price-increases couldn't compensate for the growing cost of production.

Discussion

Despite the fact that management accepted the statements of the consulting team--that it would be reasonable "to slim down" the structure of the firm, to improve cost reductions, and to modernize the operations of the enterprise--the management was interested only in trying to obtain higher subsidies and price-increases.

Proposal of the firm

One of the first propositions of NEW WINDS was that BIG BLACK should start negotiations with its creditor banks and with the government. The negotiations would aim to convince these entities to bear the burdens coming from the LIAS program together with BIG BLACK. The team proposed that the banks should write down part of the credit, and the government should take responsibility for some of the program's costs. If the company does not succeed in these negotiations, the team feels that bankruptcy is certain.

In addition to negotiating with banks and the government, BIG BLACK must also develop a business plan. A major restructuring, including the use of fewer production units, should be a central part of this plan. In addition to the business plan, a strategic

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plan should be developed.

NEW WINDS proposed closing all mines and plants currently showing a deficit. The team also proposed that BIG BLACK separate service plants from mining and production and that the management function should be modernized. NEW WINDS recommends, as a first step, to create a new computer-based decision support system which can analyze and optimize the specific, direct costs of mining and processing in individual plants, calculate the accessible income, determine the maximum cost-bearing capacity of basic operations, and reveal the sources of loss. The "soul" of this system is a linear programming model containing more than 500 variables and over 200 constraints. According to the team, it would take approximately one half year to create this system.

Results

The management accepted the proposal and promised to provide the necessary data for applying the model on time. The organization of the system was started. A quarter of a year later the management criticized the system more and more strongly, characterizing it as being simplified, too lengthy, and asking "what is it good for?" Management also complained that they did not have the data the model required. Consequently, the team could not replace the fictitious data they had used in testing the system with real data provided by the firm. All the efforts of the team ended in complete failure, and the cooperation between the enterprise and the team was broken off.

The Austrian Tosch Company

GYÖRGY PINTÉR

Thomas Braun, a 27-year-old American manager whose parents had emigrated from Austria before the 2nd World War, received a letter from Vienna. It contained the sad news of the death of his grandfather, Hans Braun. Thomas was expected to travel to Austria for the burial.

A week later in Vienna, after the burial, Hans Braun's lawyer informed Thomas that he had inherited shares in the Tosch company valued at five million Austrian Schillings (ATS). Thomas also inherited shares in other companies worth one and a half million ATS. Thomas now owned eight percent of all outstanding Tosch shares, and was instantly one of the ten major shareholders of the company. Along with his shares, Thomas received a letter inviting him to the general shareholders meeting scheduled for next Friday. The main agenda item for this meeting was a discussion of a new marketing strategy for the company's major products. In order to prepare for the meeting, Thomas began to collect information about the Tosch company.

The Austrian Tosch company was founded nearly one hundred years ago. The company is famous for its different kinds of comfortable slippers, medical shoes, instep raisers, insoles, and pedicure products.

The central European countries of Hungary, Czechoslovakia, and Poland had been important markets for Tosch until 1945-48, when all private firms in these countries were nationalized. Tosch products had been very well-known and popular throughout central Europe. Now, Tosch's major markets are the EEC and EFTA countries.

Thomas was informed that the company's main problem is the saturation of its existing markets. Another problem is that the company's recently introduced insoles are not as popular as a competitor's sheep's fur product, which is skin tight, softer, and warmer than Tosch's insoles.

Most of the buyers of these products belong to the older generation and to a few other special consumer groups such as farm workers and hunters. In each of these cases, the product is purchased exclusively for its function, not for its fashion. Tosch hopes to be able to regain these consumers by developing new ways to warm freezing legs.

As they developed a strategy, the company recognized that millions of people wear fashionable, but thin-soled, shoes throughout the wet and cold autumn and winter months—resulting in millions of freezing feet.

Tosch wanted to develop an insole which can be used not only in boots, but in any kind of shoe. A new kind of thin, well-insulated shoe insole was constructed. It was supported with a special foil-cover whose heat-insulating capacity had been tested in outer space.

The shoe insole consists of three parts. The top, visible layer is made of light, soft, natural material. This sand-colored warming layer is aesthetically pleasing (for a shoe insole) and extraordinarily resistant to wear and tear. The second layer is a soft and flexible foam material that improves the soles comfort. The material, with its fine pores, also effectively preserves the warmth of the foot. The third layer, made of a special foam material, insures a perfect defence against cold and wetness.

The bottom of the shoe insole is covered with the previously mentioned, newly developed Astrolar material. This material prevents both the outflow of warmth and the inflow of cold and wetness through the sole.

The company aimed for a very wide distribution of the product. Even though the elderly had been the main consumer of this type of product in the past, Tosch felt that

the features of this new product made it suitable for use among other generations as well. The company's marketing plan would target fashion-sensitive men and women, young people, and children, in addition to the elderly. Tosch planned to sell the product not only in shoe shops, but also in department stores, perfumeries, and supermarkets.

The company's calculations showed that the costs of developing this new product would be quickly regained. The price was fixed two times higher (20-30 Schillings, depending on the size) than the price of the rivals' sheep's fur insoles.

These new products were introduced into the market of Austria, Germany, and Switzerland, and were accompanied by a television ad campaign. The witty advertisements included scenes of ice-floe tests, proving the insulating capacity of the product. In other ads, sales clerks selling the insoles were astronauts testing the product in space--referring to the Astrolar material covering the shoe sole. Wide-ranging publicity was given to the product in the press.

At the time Thomas Braun inherited the shares from his grandfather, sales of the new insole product were growing rapidly in all the German-speaking countries.

This was not Thomas's first visit to Vienna. Before the shareholders meeting, he contacted his relatives and travelled to the places he had visited with his grandpa many years before. He also went to the library to refresh his knowledge of Central Europe.

At the meeting, Thomas, dressed in black, stood and spoke:

"I think the next reasonable step for the company is to enter Hungary. The only difficulty will be to develop an appropriate marketing strategy for this problematic, but highly promising, market."

The managers present at the shareholders meeting accepted Thomas's idea.

In the middle of the next week, Robert Schwarz, Tosch's marketing director, accompanied Thomas on a trip to Budapest, the capital of Hungary. The two men planned to visit a consulting firm, Piac Kft (Market Ltd), to begin gathering information about the Hungarian market.

After a few days, Mr. Ambrus, a representative of Piac Kft, signed a contract with Mr. Schwarz. The contract stipulated that Piac Kft would make an extensive market report tailored to Tosch's specific needs.

Questions:

1. Is it reasonable for Tosch to enter the Hungarian market or not? What are the pros and cons of entering?
2. What kinds of information does Tosch need in the Piac Kft report in order to develop a useful marketing plan for entering Hungary?
3. On the basis of the existing limited information, what should be the main elements of Tosch's marketing strategy in Hungary?

The Courier Transportation Problems of a Bank

JÁNOS STAHL

The reorganization of the Hungarian bank system started two years ago. New commercial banks took over several activities from the MNB (Hungarian National Bank), previously the country's only bank. A lot of new bank offices were opened all over the country, including the OKB (Bank for Commerce). At the OKB, Dr. Nagy was Vice-President responsible for developing the information system and installing the corresponding computer system supporting the activities of the bank. It was clear to him that the OKB needed a network with a mainframe in the Budapest Center.

At the time Dr. Nagy assumed these duties at OKB, the bank had about 25 branch offices and 55 additional smaller offices. Each of the smaller offices was associated with one of the branch offices. Because no direct communication lines connected the bank's offices, the data containing the daily transactions and other daily information from the 55 smaller OKB offices was delivered by car to the 25 branch offices. Two times a week the data were then delivered from the OKB branch offices to the respective MNB branch offices to be processed in Budapest using the MNB network. (This was done by some of the other commercial banks, too.) Dr. Nagy felt that this frequency of information processing was unsatisfactory. The MNB itself was planning on discontinuing this system in two months. They said they had a lot of new problems to solve on their network and that the new banks should work autonomously. The Vice-President estimated that buying and installing the necessary hardware and software to develop OKB's own network would require at least two and a half years. Dr. Nagy discussed the situation with the Hungarian Post, but did not agree with their recommendations. Their proposal was to use phone or telex to transfer data between the banks offices. Because of the state of the Hungarian telecommunications system, this method seemed to him unreliable and, thus, unacceptable. Dr. Nagy was confident that rapid improvements in home communications technology would eventually be made. However, he did not expect to have satisfactory communication lines in the near future.

Dr. Nagy was convinced of the usefulness of quantitative analysis methods, so he decided to pose this problem to Mr. Kiss, one of his favorite subordinates whom he considered an excellent analyst.

Mr. Kiss was the head of the Economic Analysis Dept. of the OKB. This was a small department in the Budapest center. The department's task was to help the management in assessing the financial soundness of the clients. Most of the staff were young economists and mathematicians. Most of them were expert in several methods of multivariate statistical analysis, which were the basic tools of their work. Their main objective was to gain acceptance within the bank for this type of quantitative analysis, and to prove the usefulness of their own department. They hoped to be able to use quantitative analysis to reevaluate some of the bank's previous decisions, to present better solutions to these problems, and to replace the influence of several lobbies in earlier decisions.

Dr. Nagy described the problem for his subordinate, Mr. Kiss. In their discussion he told Mr. Kiss that there was pressure to not use the MNB network anymore. He spoke about the problems resulting from the lack of communication lines, and he mentioned the Post's last proposal. His idea was that cars could be used to deliver the data from the branch offices to OKB's main office. He emphasized that Mr. Kiss should think not only of the delivery of raw data, but that sooner or later picking up checks and delivering cash would be essential. These deliveries must somehow be solved by the time the network was established. He asked Mr. Kiss to write a proposal on organizing the deliveries in

an optimal way and to report about his progress at the end of the following week.

At first Mr. Kiss concentrated on the delivery of the data. He tried to make clear what the problem was - first the cars collect the data in the smaller offices and deliver them to the respective branch office. Second, the results of the preprocessing in branch offices are gathered and delivered to the Budapest center. When the data processing in the center is completed, the entire delivery process is then carried out in the opposite direction and the results of the processing are returned to the branches. There are two fixed pick-up and delivery times for each office. The first one (in the afternoon) is the earliest time to pick-up the data from that office. The second one (in the morning) is the latest time the data should be collected in the office. (The first was determined by closing time and completion of the final reports, the second one was determined by opening time and the various preparations for opening the office.) Similar scheduled pick-ups are needed for the branch offices, and some time needs to be allowed for processing at the Budapest center. The fixed schedule and tight time intervals excluded the possibility of using a network of train deliveries, due to inflexible train schedules. Using cars for the deliveries greatly increases flexibility and allows for greater control over scheduling.

Obviously, Mr. Kiss wanted to minimize the total delivery cost, which would be determined mainly by the sum of the kilometers covered by the cars and the number of cars used. He himself could easily see that minimizing the sum of the kilometers did not necessarily give the same result as minimizing the number of cars. The portion of the cost determined by the total kilometers seemed much larger than the portion of the cost resulting from the number of cars. In addition, any additional cars might be used for other purposes when not being used for data delivery. Though some kind of compromise might be made at this point, Mr. Kiss was convinced that the best solution was one in which the length of the trips was minimized.

Taking into account the future prospect of delivering checks and cash, however, gave him serious concern. The transportation of cash was not a consistent activity, and for security reasons it was not wise to do it on fixed routes. Decisions on such deliveries could and should be made at the very last moment. Probably, it would be best if these deliveries were done by professionals who had their own routing systems. (To be frank, Mr. Kiss did not know if such firms existed but felt that using these firms would be a worthwhile alternative to consider.) The organization of collecting checks was another matter. If it was enough to do it once a day, then it could be done together with the data collection. Later, depending on the number of checks and on the places where the clearing activity was done, these deliveries could be organized along the same lines as the collection of the data. He asked several people in the bank, but no one could give him any really valuable information about this future activity.

Mr. Kiss discussed his problem with his closest colleagues and other experts. He soon learned that the respective mathematical problem was hopelessly difficult to solve, though several heuristic solutions were applied with success in many cases. He himself was not interested in the solution of the general problem, but was interested in the OKB courier transportation routes.

One of his first ideas was to take a road map of Hungary and use it to plan the routes through common sense. Altogether, there are about 80 offices and branch offices, and the position of the cities and the road network are not independent, so Mr. Kiss felt he couldn't possibly make a very big mistake by using an informal, common-sense method. He imagined the unhappy face of his boss, Dr. Nagy, who had an almost blind confidence in quantitative methods, if such a simple solution was proposed.

After continuing his consultations, it became quite clear to Mr. Kiss that the problem itself was too soft to be handled by hard mathematical methods. There were too many uncertainties. Future developments were unclear, and often only rough approximations of important data values could be made. Finally, Mr. Kiss came to the conclusion that any more or less formal methods should be presented in the form of a decision support system. This is always a useful tool for solving problems which couldn't be well formulated, or could systematically be formulated only with difficulties. Such a system could be applied toward organizing the data deliveries and later for solving the other routing problems mentioned by Dr. Nagy, though broader differences in the problems produced more difficulties in developing the system. For example, the OKB is always opening new offices. This fact requires the modification of the existing routes every time a new office was opened (though the personal opinion of Mr. Kiss was that this wouldn't happen too frequently, and in such a case he or anybody else could spend some more time in front of a map to give the effort needed to develop a new system). Knowing Dr. Nagy's unwillingness to request insight from consulting firms into the bank's businesses, he thought that system development would be his department's job. Because this task was a bit far from their expertise, Mr. Kiss had only vague ideas about the amount of time and effort that would be necessary to complete the task. His rough estimate was that developing such software would require at least several months.

After all of his deliberations, Mr. Kiss still did not know exactly what he should do or what he should tell Dr. Nagy, the Vice-President.

Questions:

1. What are the causes of the communications problems in the bank?
2. What is the routing problem delivering the data?
3. What are Mr. Kiss's alternatives? What do you think about his first idea?
4. What should Mr. Kiss tell the Vice-President?

MAYFLOWER

GYÖRGY MUNDRUCZÓ

Background information

Mayflower is one of the largest clothing factories in Hungary. The company's headquarters is in Budapest, and several branches are located throughout the countryside. It is a state-owned company, but recently the management has been trying to establish joint ventures, especially with western companies. Most of the raw materials, fittings, and small accessories come from other Hungarian companies, but in the recent past, imports from the so-called socialist countries were also significant. Because of the severe political and economic problems in Eastern Europe, Mayflower's management uses every effort to stabilize its input relations. For this purpose, the company has increased its purchases in western markets. Sixty percent of the company's production is exported to the neighboring (formerly socialist) countries, 30 percent is sold on the home market, and the rest to developing and well-developed countries. Recently, the demand for the company's products has significantly declined.

The former socialist countries are behind in their payments, and the purchasing power of the Hungarian population has also declined significantly. There are uncertainties concerning the demand of the developing countries, too. Insolvency and payment default are very common.

Plans for the future

The new management of the company has decided to change the present situation. The director-general, together with the technical and economic directors, initiated a significant technical development within the company. New automatic machine tools are being installed, quality control is being tightened (both the control of finished products and of incoming raw materials), and the level of mechanization is being improved. In addition, cost and profit accounting methods are being revised so that the distribution of overhead costs will better approach reality.

Lay-offs are imminent - the work force will be cut by 30-40 percent. Retraining courses (both in Hungary and abroad) are under way to ease the transition to the new assignments. The management is also playing with the idea of having a big department store built along highway M7, where goods will be sold at producer's prices.

The management hopes that these actions will boost (at least double) the export to developed countries and that selling more fashionable goods (at reasonable prices) will also increase the buying propensity of the population at home.

According to most estimates, streamlining the company in the manner described above will cost about 800 million forints. The company will not be able to cover all the expenses of the planned development from its own sources. The company has appealed to its Commercial Bank for financial assistance. Several managers at the company took this news skeptically.

The Director-general reassured them in the following way: "At a time when most companies were bankrupt or were on the brink of a financial collapse, we were able to keep our head above water. We always paid our obligations to the bank on time, and everybody knows that our management is a young, efficient team with courage and an innovative spirit. Believe us and don't worry!"

At the commercial bank

The credit department received Mayflower's credit request. In the past, the bank did not attach much importance to a thorough and comprehensive analysis of the companies asking for credit. Frequently, it was enough to receive a phone call from the "White House" (the headquarters of the Communist Party) supporting the company's request. But nowadays it is time to be very cautious. Companies have assailed the banks with requests for money, even though the interest rates are very high (well above 30 percent). Many of the companies to which the bank loaned money could not survive, and now the bank is running after its money. This practice should be avoided.

The bank worked out a new method to analyze the general creditability of the companies. The qualification is based on balance sheet information. For partner companies, this information is stored in the bank's data file.

The head of the credit department received the information attached in Appendix 1-4 concerning Mayflower's credit-worthiness.

Appendix**1. SIMPLIFIED BALANCE SHEET**

	BALANCE at the end of 1990	Million Forints
ASSETS		
01. Cash and bank deposits		24
02. Accounts receivable		492
03. Other outstandings		19
04. Stocks		459
05. Other current assets		15
06. Financial investments		80
07. Total current assets		1089
08. Gross value of fixed assets		353
09. Accumulated depreciation		163
10. Net value of fixed assets		190
11. Investments		7
13. Fixed assets together		197
18. Total assets		1286
SOURCES		
19. Short-term bank credit		339
20. Accounts payable		65
21. Increased expenses		28
22. Balance of tax accounts		105
23. Next-year annuity of long-term credit		0
24. Other liabilities payable within the year		36
25. Total current sources		573
26. Liabilities and non-current sources		0
27. Long-term credits		20
28. General capital		688
29. Capital reserved		0
30. Other capital		0
31. Profit after tax		5
32. Total capital		693
34. Total sources		1286

Appendix 2.

INCOME STATEMENT

	Million Forints
01. Sales return from basic activities	1232
02. Sales return from other activities	166
03. Subsidies	0
04. Consumption tax	0
05. Net sales return	1398
06. Production and operating expenses	1393
07. Profit before tax	5
08. Payment from the profit before tax	0
09. Annuity payment	0
10. Tax payable	0
11.	
12. Profit after tax	5

Appendix 3.

PRODUCTION AND OPERATING COSTS

	Million Forints
01. Raw materials	717
02. Energy used in the production	29
03. Wages	204
04. Social insurance	81
05. Depreciation	10
06. Interests	47
07. Other expenses	166
08. Balance of different expenditures and returns	15
09. Change in the own - produced stock	-18
10. Total production and operating costs	1393
11. Interest on long-term credit	4

Appendix 4.

USE OF THE COMPANY'S SOURCES
at the end of 1990

USE	Thousand Forints
01. Transfer to the budget	-2383
02. Payments from profit after tax	-74
03. Annuity of long-term credits	0
04. Financing of investments	0
05. Change in current assets	0
06. Change in cash and bank deposits	0
07. Instalment of short-term credit	0
08. Other payments from profit after tax	119
09. Other uses	48
10. Total uses	-2290

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Appendix 4.

USE OF THE COMPANY'S SOURCES
at the end of 1990

SOURCE	
11. Profit after tax	5010
12. Long-term credits	0
13. Depreciation	10479
14. State capital and fund allowances	0
15. Increase of capital	2907
16. Other own sources	2367
17. Short-term credits	0
18. Change in other sources	-23053
19.	-2290
20. Total sources	

To Beer Or Not To Beer? (The Karancs Bottler)

GYÖRGY PINTÉR

"It won't be easy," sighed Erika Szabó, the young trainee, as she walked back to her office among the high stacks of beer-bins. After spending two months in the Karancs Bottler Ltd., she now has two days to give suggestions on how to develop the company. The weather was very hot, and she would have preferred drinking a glass of light ale instead of mineral water, but of course drinking on the job was forbidden. As she stepped inside the office, she started thinking about rereading and editing her notes.

The Karancs Bottler's predecessor was founded in the 1930s, and at the time it produced beer, wine, and vinegar. In 1949, this company was nationalized by the communist state. After existing in several different forms, the company has been known as Karancs Bottler Ltd. since 1984. Karancs buys beer kegs and then bottles the beer. Karancs MgTsz (Farmer's Agricultural Cooperative) owns a 60% share in the company, and the Borsod Brewery owns the other 40%. The Borsod Brewery accounted for 23.1% of Hungarian beer production in 1988 and 25.1% in 1989. The total value of Karancs Bottler as of December 31, 1989 was 123.330.000 Ft. Profits and losses are shared between the owners based on their percentage of ownership. The total sales in 1989 were 547.071.000 HUF, and the net profit was 5,8 million HUF.

The total capacity of Karancs Bottler Ltd. is 15.000 bottles/hour (1 bottle is 0.5 liters). The Bottler works in two shifts. The plant capacity in July and August is around 100%. This capacity means that two bottler machine-lines are in operation. The older machine-line is 15 years old and can bottle only light beer at a rate of 6,000 bottles/hour. The newer machine-line is 8 years old. It was bought as a second-hand machine on a lease contract. According to this contract the company has to pay 138.132 HUF every third month until December of 1991. The newer machine-line is capable of bottling both quality and light beer.

The main difference between light and quality beer is the warranty. In the case of light beer, the warranty is 8 days, while the warranty on quality beer is between 30 and 120 days (with higher technology it can be 120 to 180 days).

The only product bottled by Karancs is Borsod Light--a product of the Borsod Brewery. There are 6-8 kinds of quality beers available from different breweries. The light beer, if it is fresh, is good but is not as good as the quality beer. Since the light beer is cheaper, however, it is more popular. 85% of Karancs Bottler's production is light beer. Currently in Hungary, light beers are preferred to quality beers. The demand for light beers, however, is not changing (or is even decreasing slightly), while the demand for quality beer is growing in line with international demand.

80% of Karancs production is sold in the local county. The Karancs Bottler is the only beer bottler company operating in the county, other companies only have some warehouses/distributors there. One of these companies, the Kőbánya Brewery Co., is the biggest Hungarian producer, accounting for 30.4% of the total Hungarian beer production. This brewery, with more rapid delivery time and cheaper prices, competes with Karancs Bottler in the county. The Karancs Ltd. has warehouses/distributors outside the county too. One can be found in a suburb of Budapest, the capital of Hungary, with more than 2 million citizens and 10 million tourists annually. It is 70 miles from the plant. There is another one in a neighboring county, 120 miles from the plant.

The Karancs Bottler has wholesale activity as well. They not only sell their beer, but they buy and resell beer, wine and soft drinks. They do this to increase the range of their product line, and to make their beer sales more attractive. Having a wider product

line helps Karancs to better service the local customers, resulting in a large local market share. Moreover, the beer that the company buys for the breweries is sold in the county (400,000 people). The wholesale prices of the purchased and the self-bottled beers are the same.

Prices of Purchased Beers (in HUF/100:1)		Additional costs:
Kinizsi	1094	transportation 70 - 90
Huszár	1036	storage 40
Rákóczi	1095	
Prémium	1240	
Fesztivál	1703	

The forty years of political and economic dictatorship have left a monumental economic crisis. Hungary now has \$20 billion US in debts. That is \$2000 US per capita, one of the highest in the world. Most people's standard of living will decrease over the next several years, and only 5-10% of the population will be able to eventually reach a higher living standard.

Despite the poor state of the economy (or perhaps because of it), beer consumption has been growing in recent years. In 1989, it reached 100:1 per capita. This compares to consumption rates of 120 l in the US and 150 l in Germany. The inflation rate for the first half of 1990 was 26%. The interest rate for loans, with approval of the commercial banks and the companies, is between 28% and 40%. Karancs Ltd. can contract a short-term loan for 32%. The interest rate of deposit is 26% to 27%. As a result of high interest rates in 1989, the company had to pay 16.8 million HUF by installment and will probably have to pay over 20 million HUF in 1990.

During the last 40 years the Hungarian beer market has had perpetual shortages in many regions, especially in the summer months. The reason for this is the long, hot summer and a steady growth in tourism.

By talking to other people in the company, Erika collected four different points of view about possible strategies:

1. These days change is risky. With better PR activity, the company can be more profitable. (Direct beer advertisement is forbidden).
2. We should become independent from Borsod Brewery by buying out their ownership share. To gain the necessary money, the company may find a Belgian partner to form a joint venture, or sell shares to shop owners who buy Karancs' products.
3. To gain financial resources, the factory can sell the older bottler machine for 15 million HUF. Or, after December 31, 1991, we could sell the newer machine for 22 million HUF. This money could be used to buy a new machine for 45 million HUF, which can bottle 14,000 bottles/hour of quality beer with a 180 day warranty. Or we could buy a used machine with the same capabilities, but at a price of around 28 million HUF (prices include fittings and installation).
4. Change the profile of the factory. Sell one of the machine-lines and buy another which can also bottle soft drinks. The warranty on soft drinks is at least 180 days. In this case, there is a possibility that a Dutch firm will make a direct investment, because they are interested in a joint venture to bottle soft drinks. According to preliminary calculations, soft drink production would be more profitable than the production of light beer.

Questions:

1. What are the advantages and disadvantages of the four possible strategies?
2. What is the best strategy?

Appendix I
(in 1000 HUF)

The Karancs Bottler's total sales in 1989 were 574.071.000 HUF.

WHOLESALE:		
Beer	- self-bottled, old machine	105.485
	- self-bottled, new machine	195.617
		301.102
	Bottled elsewhere (purchased)	55.710
TOTAL BEER SALES		356.812
	Soft Drinks	38.385
	Wine	16.389
TOTAL WHOLESALE		411.586
RETAIL (and other returns):		162.485
TOTAL SALES		574.071

Appendix 2

Self bottled beer's price calculation:

	I	II	III	IV	V	VI
Warranty days	8	30	30	60	90	90
Raw material	642	766	728	770	888	1333
Energy costs	20	30	30	36	36	36
Additional material	53	60	60	60	60	60
Wages	35	37	37	38	40	40
Local tax	15	16	16	16	17	17
Capital cons. allowance	25	30	30	30	30	30
Additional costs	110	181	155	217	274	274
-leasing fees	12	12	12	12	12	12
-stocking cost	10	11	9	15	20	20
-transportation	70	120	120	150	200	200
-loss	6	10	10	12	14	14
-miscellaneous	22	28	28	28	28	28
TOTAL COST	900	1120	1080	1167	1345	1790
Wholesale price	1186	1432	1360	1504	1650	2086

I=Borsod Light II=Kinizsi III=Huszár IV=Rákóczi V=Prémium VI=Fesztivál

Appendix 2

(prices in HUF)

Product prices	Preliminary Calculation on Hungarian market	Present Average Prices
Wash-basin	34.400 - 47.600	6.000 - 17.000
Bathroom Cupboard with washbasin and mirror	105.500 - 210.000	25.000 - 45.000
Bath tub	15.000 - 103.000	11.000 - 28.000
Mirror	1.575 - 3.450	1.700 - 3.200
Soap dish	700 - 2.700	300 - 600
Sets*	11.000 - 22.000	6.000 - 20.000

* Such as soap dish, towel hanger, toothbrush holder and shelves

János Deák is sitting in his office. It's 6 pm, and all his employees have gone home. He looks through the window, staring at the Danube. The lights of the hotels on the other side of the river shine on the last of the slow-moving, rush hour traffic crossing Lánchíd, the "Chain Bridge."

Deák has had a difficult day, and he wants to sit and think about everything that has happened. He feels he had considered his opportunities well when he sold forty percent ownership of his company to a Swiss partner. He believes this cooperation will mark the beginning of a new phase in the life of his business--he hopes it will broaden his enterprise and speed up his success.

No doubt there have been many important changes in Hungary in recent years. The country's first free elections ended the communist regime, and a new parliament has taken over power. This parliament's primary goal is to develop a new market system and to privatize the state-owned enterprises. Of course, there continue to be many barriers to these processes. Foremost among these are the severe problems of the Hungarian economy, including high inflation and a \$21 billion debt, as well as the concern over whether the people themselves will be able to change the way they think after living for forty years in a socialist system.

Change began earlier in Hungary than elsewhere in Eastern Europe. Hungary's brand of "goulash communism" had played a leading role in reforming the Eastern Block. But the initiative for change came, naturally, not from the government, which just followed the events, but from independent groups and individuals. János Deák was one of these ambitious individuals.

Deák, with a degree in mechanical engineering, started an ordinary career at a research institute (The Hungarian Institute of Materials Handling and Packaging), where he worked for ten years. One of his projects for the institute sent him to the Netherlands. While there, and later after returning to Hungary, he worked for four years with RAPISTAN Inc., a Dutch subsidiary of a Michigan, U.S.A. firm. These four years had great impact on his future life and changed his thoughts about business. Two factors had a particularly significant impact on him--the firm's marketing orientation and systems thinking.

He accidentally stumbled across the "shading technology" he was subsequently to build a business on when he built himself a new house and wanted to buy awnings to shade the windows. At that time in 1984, however, such a purchase was an "impossible dream" in Hungary. Except for only one or two outdated types, the shops just didn't sell window awning products, and the only Hungarian company in the business required a year and a half to meet special orders.

Furthermore, Hungary's currency, the forint, is not convertible. That meant that Deák, like fellow Hungarian citizens, had only very limited means of shopping for such hard-to-get goods like the awnings. So Deák began some market research to determine whether there was any real demand for such products in his country.

Hungary, located in the landlocked Carpathian basin, has a continental climate with a relatively high proportion of sunny days. The four seasons are generally predictable, without much extremity. Most homes are constructed of concrete, and it is hard to keep them cool in the summer. Air conditioning is relatively unknown, except in some shops and offices, and the cost of electricity is prohibitively high to make air-conditioned residences more common. In Austria and Germany, however, the use of window awnings

and other sunprotecting products is a popular new trend, owing to the potential for energy savings, aesthetics and comfort. The newer types available in these countries are modern and fully automated--with remote control--and are even controlled by light and wind sensors.

After an examination of these factors, János Deák decided to go into the "shading" business and founded a company he named "ROLLFLEX." He started the small company in a rented garage with 200 thousand forint in cash. In its first year, ROLLFLEX's revenue was 10 million forint. The awnings produced by ROLLFLEX have quickly become popular, and the company has had to decide in this early stage for whom to produce and sell their products--who are the target consumers of ROLLFLEX products. ROLLFLEX decided to market its products toward a limited group of consumers in Hungary with higher than average incomes, and to make and sell a product of world-class quality. The higher level of service and quality promised by ROLLFLEX's products was reflected in higher prices as well. Thus ROLLFLEX deliberately gave up a potentially broader domestic demand (its higher-priced products are out of reach for lower-income individuals). But for ROLLFLEX, the tradeoff was increased competitiveness with high-quality Western imports. "Our products can be sold on every market," is the company's chosen philosophy, and this reflects the distinction in Hungary between domestic and Eastern European products and those produced by Western or Japanese firms. In this way ROLLFLEX also hoped to become more competitive in foreign markets in the future.

To fulfill this philosophy, ROLLFLEX needed world-class partners and high-quality raw materials. All the necessary raw materials and parts for the ROLLFLEX awnings and other products could be found in Hungary. One large Hungarian monopoly would have been able to produce the special aluminum for the awning frames, and another could produce the necessary UV-stabilized, waterproof textile used for awnings. But these two companies were initially wary of the small ROLLFLEX firm, with a private ownership structure completely different from their own. They just couldn't see ROLLFLEX as a "partner."

Deák's breakthrough came at the Budapest National Fair, a big annual event in Hungarian corporate life. The products ROLLFLEX exhibited met with complete success, and subsequently the above mentioned monopolies developed strong business ties with ROLLFLEX. With its supplier problem solved, ROLLFLEX was able to meet its ever-increasing orders and the enterprise began to prosper.

Around that time, the government further liberalized foreign trade, and it became possible for ROLLFLEX to seek new suppliers, mostly in Western Europe.

Western companies were also initially wary of doing business with ROLLFLEX. With much effort, including company introductions, exhibitions, and references, ROLLFLEX was able to convince some Western companies of its seriousness and of its competence in the Hungarian market. Thus, ROLLFLEX developed connections which would enable it to acquire more of the best supplies required for its highest quality products, including business with the German Schmitz Company and the Austrian Sattler Company, producers of the special textiles, and later with the multinational French firm Somfy, also one of the biggest in this specialized market. It was during this phase that ROLLFLEX was able to expand to new shading products. As part of this diversification, ROLLFLEX signed a licensing and production agreement with Bautex Ltd., Germany, to manufacture vertical blinds, and ROLLFLEX itself began manufacturing venetian blinds.

At that time, János Deák employed 25 people.

By the end of the 1980's, major changes had occurred in Hungary and its market.

Sudden political changes clearly showed the country's intention to liberalize its economy and create a market system.

Inflation and lower income levels greatly impacted consumption. Ironically, it seemed that both the high inflation and the declining living standards had positive effects on the market for ROLLFLEX's products--at least in the short-run. Because of high inflation rates, many individuals did not want to save any money in bank accounts. Instead, they bought what they would need or want in advance. Furthermore, the lower levels of income meant for a segment of the consumers that durable goods like new homes and cars were unattainable. These consumers, therefore, tried to "make do" with what they had, often by sprucing up their existing homes with products which would make them more comfortable. As a result, there was a noticeable increase in the demand for ROLLFLEX's products, particularly among lower income consumers.

Still another new and very important segment of consumers opened up to ROLLFLEX--private entrepreneurs and keepers of small shops. This group of consumers substantially increased the demand for ROLLFLEX products, particularly those installed for decorative or promotional purposes. The vertical blinds and other indoor shading products therefore took on new functions, and ROLLFLEX decided to work out a new strategy for the promotion of the products. For example, ROLLFLEX decided to show the products to architects and interior decorators, who might incorporate the shading fixtures into their construction or decorating plans.

ROLLFLEX's relations with its suppliers and its competitors reached a different level. Whereas the large suppliers once worried about doing business with the small, young company, they now found in ROLLFLEX a very different kind of partner. Based on its own manufacturing requirements, ROLLFLEX advised the state-owned industries on what, when, and how much to produce, encouraging the industries to comply with these suggestions by promising future business. Furthermore, it was through ROLLFLEX that these industries were able to obtain orders and manufacturing licenses from ROLLFLEX's connections in Western Europe and other companies in the shading business. Existing competitors of ROLLFLEX sought a kind of partnership with the company as well, rather than any real rivalry. Most of the small companies within the industry became, in some sense or another, suppliers to ROLLFLEX or buyers of its products or services. ROLLFLEX was clearly at the center of this specialized market.

In the last two years of the 80's, however, the opening of Hungary to the West brought a very different situation to ROLLFLEX. Big Western companies moved in and their products have appeared on the Hungarian market. Predictably, ROLLFLEX has had to deal with some tough competition. This challenge was accompanied by internal pressures created by the rapid expansion of the company--quite normal in such a rapidly growing company.

ROLLFLEX couldn't solve its expansionary problems without outside help. The government supported private entrepreneurs in theory, but in practice the banks usually refused credit to small private enterprises--which is what happened to ROLLFLEX as well. Furthermore, the company couldn't help itself by issuing stocks since the Stock Exchange had just recently started.

Western companies in the Hungarian market enjoy many relative advantages. First, they start with strong backgrounds in market economies. Second, they can offer relatively high quality products together with good services, and third, they can more readily develop new product technology due to their usually strong capital background. Furthermore, the Hungarian government, like other governments trying to encourage

western investment, offers tax holidays for foreign businesses.

Still, Western businesses in Hungary face a lot of risk. To begin with there is the risk that the new market system could fail as a result of short term political or social problems. The Hungarian and Eastern European markets also represent the unknown for many western business people, who have little or no knowledge of Hungarian culture, ethics, etc. Again, the currency is not yet freely convertible, and the level of wages in Hungary is much lower than in the West, limiting effective demand.

By the end of 1990, ROLLFLEX was producing outdoor awnings, canopies, sunshades, and roller-blinds, and vertical and venetian blinds for indoor use. But, facing heavy competition with big Western firms, Deák decided to sell forty per cent of his business to one of his well-known partners, ROLLADEN SENN AG, Switzerland. The Swiss company will bring new technology that will allow ROLLFLEX to produce and sell a new aluminum venetian blind for use outdoors, a new aluminum rolling-shutter, and a new type of canopy (called "Backlit") that had been a product of the Franciaflex Company. In addition, the company plans to operate in a new market by producing and selling a remote-controlled rolling garage door. With the cooperation of the Swiss firm, it has become possible for ROLLFLEX to offer these products not just on the Hungarian market but also abroad, mostly in Austria and Switzerland.

Questions:

1. What were the main stages of the ROLLFLEX "lifecycle"? Describe each of them.
2. What do you think about János Deák's decision? What would you do if you were in his position?
3. If you were CEO of a big Western European company, would you enter the Hungarian shading market? Why or why not?

II. TEACHING NOTES

FÉKON Teaching Notes

PÁL VARJAS

Objectives

The *main objective* is to involve the students in the practice of qualitative market research (As far as I know - and what my personal US-experience seems to confirm is that US undergraduate and graduate education does not put much stress on it, concentrating rather on very high level of mathematical computer methods). In addition, the FEKON case offers a good opportunity for reviewing methods of collecting primary information, and getting acquainted with the most essential rules for questionnaire design. There is also the possibility of designing an actual questionnaire.

Another important practical factor is the evaluation of the qualitative information gained from the consumers, their presentation, and use in the decision-making process. All this can be conducted as a team task, which mirrors reality with all its advantages and disadvantages.

Further objectives:

- discussion of the repositioning of a clothing manufacturer in a market economy.
- to show the importance of consumer market research data in identifying the company's reputation and competitive advantages and disadvantages.
- to discuss the question of whether the company's product and marketing strategy is reasonable in light of the company's image, history, name and the survey-report.

Teaching

The case can be taught in several different ways, depending on what is emphasized, and from which point of view we discuss the problems.

There are no eternal, universal opening questions, and solutions.

A great deal depends on the composition of the actual student group, and on their reactions or lack thereof.

There is no optimal blackboard-draft. (In my own teaching practice no two class discussions of the case are ever the same.) What makes the case real and "alive" is the contribution of both sides--students and teacher. It is advisable to always adjust to the concrete class situation and atmosphere, and improvise the course of discussion. It usually works well, but it demands very thorough preparation by the teacher.(If the students have not read the case at least once before - which can be easily ascertained - the best thing is to send them home at once!)

Some possible teaching methods, suggestions

1. *Original idea*

- a. Begin with the problem as structured in Module A. Outline the logical structure of the problem. Complete and evaluate a decision tree through extensive, or normal, analysis. It might be worthwhile to stress the enterprise's professional

situation and its influence on subjective probability. Emphasize the risk-diminishing influence of market research. Discuss the value of the information given, the utility function, and the willingness of the decision-maker to take risks.

b. It may be advisable to control the reliability of the optimal strategy through analyzing the information of qualitative market research (The data are deliberately partly numerical, partly textual. They are not necessarily in logical sequence; after all, in real life it is also like that.) The student's task is to recognize the problems, to systematize the data, to evaluate the tables, and to draw conclusions. They take part in decision-making as management advisers.

2. *Plenary discussion*

The students at the beginning are given only the first part of the case (senior management's considerations, history of the company, description of the product) and the product folder.

After defining and reviewing the problems (together or in small teams) the task is to design a questionnaire for obtaining consumer information.

It is the students' task as well to choose a questioning research method and to decide about the method of sampling. Then each team gives a short presentation of their recommendations. After that, everybody gets the second part of the case study containing the survey report data.

The data will be evaluated in teams again, and then discussed together during another small presentation.

3. *Liberal method*

The students all receive written hand-outs at the same time, but not in advance, only at the beginning of the class. They should start, in teams, to solve the problem in any way they choose and/or can. They should not ask any questions during the first 20 minutes! After about 50 minutes, they present their results and decision projects. They describe the tasks for the short-, medium-, and long-term. They may also group their decisions according to the 4 Ps of the marketing-mix. It is essential that during the presentation other teams cannot write further and use the ideas drawn from the presentation to enrich their own solutions. Often a so-called competing method brings good results. Both teacher and students can learn a lot from it, because more eyes see not only more, but sometimes different things, or the same thing differently.

The method is spectacular and effective. Its drawback is the apparent "wasted time" at the beginning.

Note: Alternatively, the case can be used during synthesizing marketing courses, because it presumes employing knowledge of basic marketing, market research, decision-theory, and probability counting. During elaboration and discussion, a consumer behavior orientation is advised.

FEKON

$P(Z_j/S_i)$	Z_1	Z_2	Z_3	$P(S_i)$
S_1	0.9	0.05	0.05	0.7
S_2	0.05	0.9	0.05	0.2
S_3	0.05	0.05	0.9	0.1

$P(Z_j S_i)$	Z_1	Z_2	Z_3
S_1	0.63	0.035	0.035
S_2	0.01	0.18	0.01
S_3	0.005	0.005	0.09
$P(Z_j)$	0.645	0.22	0.135

$P(S_i/Z_j)$	Z_1	Z_2	Z_3
S_1	630/645	35/220	35/135
S_2	10/645	180/220	10/135
S_3	5/645	5/220	90/135

- e_1 = ordering the research work
 e_2 = not ordering the research work
 Z_1 = high demand forecast
 Z_2 = medium demand forecast
 Z_3 = low demand forecast
 A_1 = launching of FEKONKA
 A_2 = not launching
 S_1 = high real demand
 S_2 = Medium real demand
 S_3 = low real demand

Normal Analysis

Ψ_i	e, d (z, a)	S ₁	S ₂	S ₃
Ψ_1	$e_1 d_1 \begin{Bmatrix} z_1 a_1 \\ z_2 a_1 \\ z_3 a_1 \end{Bmatrix}$	330 330 330	-20 -20 -20	-220 -220 -220
Ψ_2	$e_1 d_2 \begin{Bmatrix} z_1 a_1 \\ z_2 a_2 \\ z_3 a_1 \end{Bmatrix}$	330 -200 330	-20 -200 -20	-220 -200 -220
Ψ_3	$e_1 d_3 \begin{Bmatrix} z_1 a_2 \\ z_2 a_1 \\ z_3 a_1 \end{Bmatrix}$	-200 330 330	-200 -20 -20	-200 -220 -220
Ψ_4	$e_1 d_4 \begin{Bmatrix} z_1 a_1 \\ z_2 a_1 \\ z_3 a_2 \end{Bmatrix}$	330 330 -200	-20 -20 -200	-220 -220 -220
Ψ_5	$e_1 d_5 \begin{Bmatrix} z_1 a_2 \\ z_2 a_2 \\ z_3 a_1 \end{Bmatrix}$	-200 -200 330	-200 -200 -20	-200 -200 -220
Ψ_6	$e_1 d_6 \begin{Bmatrix} z_1 a_1 \\ z_2 a_2 \\ z_3 a_2 \end{Bmatrix}$	330 -200 -200	-20 -200 -200	-220 -200 -200
Ψ_7	$e_1 d_7 \begin{Bmatrix} z_1 a_2 \\ z_2 a_1 \\ z_3 a_2 \end{Bmatrix}$	-200 330 -200	-200 -20 -200	-200 -220 -200
Ψ_8	$e_1 d_8 \begin{Bmatrix} z_1 a_2 \\ z_2 a_2 \\ z_3 a_2 \end{Bmatrix}$	-200 -200 -200	-200 -200 -200	-200 -200 -200
Ψ_9	$e_2 d_9 \quad z_0 a_1$	530	180	-20
Ψ_{10}	$e_2 d_{10} \quad z_0 a_2$	0	0	0
$\Psi_9 \xi \Psi_{1-8}$		$\Psi_9 = 530 \cdot 0.7 + 180 \cdot 0.2 + (-20) \cdot 0.1 = 405$		

Optimal strategy:

$$\Psi_9 - e_2 a_1$$

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Normal Analysis

$$u(x) = (x+220)^{1/2}$$

Ψ_i	e, d (z _i a _j)	S ₁	S ₂	S ₃
Ψ_1	e ₁ d ₁ $\begin{Bmatrix} z_1 a_1 \\ z_2 a_1 \\ z_3 a_1 \end{Bmatrix}$	23.5 23.5 23.5	14.1 14.1 14.1	0 0 0
Ψ_2	e ₁ d ₂ $\begin{Bmatrix} z_1 a_1 \\ z_2 a_2 \\ z_3 a_1 \end{Bmatrix}$	23.5 4.5 23.5	14.1 4.5 14.1	0 4.5 0
Ψ_3	e ₁ d ₃ $\begin{Bmatrix} z_1 a_2 \\ z_2 a_1 \\ z_3 a_1 \end{Bmatrix}$	4.5 23.5 23.5	4.5 14.1 14.1	4.5 0 0
Ψ_4	e ₁ d ₄ $\begin{Bmatrix} z_1 a_1 \\ z_2 a_1 \\ z_3 a_2 \end{Bmatrix}$	23.5 23.5 4.5	14.1 14.1 4.5	0 0 4.5
Ψ_5	e ₁ d ₅ $\begin{Bmatrix} z_1 a_2 \\ z_2 a_2 \\ z_3 a_1 \end{Bmatrix}$	4.5 4.5 23.5	4.5 4.5 14.1	4.5 4.5 0
Ψ_6	e ₁ d ₆ $\begin{Bmatrix} z_1 a_1 \\ z_2 a_2 \\ z_3 a_2 \end{Bmatrix}$	23.5 4.5 4.5	14.1 4.5 4.5	0 4.5 4.5
Ψ_7	e ₁ d ₇ $\begin{Bmatrix} z_1 a_2 \\ z_2 a_1 \\ z_3 a_2 \end{Bmatrix}$	4.5 23.5 4.5	4.5 14.1 4.5	4.5 0 4.5
Ψ_8	e ₁ d ₈ $\begin{Bmatrix} z_1 a_2 \\ z_2 a_2 \\ z_3 a_2 \end{Bmatrix}$	4.5 4.5 4.5	4.5 4.5 4.5	4.5 4.5 4.5
Ψ_9	e ₂ d ₉ z ₀ a ₁	27.4	20	14.1
Ψ_{10}	e ₂ d ₁₀ z ₀ a ₂	14.8	14.8	14.8
$\Psi_9 \xi \Psi_{1-7}$		$\Psi_9 = 27.4 \cdot 0.7 + 20 \cdot 0.2 + 14.1 \cdot 0.1 = 24.6$ $\Psi_{10} = 14.8 \cdot 0.7 + 14.8 \cdot 0.2 + 14.8 \cdot 0.1 = 14.8$		

Optimal strategy:

$$\Psi_9 = e_2 a_1$$

Declaration of Independence

Teaching Notes

GYULA VASTAG

Synopsis

The case describes a situation where one of the plants of RBA, a huge machine tool company, wants to become independent again. The Magyarhegy Plant had been an independent company for 120 years, but in the mid-1970s it was put under the authority of the RBA. The RBA giant, a well-known name in Europe for 90 years, had become the glory of the 'socialist industrialization.' With the acquisition of the Magyarhegy Company, RBA became a dominant player in the agricultural machinery market as well. The case shows a negotiation situation in which Gábor Huszár, Vice President for Finance of RBA, must decide on the negotiation strategy to be followed. Huszár's preparations for the negotiations provide information on the situation and background of both companies.

Analysis

I suggest the following discussion format. Divide the class into two groups, one representing RBA and the other representing the Magyarhegy Plant. Ask each group to name the factors characterizing the two companies, giving both their strengths and weaknesses. The instructor can write down the class's comments on the blackboard under the headings RBA and Magyarhegy.

The idea is to create a situation where the instructor can assess the value of the different factors influencing the present and future situation. The table on the next page gives a short overview of these factors.

The students might come up with additional elements influencing the negotiation: such as the political situation (where the RBA and the cooperation is a loser), the participating characters (Huszár: finance, 'betrayed' Magyarhegy; Baráth: engineer, plant director, playing a role in the council of workers) which may change the format but not the contents of the negotiation.

The question which should be discussed in detail is:

- What is important for the RBA/Magyarhegy merger, and how much should RBA pay for it? What advantages does RBA want to achieve through this cooperation and what does it want to give in return? There is no exact answer to this question, but all the above mentioned factors should be taken into account and the students should come up with several negotiation strategies. An example might be the trade off between the investment in new technologies in Magyarhegy and the extent of further cooperation. The next step is to determine the negotiation areas, and finally to work out the negotiation strategies.

I cannot predict the outcome of the discussion, but in the real situation both companies were losers. They did not manage to come to an agreement, mainly because of 'the voices of independence' within Magyarhegy and the fact that the RBA strategy based on 'technology transfer' from West to East is dead. One of the solutions could have been to focus on the strengths of the two companies (RBA: technology level, presence in the world market; Magyarhegy: expertise in small agricultural machinery) and come up with a new product, or begin assembling an existing product for another company.

Factors	RBA	Magyarhegy
Profile	Wide product line: trucks, diesel engines, axles and some agricultural machinery. Big company (24,000 employees in 1979 and 14,500 in 1989).	Narrow Product line: 'chicken farm' small agricultural machinery. Relatively small company (3,185 employees in 1977 and 1,537 in 1990).
History	Founded in the late 19th century. It has always played a dominant role in the Hungarian industry.	Founded in the 1850s as a private company. It became well known before WWII but later it lost its significance.
Machinery	Due to the heavy investments (17 billion HUFs between 1968-75) it has world class machinery including FMS.	Outmoded machinery, no recent investments.
Strategy followed	<p>Technology transfer. Based on a stable domestic market and COMECON agreements sells products licensed from Western companies. With the same products tried to get into the markets of developing and developed countries.</p> <p>After the acquisition monopolistic supplier of the tractors and other agricultural machinery including 'chicken farms.'</p>	<p>Sells to the stable domestic market. No significant export activity.</p> <p>After the acquisition: based on the RBA connections - cooperation with BABOA - finds new markets. It has no independent strategy, the plant is used as an internal supplier.</p>

Technology Selection Teaching Notes

JÓZSEF TEMESI

This case is based on a real problem from the mid-1980s. The Hungarian economic system of that time formed the basis for the company's environment. This case is not purely a technology selection or investment problem, but also incorporates many decision science elements. Although a wealth of information is provided in the case, there are missing elements that would prevent the student from completely "solving" it. These missing elements should be clarified in the classroom.

Summary of the Case

Mr. Kun is an engineer in a medical equipment company. He is also a member of the Company Council, which is facing an important technology selection decision in its next session. The decision centers on the problem of developing new diagnostic equipment.

Engineer Kun wants to be as prepared as possible before casting his vote in the council meeting. He has available a large amount of technical and financial data from the proposal submitted previously to the council. He also gathers additional information through interviews with engineers, economists, and other employees of the company.

The proposal outlines the following two alternatives:

- a. Buying or licensing the technology necessary for producing high-quality diagnostic equipment, or;
- b. Making a product completely in-house, with or without purchasing certain elements from outside vendors.

Mr. Kun, equipped with hard data and other information, must perform an analysis of the situation and ultimately choose either a or b.

Objectives

The case has both a methodological and a theoretical aspect. The methodological question revolves around the issue of handling a mixture of technical and financial data that represent different, and sometimes conflicting, goals. The theoretical question is a technology selection problem typical in Hungarian industry in the mid-80's: do we license technology or develop our own? Which alternative better serves the interests of both the company and the country? The major objectives of the case are:

- a. To discuss the "theoretical" solution of a technology selection problem, comparing the position of Hungarian companies in the mid-80s with their current position, and;
- b. To discuss multiattribute decision problems and techniques that can be employed in their solution.

Analysis

Some Thoughts on Multiobjective Decision Making.

One could approach this problem with a "computing" attitude -- given the data he/she could produce an optimal solution. The difficulty with this approach is that the

usual optimization methods cannot be applied due to a lack of constraints and the absence of an adequate utility function.

From a decision sciences viewpoint, the case is a typical multiattribute decision making problem. A pay-off matrix can be easily drawn. The columns of the matrix represent the possible alternatives, while the rows consist of the attributes describing these alternatives and an evaluation of each alternative according to specific criteria. Many methods for evaluating pay-off matrices exist, but the simplest is the weighing method.

If the problem has quantitative and qualitative data, then the solution process consists of the following phases:

- a. Transform the qualitative data according to a criterion into a numerical scale.
- b. Transform the numerical data into a comparable numerical scale. (The most usual is to transform the data between 0 and 1.)
- c. Determine the weights of each criterion.
- d. The evaluation of an alternative is a weighted sum of the values (scores) according to the criteria. The alternative with the greatest sum is the best.

We can apply this approach mechanically, but it seems to be useful to separate the technical and the financial (economic) data. The description of the attributes, the scores (estimated by the engineers of the company) and the weights (subjective values, estimated by experts) can be seen in Table 1 (in the text). From this computation it can easily be seen that SCANNER is the best, MEMOSCAN and MEDISCAN are almost similar, and MULTISON is the worst. (We could see this result without computations, because SCANNER dominates MEDISCAN and dominates MEMOSCAN, too, with the exception of a small difference in the score of the third attribute having a small weight. MULTISON is dominated by the other alternatives.)

Other methods can also be used, such as methods that are based on pairwise comparisons. The so-called Saaty-method asks the decision maker to compare all possible pairs of alternatives for each criterion and then computes the scores with the help of the eigenvalue method in order to obtain each row of the pay-off matrix. The weights can be obtained in a similar way. This method has some distinct advantages, but requires a computer program to perform the computations.

Such a pairwise comparison results in the elimination of the MULTISON alternative and demonstrates that the Hungarian-developed product is competitive from a technical viewpoint.

The next step is not quite as obvious. It is impossible to directly compare the financial aspects of the Hungarian equipment with those of the foreign equipment because the sets of attributes are not the same and, therefore, no pay-off matrix can be constructed. The problem must be handled in the following way:

- a. Compare SCANNER and MEMOSCAN through the economic data and choose the better.
- b. Compare the winner with MEDISCAN.

"Playing with the numbers" in this way can be dangerous, however, because the set of alternatives (two) is too small. A different type of analysis would probably be more efficient.

The Necessity of an Overall Analysis

The problem is broader and more general than a Multicriteria Decision Making exercise. We have to add new elements to the analysis. The main question is not the selection between SCANNER and MEMOSCAN, but the decision between licensing or developing a home-grown product. There are a lot of possible branches of the discussion.

a. The general approach: To talk about the process of technology transfer in more developed countries. The pattern is commonly one of buying or licensing somebody else's technical know-how while building a comparative advantage of one's own. Certainly this is what the Japanese have done all around the world. There is no reason why Hungary and other countries in East-Central Europe cannot do the same.

b. Investigation of the Hungarian situation: There were special features in Hungarian technological development in the "old mechanism". Some of them are as follows:

- Hungary had a balance of payments deficit, and the Ministry of Industry (the chief central planning agency) had a fundamental goal of decreasing the cost of imports. One practical manifestation of the cost of imports is the import rate of technological development. This rate is normally higher for licensing than it is for in-house technology development (although it naturally depends on the specific type of technology involved). Therefore, it is important to know that a low Ft/\$ import rate is better than a higher rate. In the mid-80's, the Ministry supported development in cases where the import rate was low or where real import substitution could occur.

- Another very important rate was the ROI of dollar investments. The return on the total investment costs had been measured by an aggregate. Every year, the company had to put a well-defined part of its income from selling the product in a fund.

- In the case of producing special diagnostic equipment, the marketing problems are of little concern. Annual sales of 80 units were assured. The main goal of the technology development was not to generate significant income through sales, however, but to learn the technology and support the home market with the next generation of high-technology products in the future.

c. Risk analysis: It can be demonstrated that for Hungarian industry in the mid-80s, licensing was less risky than in-house development. The following factors support this statement:

- licensed technology represents a relatively high quality standard,

- the product is reliable, and it is in the market now,

- the process of adapting licensed technology is not as long as the process of developing technology in-house.

- the license seller can share the market with the licensee,

- with the experience of producing the licensed product, the company can develop new products in a shorter time, etc.

Naturally there are also drawbacks to licensing. Some of these are:

- the license fee and the other costs can be high and they must be paid in hard currency,

- it is possible that the licensed technology is out-of-date, and the product can be sold only in the markets of underdeveloped countries, etc.

The Alternatives and the Decision

A discussion of the following four alternatives can be a good way to conclude the case analysis.

- a. Negotiate further with the British company (SCANNER), and buy equipment for test runs.
- b. Buy the MULTISON transducer-license.
- c. Develop the entire technology in-house.
- d. Manufacture the equipment itself in-house, but purchase the transducers.

In the Company Council meeting, Mr. Kun can provide logical support for alternatives a, b, and d. If the company has adequate time available, alternatives b and d should receive much consideration. These alternatives could be compared purely on the basis of the financial data (which is cheaper, buying the transducer or licensing it?). If the decision is urgent for the company, than Mr. Kun should vote for alternative a.

Managing BIG BLACK Company GYÖRGY CSÉBFALVI AND JÓZSEF VÖRÖS

Teaching Notes

Synopsis

BIG BLACK - a government owned coal-mining firm in a serious liquidity crisis - asked the help of the **NEW WINDS** Business School to solve the firm's problems. **NEW WINDS** proposed closing all mines and plants showing deficits, separating service plants, and modernizing the management function. **NEW WINDS** recommended--as a first step--to create a new computer-aided decision-support system, which would be used to analyze and optimize the specific, direct costs of individual plants together with the accessible income, to determine the maximum cost-bearing capacity of the basic function, and to uncover the sources of loss.

Purpose

To point out "the blind leading the blind" nature of the transformation from state-managed economy to a market economy. To illustrate that in the case of coal-mining the change is being impeded by phenomena very similar to the British example. Over the past decade, Britain has experienced huge social and industrial restructuring. Many of its industrial towns were traumatized by the declining competitiveness of its traditional industries--coal, steel, and shipbuilding. Thousands of jobs were lost. Chiefly with government help, however, new enterprises rose from the ashes of old industries.

In Hungary, the problem of changing to a market economy is complicated by deficits in many branches of industry. New roles and new motivation must be found on both government and company levels if the transition is to be completed successfully. Because of inexperience and a lack of sources of power, both the government and the management of **BIG BLACK** exhibit risk-avoiding behavior. The government feels unable to take risks because of the possibility of social tensions arising from its decisions, and the company will and cannot take risks in its changed role.

Assignment Questions

1. Discuss the following key issues:
 - a) volume-orientation vs. profit-orientation
 - b) crying for help vs. help yourself
 - c) autarchy vs. market
 - d) big is beautiful vs. small is beautiful
 - e) possible implications of mass layoffs, both for the company and Hungarian society
 - f) cost-structure unimportant vs. determinant
 - g) incentives for risk-avoiding vs. risk-taking
2. Why did **BIG BLACK** hinder the system development?
3. What mistakes did **NEW WINDS** make?

What Happened?

A uniform governmental energy policy has not been established since the case was written. It is an open question as to what extent the government wants to create market conditions in the case of coal-mining, and in connection with this, what kind of a plan does it have to solve the serious social and economic problems (unemployment, industrial restructuring, and social safety net) of the traumatized regions.

The team got information from the newspapers that BIG BLACK requested the foreign WESTERN WINDS consulting firm, with a well known international reputation, to work out BIG BLACK'S strategy. WESTERN WINDS proposed closing unprofitable mines, modernizing firm structure, and decreasing costs. One year has passed since then. Apart from the fact that the opposition party (liberal, and the champion of the global market economy without any intervention) violently protested against the closing of the mines planned, nothing happened. The firm continues to operate as "usual".

This case study can be a useful information-gathering tool for those who are interested in Central Europe, or it can serve to further develop any prior knowledge the students have of the region.

I think it is useful to teach this material in a seminar format, where the students can be divided into small groups for discussion.

For the discussion, you will need information from the material entitled *General Facts About Hungary* and the knowledge of an average economic-newspaper reader.

First discuss the reasonableness of entering the Hungarian market, and list and compare both the pros and cons.

Some of the pros pertaining to the decision are:

- Hungary is the most developed market in the ex-Soviet block,
- it is a potential EEC-member,
- It has good contacts with many EEC and EFTA countries, such as Germany, Austria, Italy, Switzerland, etc.,
- Hungary has 10.5 million citizens and some 35 million tourists per year
- The Tosch company has had previous contact with Hungary.

The following Cons should also be mentioned:

- decreasing living standard in the country,
- potential political and social instability,
- inflation in Hungary is higher than in the developed western countries (but lower than in the other former socialist countries!),
- Hungary has a high external debt.

The next issue for discussion is the advantages of entering the Hungarian market. These advantages include:

- Hungary is a new market for the traditional Tosch products,
- the market of Hungary can be tested on how it reacts to a new product of Tosch.

Another question is what kind of information is needed to step into shoe insole market in Hungary.

The students have to develop a list of questions to be answered by the Piac Kft report to Tosch.

First, the students should focus on questions about the macroenvironment, especially about those topics that they could not answer on the basis of the article entitled *General Facts About Hungary*.

To define the potential buyers, they have to ask questions about the different social strata (considering the potential size of the strata, the income relations among and inside the different strata etc.).

The students will probably have no trouble coming up with plenty of questions. The instructor should help guide the students to choose only the most relevant questions. This means that the really important and useful information should be pointed out, while the unimportant and less valuable information should be ignored.

Another thing to be aware of is the specialty of this case study. It is signified by the fact that the Tosch company is not an absolutely unknown company in Hungary. There is a group of consumers that has met Tosch products before 1948. The older people probably have a good image about Tosch and its products. It should also be

pointed out that the main consumers of this product line are also the older people. Although the standard of living is decreasing in Hungary, the price of Tosch is still acceptable for most of these people.

These facts lead us to another good discussion question. If all the mentioned facts are recognized, than the elements of a potential marketing mix can be planned. For example:

- About the product: There seems to be no difference if the new products and the older products are introduced at the same time or not. The important thing is to use the Tosch brand name.
- About communication: It is very important to refer back to the past, to remind people of the fact that Tosch served their health before. If you introduce the older products in the market first, then the past can play a more important role. If you start to conquer the market with the new products, then you have to take into consideration the fact that Hungarian consumers will be introduced to the product at the same time as consumers in other European countries.

The main goal is to make the students understand that in this region many famous companies which were in existence before the second World War did not enter the market from a beginning level. The past knowledge the students have of the region can be used to base their marketing strategy on a certain segment.

**The Courier Transportation
Problems of a Bank
Teaching Notes**

JÁNOS STAHL

Synopsis

Because of insufficient communications infrastructure, a Hungarian commercial bank lacks information about the daily transactions occurring in its branches. Mr. Kiss, who is the head of a small department dealing with quantitative analysis, is asked by a vice-president to make a proposal to improve the situation. The most reasonable approach would be to use cars for organizing the several deliveries. The problem can't be well formalized, the formalized versions of the problem that are formulated are hard to solve, and these formulations are a bit beyond Mr. Kiss' expertise. It would not be difficult to solve the given problem intuitively, but Mr. Kiss feels that he should produce a mathematical model-based solution in order to preserve his vice-president's confidence. Mr. Kiss must decide what to do.

Teaching objectives

Basically there are two levels in this case. On the Vice-President's level, the decision is to choose among technology solutions. On the lower level, that of Mr. Kiss, one should choose among the several alternatives that could be applied to solve a given routing problem. I think that in this case, the lower level decision is more important. This decision makes an interesting student analysis possible, and the students can be forced to understand the feasibility of model development, including its potential costs and gains. This could be the main teaching objective. One can illustrate at least two well known statements about quantitative analysis - both of them difficult to consider without the help of an illustration. The first is that applying deeper mathematics to the problem does not necessarily result in better solutions, although a deeper mathematical knowledge makes the evaluation of the solution more clear. The other is that the application of computers should be reasonable. Though the case's circumstances are a bit far from those of the students', the above are important in making analyses and decisions anywhere. In fact, in the presentation, I put everything on the lower level giving Mr. Kiss all the necessary information. Another important objective is to familiarize the students with the potential role of decision support systems.

Questions

1. What are the causes of the communications problems in the bank?
2. What is the routing problem delivering the data media?
3. What are the alternatives of Mr. Kiss? What do you think about his first idea?
4. What should Mr. Kiss tell the Vice-President?

Teaching strategy

I would begin by discussing what the students think the problems are in the bank, and a list of these problems is written on the chalkboard. At the end of the 15-20 minute discussion, I would organize the problems according to the levels of Dr. Nagy and

Mr. Kiss. Next, I would concentrate on Mr. Kiss. The really important starting point to understand his situation is a road map of Hungary that shows the sites of the branches and other offices. This should be hung up at the beginning of the lecture and the students' attention should be drawn to it at the proper time. After providing them with this additional data, most of the students will be convinced that the routing problem itself could be solved by studying the map and using common sense. This can be checked by using a program that was developed for solving this problem. It would be nice if, even in the case of this relatively small problem, some of the students made mistakes. By presenting some further simple examples and/or a somewhat larger problem, the students will find out that in certain cases some further analysis and other tools are required, and/or that the application of the program is a must. It is very important that the students perceive the further possibilities of using such a system. One can examine the effect of connecting an office with another branch office.) This discussion could last about half an hour, and leads to conclusions about the pro and con arguments regarding the application of quantitative methods. The students can now tell what they expect to happen when Mr. Kiss reports to the Vice-President. These answers can be compared to what really happened. The Vice-President accepted the fact that a satisfactory solution can very quickly be provided by inspecting the map. It was decided that if the company cannot achieve anything new at the MNB, or do not get a better proposal from the Post, then the appropriate routes can be used. At the same time, the Vice-President told Mr. Kiss to develop a simple program. He thought that by using this program, Mr. Kiss will be able to check several future proposals. The last 15 minutes of the discussion could be completed with further discussion depending tailored to the instructors impressions of the class's comprehension. I would ask the students about their ideas on further applications of the discussed case. This may be a useful point to discuss in analyzing any case, and it is more useful now where the fact situation is a bit far from the students' experiences on bank networks.

Synopsis

Rollflex is a small Hungarian company operating in the shading business. The company produces awnings, venetian blinds, roller-blinds, sunshades and canopies. Rollflex was founded in the late 1980's by János Deák. The case illustrates how the company became a significant factor in its industry. After the government opened up the Hungarian economy, competition became fierce for Rolliflex. János Deák decided to form a strategic alliance with a Western partner. In early 1991, he decided to sell 40% of his company to a Swiss firm, Rolladen Senn AG, believing that this cooperation would contribute to the further expansion of his business.

Objectives

1. Illustrate the development of a new enterprise and its need for a strategic alliance.
2. Familiarize students with an industry that is probably unfamiliar to them.
3. Have students perform a strategic analysis to identify the strengths and weaknesses of a relatively new enterprise.
4. Provide students with an opportunity to identify threats and opportunities in the unique context of the Eastern European environment, and to suggest responses to these threats and opportunities.
5. Allow students to gain a better understanding of how an Eastern European manager formulates strategy.

SWOT Analysis

The major points of a SWOT Analysis can be the following:

Strengths

1. János Deák's background and managerial skills.
2. Concentrating on the high-end of the market producing high quality products only. (In strategic management terms: following a niche-differentiation strategy.)
3. Access to all raw materials locally.
4. Creating strategic alliances and being the center of the market.

Weaknesses

1. Because of its small size, Rollflex had difficulties in establishing partnerships with large companies of the industry.

Opportunities

1. Favorable changes in the political system, including privatization of enterprises owned b the state and the introduction of the opportunity to establish private enterprises.
2. The continental climate of the country, which provides good opportunities for this industry.

3. The proximity of well-developed markets in Austria and Germany, which both have potential market demand as well.
4. The growing private sector can become an important customer segment for Rollflex.
5. Cooperation with western companies helps Rollflex to enter new markets.

Threats

1. Bad macroenvironmental conditions in Hungary, including high inflation and the highest national debt per capita in the region.
2. With the creation of a free market system, there is a threat of high competition from strong western companies.
3. Because of the growing private sector, local competition is increasing.

Suggested Courses:

International Business, Strategic Management, Entrepreneurship and New Venture Management

Suggested Questions:

1. What are the main stages of the ROLLFLEX "life cycle"? Describe these stages.
2. What do you think about János Deák's decision? What would you do in his place, or in a similar situation?
3. If you were the CEO of a real big Western European company, would you enter the described market? Why or why not? Summarize the key elements of your strategy.

Update

Rollflex Co. continues to be a successful company, with current annual revenue of about HUF 130 million (compared to first year revenue of HUF 10 million). The company employs about 25 people and plans to increase the number of employees in the near future. Competition has dramatically increased in the Hungarian shading industry. To maintain growth, Rollflex is also expanding internationally. In 1992, the company opened an office in Prague, the Czech Republic.

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NEWSLETTER

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Midwest Universities Consortium for International Activities Management Training in Central Europe

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MTC Project Staff and Faculty visit Budapest

In October Project Director Robert Klemkosky, Project Advisor Cam Danielson, Faculty member Bruce Jaffee and Program Assistant Pam Elmore visited Budapest to meet with Budapest University of Economic Sciences (BUES), University of Economic, Prague (UEP), and USAID representatives. Discussions included the finalizing of the fall module in Budapest and Prague and evaluation of MTC programs in relation to future executive education planning. The possibility of further USAID funded activities and the planning of future management programs in Hungary and the Czech Republic was examined.

FIPSE Sponsored Executive Education Workshop

A select group of MTC faculty from BUES and UEP participated with other Central & Eastern European faculty at a Fund for the Improvement of Post-Secondary Education (FIPSE) sponsored workshop in Budapest. Through Department of Education funding, Indiana University presented a three-day workshop on Executive Education Programs at BUES Management Development Center.

The workshop was taught by Professor John Boquist and MTC Project Advisor Cam Danielson.

This further shows the commitment of MUCIA member institutions to better management education in Central & Eastern Europe. Additionally, this workshop strengthens the sustainability of MTC developed programs. Activities which reinforce the goal of USAID funding were performed without the use of USAID funds. Moreover, the FIPSE workshop enhanced the value of USAID funds by augmenting the consultation MTC staff has provided to BUES and UEP faculty on executive education programs.

Professor Temesi visits Indiana University

Professor Temesi, BUES, met with MTC staff and faculty in November. Activities included follow-up discussions from October meetings in Budapest on developing future management training programs in Hungary.

Logistics Materials sent to UEP

Professor Closs forwarded requested simulation materials to his counterpart faculty member in Prague. The team related simulations will allow students to compete in a market economy.

MTC Specialized Fall Module

Professor Gilbert Harrell, Michigan State University, presented an International Marketing Module in Budapest and a Strategic Marketing Module in Prague this November. Both marketing modules were developed at the request of each counterpart institution.

Professor Harrell was assisted by Petr Záruba and Milan Mály in Prague and Csaba Mádi in Budapest. With the goal of project sustainability in mind, counterpart faculty and administrators continue to play a greater role in the planning and execution of grant activities. This resulted in a fall program with good logistics and overall performance in each country.

A total of 76 participants attended the two fall courses. Data collected from Participant Information Cards show a variety of participant attributes. For instance, the average age of the participants was 33. The percent of female participation in fall the courses was 24%. Each course drew attendees from outside of the capital city with International Marketing recruiting 31% and Strategic Marketing recruiting 45% of participants from surrounding cities.

A MTC developed evaluation calculated participant responses on a five point scale with 5 ranking as a perfect score. The International Marketing module received a score of 4.50 and Strategic Marketing received a 4.53.

Publication of Hungarian Casebook

Ten Hungarian cases developed through MTC grant activities were published in the BUES journal, AULA. This issue marks the first time that AULA has published case studies of business organizations. The studies selected for this issue attempt to provide a broad, multi-functional view of the problems organizations are facing in the rapidly changing environment of Eastern Europe.

The primary purpose of the cases published in this issue is to provide practical background material for business education. It is the design for these cases to be used in both Eastern & Central Europe and in the United States.

The cases published in AULA will be distributed to universities throughout the world on AULA's mailing list, all MTC European faculty and administrators, and all MUCIA faculty, plus additional requested lists. A total of 600 journals have been published through USAID funding.

FALL MODULE: PARTICIPANT INFORMATION

	Czech Republic	Hungary
Total Enrollments	37	39
Faculty	3%	0%
Students	35%	10%
Other	3%	7%
Business Owner	3%	4%
Business Manager	56%	79%
Government Officials	0%	0%