

AN INDUSTRY APPROACH
TO CASES IN STRATEGIC
MANAGEMENT

S E C O N D E D I T I O N

Personal Computer • Biopharmaceutical • Fast Food
Oil & Gas Exploration • U.S. Soft Drink • Airline
U.S. Soft Drink • Motion Picture • Hazardous Waste
Airline • Appliance • Personal Computer • Appliance
Biopharmaceutical • Appliance • Retail • Motion Picture
Retail • Oil & Gas Exploration • Hazardous Waste
Personal Computer • Biopharmaceutical • Fast Food
U.S. Soft Drink • Motion Picture • Hazardous Waste
Oil & Gas Exploration • U.S. Soft Drink • Airline

JOHN A. PEARCE RICHARD B. ROBINSON

**We dedicate this book
with love and appreciation
to:**

**Mary Frances and Jack Pearce
Mattie and Frank Fletcher**

Preface

The inherent strength of a case book is that it offers an extraordinary high degree of flexibility in the study of business management in terms of the number, nature, and variety of strategic situations that can be investigated. *An Industry Approach to Cases in Strategic Management* was designed and written to maximize this advantage.

The case method is widely accepted as the best approach for helping students to acquire competence in the areas of strategic management and business policy. However, it is clear that case studies must elucidate and reinforce the teaching objectives of the instructor in order to maximize the benefits of the course.

Thus, in contrast to books that commit the professor and students to a single perspective on both conceptual materials and business practices, this book allows a professor the opportunity to specify the course pedagogy. In this way the course can best reflect the unique talents, needs, and interests of both the instructor and the class. Among other advantages, this approach allows a wide variety of case methods options to be considered:

- An Industry Approach to Cases in Strategic Management* can be used in combination with any conceptual materials of the instructor's choosing: a text, special readings, journals, articles, newspapers and magazines, or other handout materials chosen by the instructor.
- It can be paired with other instructional methods, including computer simulations and experimental exercises.
- It can be used alone to maximize the advantage of the traditional case-study method.

An Industry Approach to Cases in Strategic Management offers additional flexibility because of its unique packaging of 28 business cases around 16 industry notes. Thus, users of the book have the options of studying industries, businesses, or, for maximum benefit, businesses within industries.

The flexibility offered by *An Industry Approach to Cases in Strategic Management* is further enhanced by the variety in the number of cases devoted to

each industry. They range from an industry note without an accompanying case (for example, Note on the U.S. Toy Industry) to four cases with an industry note (for example, Note on the Retail Industry).

The greatest strength of this book is in its case studies, and for these we are very grateful to 26 professors who graciously contributed their cases:

A. J. Almaney, DePaul University
 James Almeida, University of South Carolina
 Steve Barndt, Pacific Lutheran University
 Amy Beeckman, University of South Carolina
 Raymond E. Belford, Oklahoma City University
 Jim Bloodgood, University of South Carolina
 Jan William Bol, Miami University
 Eric Brown, George Mason University
 James W. Camerius, Northern Michigan University
 J. Carl Clamp, University of South Carolina
 George W. Danforth, Louisiana State University
 Fred David, Francis Marion University
 Thomas J. Dudley, Pepperdine University
 David W. Grigsby, Clemson University
 James A. Kidney, Southern Connecticut State University
 Tracy Kramer, George Mason University
 Jeffrey A. Krug, University of Memphis
 Sharon Ungar Lane, Bentley College
 Bill J. Middlebrook, Southwest Texas State University
 Lester Neidell, University of Tulsa
 Valerie Poriello, Bentley College
 John K. Ross III, Southwest Texas State University
 Ronald J. Salazar, Ph.D., Idaho State University
 Neil H. Snyder, University of Virginia
 Russell Teasley, University of South Carolina
 Arie H. Ullman, SUNY-Binghamton

We also wish to thank William R. Bayer who joined with us as a collaborator on the "Guide to Strategic Management Case Analysis" in this book.

Complementing the cases are three appendixes that will help students to perfect their skills in strategy analysis. "The Guide to Industry Analysis" (Appendix A) was authored by Michael E. Porter of Harvard University as an article in the *Harvard Business Review*. "The Guide to Financial Analysis" (Appendix B) was written by Elizabeth Gatewood of the University of Houston. "The Guide to Information Sources for Use in Strategy and Policy" (Appendix C) was provided by Juroslav S. Milutinovich of Temple University and was based on his article in *Business Horizons*.

When a faculty member assumes significant administrative responsibilities, it is unusual for him to be able to continue as an active researcher and text author. Therefore, we are particularly grateful to Villanova University Presi-

dent Edmund J. Dobbin, O.S.A. and Vice-President for Academic Affairs John R. Johannes, Ph.D. for their enthusiastic encouragement of Jack's involvement in this book. As Dean of the College of Commerce and Finance at Villanova University, Jack is able to continue his scholarly activities because of their gracious support.

The stimulating environment at the University of South Carolina has contributed to the development of this book. Thought-provoking discussions with strategy colleagues Alan Bauerschmidt, Carl Clamp, John Logan, Michael Leiblein, Harry Sapienza, Bill Sandberg, and David Schweiger gave us many useful ideas. We also want to recognize the important input of doctoral candidates James Almeida, Amy Beeckman, and Jim Bloodgood in the development, class testing, and refinement of selected business case studies. Likewise, we want to thank David Shrock, dean of the College of Business Administration; Bob Markland and Randy Martin, our associate deans; and Susie Van Huss, program director in management, for their interest and support. Our sincere appreciation also goes to Cheryl Fowler and Susie Gorsage for their help in preparing this manuscript and in solving endless logistical problems.

Jack Pearce
Richard Robinson

Guide to Strategic Management Case Analysis

The Case Method

Case analysis is a proven educational method that is especially effective in a strategic management course. The case method complements and enhances the text material and your professor's lectures by focusing attention on what a firm has done or should do in an actual business situation. Use of the case method in the strategic management course offers you an opportunity to develop and refine analytical skills. It can also provide exciting experience by allowing you to assume the role of the key decision maker for the organizations you will study.

When assuming the role of the general manager of the organization being studied, you will need to consider all aspects of the business. In addition to drawing on your knowledge of marketing, finance, management, production, and economics, you will be applying the strategic management concepts taught in this course.

The cases in this book are accounts of real business situations involving a variety of firms in a variety of industries. To make these opportunities as realistic as possible, the cases include a variety of quantitative and qualitative information in both the presentation of the situation and the exhibits. As the key decision maker, you will need to determine which information is important, given the circumstances described in the case. Keep in mind that the

This guide was developed by John A. Pearce II, Richard B. Robinson, Jr., and William R. Bayer.

results of analyzing one firm will not necessarily be appropriate for another since every firm is faced with a different set of circumstances.

Preparing for Case Discussion

The case method requires an approach to class preparation that differs from the typical lecture course. In the typical lecture course, you can still benefit from each class session even if you did not prepare, by listening carefully to the professor's lecture. This approach will not work in a course using the case method. For such a case course, proper preparation is essential.

Suggestions for Effective Preparation

1. *Allow adequate time in preparing a case.* Many of the cases in this text involve complex issues that are often not apparent without careful reading and purposeful reflection on the information in the cases.
2. *Read each case twice.* Because many of these cases involve complex decision making, you should read each case at least twice. Your first reading should give you an overview of the firm's unique circumstances and the issues confronting the firm. Your second reading allows you to concentrate on what you feel are the most critical issues and to understand what information in the case is most important. Make limited notes identifying key points during your first reading. During your second reading, you can add details to your original notes and revise them as necessary.
3. *Focus on the key strategic issue in each case.* Each time you read a case you should concentrate on identifying the key issue. In some of the cases, the key issue will be identified by the case writer in the introduction. In other cases, you might not grasp the key strategic issue until you have read the case several times. (Remember that not every piece of information in a case is equally important.)
4. *Do not overlook exhibits.* The exhibits in these cases should be considered an integral part of the information for the case. They are not just "window dressing." In fact, for many cases you will need to analyze financial statements, evaluate organizational charts, and understand the firm's products, all of which are presented in the form of exhibits.
5. *Adopt the appropriate time frame.* It is critical that you assume the appropriate time frame for each case you read. If the case ends in 1985, that year should become the present for you as you work on that case. Making a decision for a case that ends in 1985 by using data you could not have had until 1986 defeats the purpose of the case method. For the same reason, although it is recommended that you do outside reading on each firm and industry,

you should not read material written after the case ended unless your professor instructs you to do so.

6. *Draw on all of your knowledge of business.* As the key decision maker for the organization being studied, you will need to consider all aspects of the business and industry. Do not confine yourself to strategic management concepts presented in this course. You will need to determine if the key strategic issue revolves around a theory you have learned in a functional area, such as marketing, production, finance, or economics, or in the strategic management course.

Participating in Class

Because the strategic management course uses the case method, the success and value of the course depend on class discussion. The success and value of the class discussion, in turn, rely on the roles both you and your professor perform. Following are aspects of your role and your professors, which, if kept in mind, will enhance the value and excitement of this course.

The Student as Active Learner

The case method requires your active participation. This means your role is no longer one of sitting and listening.

1. *Attend class regularly.* Not only is your grade likely to depend on your involvement in class discussions, but the benefit you derive from this course is directly related to your involvement in and understanding of the discussions.
2. *Be prepared for class.* The need for adequate preparation has already been discussed. You will benefit more from the discussions, will understand and participate in the exchange of ideas, and will avoid the embarrassment of being called on when not prepared. By all means, bring your book to class. Not only is there a good chance you will need to refer to a specific exhibit or passage from the case, you may need to refresh your memory of the case (particularly if you made notes in the margins while reading).
3. *Participate in the discussion.* Attending class and being prepared are not enough; you need to express your views in class. You can participate in a number of ways; by addressing a question asked by your professor, by disagreeing with your professor or your classmates (by all means, be tactful), by building on an idea expressed by a classmate, or by simply asking a relevant question.
4. *Participate wisely.* Although you do not want to be one of those students who never raises his or her hand, you should also be sensitive to the fact that others in your class will want to express themselves. You have proba-

bly already had experience with a student who attempts to dominate each class discussion. A student who invariably tries to dominate the class discussion breeds resentment.

5. *Keep a broad perspective.* By definition, the strategic management course deals with the issues facing general managers or business owners. As already mentioned, you need to consider all aspects of the business, not just one particular functional area.
6. *Pay attention to the topic being discussed.* Focus your attention on the topic being discussed. When a new topic is introduced, do not attempt to immediately introduce another topic for discussion. Do not feel you have to have something to say on every topic covered.

Your Professor as Discussion Leader

Your professor is a discussion leader. As such, he or she will attempt to stimulate the class as a whole to share insights, observations, and thoughts about the case. Your professor will not necessarily respond to every comment you or your classmate make. Part of the value of the case method is to get you and your classmates to assume this role as the course progresses.

1. *Maintaining focus.* Because multiple complex issues need to be explored, your professor may want to maintain the focus of the class discussion on one issue at a time. He or she may ask you to hold your comment on another issue until a previous issue is exhausted. Do not interpret this response to mean your point is unimportant; your professor is simply indicating there will be a more appropriate time to pursue that particular comment.
2. *Getting students involved.* Do not be surprised if your professor asks for input from volunteers and nonvolunteers alike. The value of the class discussion increases as more people share their comments.
3. *Facilitating comprehension of strategic management concepts.* Some professors prefer to lecture on strategic management concepts on a “need-to-know” basis. In this scenario, a lecture on a particular topic will be followed by an assignment to work on a case that deals with that particular topic. Other professors will have the class work through a case or two before lecturing on a topic to give the class a feel for the value of the topic being covered and for the type of information needed to work on cases. Still other professors prefer to cover all of the theory in the beginning of the course, thereby allowing uninterrupted case discussion in the remaining weeks of the term. All three of these approaches are valid.
4. *Playing devil's advocate.* At times your professor may appear to be contradicting many of the comments or observations being made. At other times your professor may adopt a position that does not immediately make sense, given the circumstances of the case. At other times your professor may

seem to be equivocating. These are all examples of how your professor might be playing devil's advocate.

Sometimes the professor's goal is to expose alternative viewpoints. Sometimes he or she may be testing your resolve on a particular point. Be prepared to support your position with evidence from the case.

Assignments

Written Assignments

Written analyses are a critical part of any strategic management course. In fact, professors typically put more weight on written analyses than on exams or quizzes. Each professor has a preferred format for these written analyses, but a number of general guidelines will prove helpful to you in your written assignments.

1. *Analyze.* Avoid merely repeating the facts presented in the case. Analyze the issues involved in the case and build logically toward your recommendations.
2. *Use headings or labels.* Using headings or labels throughout your written analysis will help your reader follow your analysis and recommendations. For example, when you are analyzing the weaknesses of the firm in the case, include the heading Weaknesses.
3. *Discuss alternatives.* Follow the proper strategic management sequence by (1) identifying alternatives, (2) evaluating each alternative, and (3) recommending the alternative you feel is best.
4. *Use topic sentences.* You can help your reader more easily evaluate your analysis by putting the topic sentence first in each paragraph and following with statements directly supporting the topic sentence.
5. *Be specific in your recommendations.* Develop specific recommendations logically and be sure your recommendations are well defended by your analysis. Avoid using generalizations, cliches, and ambiguous statements. Remember that any number of answers are possible, and so your professor is most concerned about how your reasoning led to your recommendations and how well you develop and support your ideas.
6. *Do not overlook implementation.* Many good analyses receive poor evaluations because they do not include a discussion of implementation. Your analysis will be much stronger when you discuss how your recommendation can be implemented. Include some of the specific actions needed to achieve the objectives you are proposing.

7. *Specifically state your assumptions.* Cases, like all real business situations, involve incomplete information. Therefore, it is important that you clearly state any assumptions you make in your analysis. Do not assume your professor will be able to fill in the missing points.

Oral Presentations

Your professor is also quite likely to ask you and your classmates to make oral presentations on a particular case. Oral presentations are usually done by groups of students. In these groups, each member will typically be responsible for one aspect of the overall case. Keep the following suggestions in mind when you are faced with an oral presentation:

1. *Use your own words.* Avoid memorizing a presentation. The best approach is to prepare an outline of the key points you want to cover. Do not be afraid to have the outline in front of you during your presentation, but do not just read the outline.
2. *Rehearse your presentation.* Do not assume you can simply read the outline you have prepared or that the right words will come to you when you are in front of the class making your presentation. Take the time to practice your speech, and be sure to rehearse the entire presentation with your group.
3. *Use visual aids.* The adage “a picture is worth a thousand words” contains quite a bit of truth. The people in your audience will more quickly and thoroughly understand your key points—and will retain them longer—if you can use visual aids. Think of ways you and your team members can use the blackboard in the classroom; a graph, chart, or exhibit on a large poster-board; or, if you will have a number of these visual aids, a flip chart.
4. *Be prepared to handle questions.* You will probably be asked questions by your classmates. If questions are asked during your presentation, try to address those that require clarification. Tactfully postpone more elaborate questions until you have completed the formal phase of your presentation. During your rehearsal, try to anticipate the types of questions that you might be asked.

Working as a Team Member

Many professors assign students to groups or teams for analyzing cases. This adds more realism to the course since most strategic decisions in business are addressed by a group of key managers. If you are a member of a group assigned to analyze a case, keep in mind that your performance is tied to the

performance of the other group members, and vice versa. The following are some suggestions to help you be an effective team member:

1. *Be sure the division of labor is equitable.* It is not always easy to decide how the workload can be divided equitably since it is not always obvious how much work needs to be done. Try breaking the case down into the distinct parts that need to be analyzed to determine if having a different person assume responsibility for each part is equitable. All team members should read and analyze the entire case, but different team members can be assigned primary responsibility for each major aspect of the analysis. Each team member with primary responsibility for a major aspect of the analysis will also be the logical choice to write that portion of the written analysis or to present it orally in class.
2. *Communicate with other team members.* This is particularly important if you encounter problems with your portion of the analysis. Since, by definition, the team members are dependent on each other, it is critical that you communicate openly and honestly with each other. It is therefore essential that your team members discuss problems, such as some members not doing their fair share of work or members insisting that their point of view dominate the team's report.
3. *Work as a team.* Since a group's output should reflect a combined effort, the whole group should be involved in each part of the analysis, even if different individuals assume primary responsibility for different parts of the analysis. Avoid having the marketing major do the marketing portion of the analysis, the production major handle the production issues, and so forth. This will both hamper the group's aggregate analysis and do all of the team members a disservice by not giving each member exposure to decision making involving the other functional areas. The strategic management course provides an opportunity to look at all aspects of the business situation, to develop the ability to see the big picture, and to integrate the various functional areas.
4. *Plan and structure team meetings.* When working with a group on case analysis, it is impossible to achieve the team's goals and objectives without meeting outside of class. As soon as the team is formed, establish mutually convenient times for regular meetings, and be sure to keep this time available each week. Be punctual in going to the meetings, and manage the meetings so they end at a predetermined time. Plan several shorter meetings, as opposed to one longer session right before the case is due. (This, by the way, is another way realism is introduced in the strategic management course. Planning and managing your time is essential in business, and *working with others to achieve a common set of goals is a critical part of life in the business world.*)

Summary

The strategic management course is your opportunity to assume the role of a key decision maker in a business organization. The case method is an excellent way to add excitement and realism to the course. To get the most out of the course and the case method, you need to be an active participant in the entire process.

The case method offers you the opportunity to develop your analytical skills and to understand the interrelationships of the various functional areas of business; it also enables you to develop valuable skills in time management, group problem solving, creativity, organization of thoughts and ideas, and human interaction. All of these skills will prove immensely valuable when you enter the job market and begin your career.

Contents

Section 1	Note on the Hazardous Waste Management Industry	1
Case 1	Chemical Waste Management	16
Case 2	ICF Kaiser International, Inc.	31
Section 2	Note on the Oil and Gas Exploration and Production Industry	42
Case 3	Atlantic Richfield Corporation	64
Case 4	ICF Resources Incorporated	76
Section 3	Note on the Airline Industry	101
Case 5	Delta Air Lines, Inc.	115
Case 6	Southwest Airlines	129
Case 7	American Airlines—International Strategy	152
Section 4	Note on the Shoe Industry	176
Case 8	L.A. Gear, Inc.	183
Case 9	Reebok International, Inc.	209
Case 10	Ryka Inc.	225
Section 5	Note on the Personal Computer Industry	242
Case 11	Dell Computer Corporation	251
Case 12	Apple Computer, Inc.	263
Case 13	Microsoft Corporation	287
Case 14	Compaq Computer Corporation: Superb Leadership, Superior Technology, or Serendipity?	304
Section 6	Note on the U.S. Soft Drink Industry	323
Case 15	Dr Pepper/Seven-Up	358
Case 16	Royal Crown Company, Inc.	365
Case 17	Cott Corporation	374

Section 7	Note on the Retail Industry	384
Case 18	Nordstrom	393
Case 19	Wal-Mart Stores, Inc.	422
Case 20	K mart Corporation	439
Case 21	Liz Claiborne: Troubled Times for the Woman's Retail Giant	455
Section 8	Note on the Motion Picture Industry	468
Case 22	The Walt Disney Company	500
Case 23	Blockbuster Entertainment Corporation	525
Section 9	Note on the Biopharmaceutical Industry	539
Case 24	Hoechst-Roussel Pharmaceuticals, Inc.: RU 486	562
Section 10	Note on the Fast-Food Industry	579
Case 25	Kentucky Fried Chicken	587
Case 26	Sonic Corporation	606
Case 27	Bama Pie, Limited	624
Section 11	Note on the Appliance Industry	644
Case 28	Whirlpool Corporation—1994	657
Section 12	Note on the U.S. Toy Industry in the 1990s	681
Section 13	Note on the Life Insurance Industry, 1993	705
Section 14	Note on the UNICRE, S.A., and the Credit Card Industry in Portugal	724
Section 15	Note on K&W Products: The Automotive Chemical and Appearance Products Industry	752
Section 16	Note on Circus Circus Enterprises, Inc., 1994 and the U.S. Gaming Industry	768
Appendix A	Guide to Industry Analysis	782
Appendix B	Guide to Financial Analysis	797
Appendix C	Guide to Information Sources for Use in Strategy and Policy Analysis	809

SECTION 1 | NOTE ON THE HAZARDOUS WASTE MANAGEMENT INDUSTRY

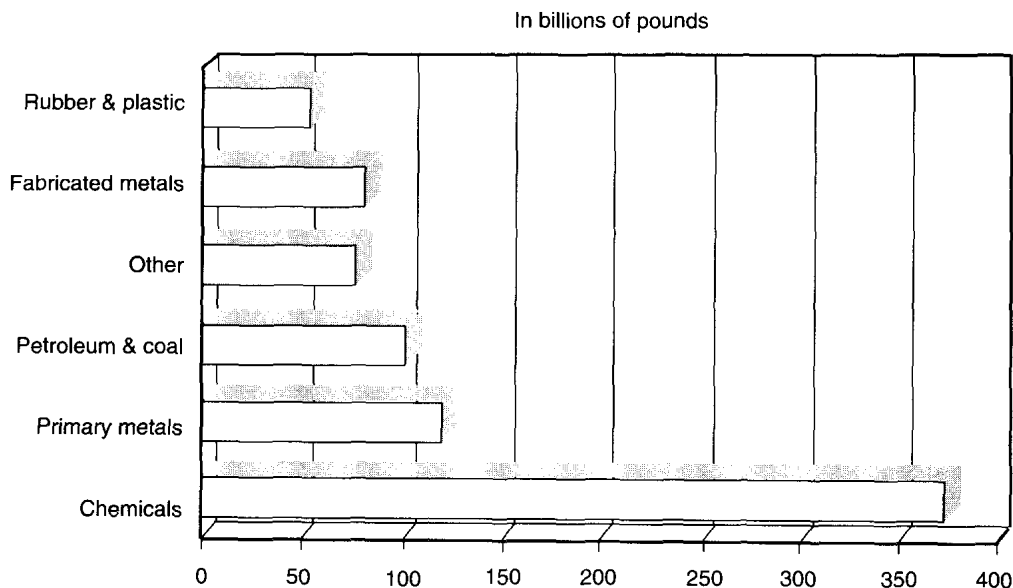
Introduction

- 1 Since the beginning of the Industrial Revolution, the production of hazardous wastes as a by-product of various manufacturing processes had been accepted as an unavoidable consequence. This once-pervasive attitude also considered the disposal of untreated toxic wastes in commercial landfills and waterways as the only practical solution to growing waste management needs. But convenience had its price; by the 1970s the United States had a severe pollution problem. The city of Love Canal, New York, had to be evacuated and Ohio's Cuyahoga River burned out of control. Events such as these enraged the public and led to enactment of several pieces of environmental legislation. These new regulations imposed rigid standards on waste generators and handlers, creating great demand for hazardous waste management professionals.
- 2 As this vital industry approached maturity, firms had to adapt to the changing competitive environment to survive. For many firms, this meant capitalizing on existing strengths, minimizing weaknesses, and making strategic investments in new markets. The following case analyzes the hazardous waste management industry as it exists in the United States as of 1993. It begins by offering a brief description of the types of services provided by waste management firms. Next, it assesses the influence of the external environment depicted in Exhibit 3, by examining the resulting trends, opportunities, and threats to the industry. From that evaluation, students should be able to determine several critical success factors that relate to this industry.

Hazardous Waste Management Services

- 3 In general, services provided by the hazardous waste management industry were divided into three broad segments: consulting services; remediation services; and treatment, storage, and disposal services. Consulting services generally included, but were not limited to, environmental audits, permit preparation, compliance audits, risk assessment services, laboratory analysis, and remedial investigations/feasibility studies (RI/FS). Consulting services were characterized as labor intensive and required little in the way of investment capital, fixed assets, or research and development.

This industry note was written by Professor John A. Pearce II of Villanova University, and Linda Riesenman.

Exhibit 1**Hazardous waste generation by industry, 1990**

Source: *Chemical & Engineering News*, February 25, 1991, p. 14.

- 4 Based on the findings and recommendations of the consultants, an appropriate remedial action was implemented and supervised by the consultants. Remediation work encompassed a wide variety of activities such as on-site incineration, bioremediation, landfill lining and capping, and chemical stabilization. In contrast to consulting work, remediation work required a moderate investment in vehicles, field equipment, and mobile incinerators.
- 5 The treatment, storage, and disposal (TSD) segment of the industry provided an invaluable service to both government and private waste generators. For example, the chemical industry produced more than half of the 750 billion pounds of hazardous waste generated in the United States in 1990, but operated only 23 percent of waste treatment facilities. This trend was expected to continue through at least 1995, according to a study conducted by the Environmental Protection Agency. Exhibit 1 provides a representation of hazardous waste generation by industry in 1990. Exhibit 2 contains the EPA projections for 1995 by industry. Compliance with environmental legislation almost single-handedly created the TSD segment since the majority of waste generators were ill-equipped to perform these functions. Heavy investments in property, plant, and equipment were characteristic of those who owned and operated waste incinerators and land disposal facilities. The primary