

## The Hardee's Dilemma

WARD D. HARDER

**EXHIBIT 14.1** Map of West Tennessee

Indiana

On December 8, 1987, John Gibson, Vice-President and General Manager of the West Tennessee Restaurant Corporation (WTRC), was reviewing the latest financial statements of the company at November 30, 1987, which he and his wife had prepared. The results showed that revenues were declining and losses were mounting.

Gibson placed a conference call to the other three stockholders to inform them of the latest financial results. Jerry Soles, Fred Musselwhite, and Henry Lewis were extremely upset when Gibson told them the company had lost  $\$223,000$  in the last three months.

MUSSELWHITE: "How can we make \$85,000 for fiscal year ended August 31 and turn around and lose \$223,000 in September, October, and November? I just don't understand it."

SOLES: "John, you had better have a good explanation of this—I'll be looking for a new general manager."

LEWIS: "If I ran my CPA firm like we are running WTRC, I would be out of business . . . and that may be where we are."

Each of the four stockholders agreed to consider various alternatives which might be available to them

|STORY

In July 1986, John Gibson was employed as Executive Vice-President of Regency Investments, Inc. Regency was organized in 1980 to secure Hardee's franchises in North Carolina. Shortly after Gibson began to work with Regency, the company secured the franchise rights to six locations in North Georgia. Gibson supervised the construction and opening of these units.

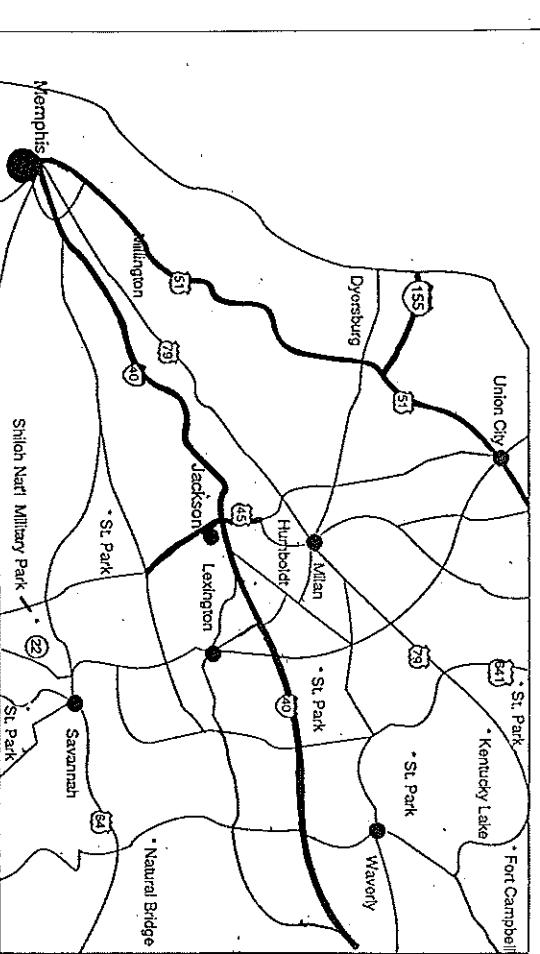
Given these revised and updated results, we

While working in North Georgia, Croson met Nelson Storrie of Boone, North Carolina. Storrie had secured the franchise rights to four locations in

West Tennessee—Lexington, Milan, Savannah, and Waverly. (See Exhibit 14.1.) He was operating under the name of H & S Restaurants. Storrie was interested in selling these four units because it was over 600 miles from Boone, North Carolina, to the closest unit in Waverly. In addition, he was aware of the problems associated with absentee ownership.

Storrie opened his first unit in Lexington in May 1983. This unit had achieved the highest sales volume of any unit. In October 1983, a second unit was opened

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D. 1

Approximately 20 miles per 1/2 inch

2 lane road

4 lane highway or interstate

in Savannah-Sales at this unit had been unstable. Financing for both units was secured from Franchise Finance Corporation of America (FFC) in Phoenix, Arizona. In June 1985, units were opened in Milan and Waverly Sales at the Waverly Location had been consistently higher than Milan. (See Exhibit 14.2.) With his background at Regency, Gibson was very interested in forming a corporation to purchase the four units from Storrie. (See Exhibit 14.3.) Gibson contacted three of his business associates in Boone, North Carolina, about investing in this venture. Henry Lewis was a CPA who owned his own practice in

## EXHIBIT 14.2

Unit Sales, January 1983–August 1986,  
West Tennessee Restaurant Corporation  
(Dollar Amounts in Thousands)

FRAN. NAME	MONTHLY SALES					Total 64,7756						
	Jan 86	Feb 86	Mar 86	Apr 86	May 86	Jun 86	Jul 86	Aug 86	Sep 86	Oct 86	Nov 86	Dec 85
Lexington	71,905	67,412	84,272	82,960	92,457	87,956	86,271	74,723	95,376	87,455	86,923	77,392
Savannah	46,738	43,733	59,703	52,354	57,647	68,455	57,086	52,415	48,145	48,750	48,605	47,450
Waverly	56,670	50,702	61,036	58,045	64,278	68,879	70,032	62,878	56,770	78,324	71,745	66,066
Milan	39,655	39,542	47,027	41,811	51,142	54,152	50,072	50,336	46,270	46,816	44,809	43,610
Lexington	Jan 85	Feb 85	Mar 85	Apr 85	May 85	Jun 85	Jul 85	Aug 85	Sep 85	Oct 85	Nov 85	Dec 85
	48,129	49,305	68,598	68,448	75,343	78,453	80,387	77,209	70,632	80,866	76,923	77,392
Savannah	36,191	33,032	46,485	45,826	48,293	52,010	52,429	47,155	44,893	48,750	48,605	47,450
Waverly	0	0	0	0	0	114,921	87,058	87,412	72,040	78,324	71,745	66,066
Milan	0	0	0	0	0	24,382	68,778	53,329	46,816	46,515	44,809	43,610
Lexington	Jan 84	Feb 84	Mar 84	Apr 84	May 84	Jun 84	Jul 84	Aug 84	Sep 84	Oct 84	Nov 84	Dec 84
	50,588	53,151	63,468	65,139	67,515	75,172	67,794	66,245	62,382	61,794	60,010	66,888
Savannah	44,070	46,259	53,273	48,844	51,213	56,215	56,162	53,764	52,279	57,615	59,093	52,203
Waverly	0	0	0	0	0	0	0	0	0	0	0	0
Milan	0	0	0	0	0	0	0	0	0	0	0	0
Lexington	Jan 83	Feb 83	Mar 83	Apr 83	May 83	Jun 83	Jul 83	Aug 83	Sep 83	Oct 83	Nov 83	Dec 83
	0	0	0	0	4,451	96,296	75,163	63,460	53,866	50,845	53,659	57,443
Savannah	0	0	0	0	0	0	0	0	0	79,815	61,279	53,429
Waverly	NA	NA	NA	0	0	0	0	0	0	0	0	0
Milan	NA	NA	NA	0	0	0	0	0	0	0	0	0

## EXHIBIT 14.3

## Résumé of John A. Gibson

## EXPERIENCE

September 1986–February 1988

Vice President and General Manager

West Tennessee Restaurants, Inc.

Milan (TN)

Franchisee and chief operating officer for company operating four (4) Hardee's restaurants in the West Tennessee area (Lexington, Savannah, Waverly and Milan). Responsible for the entire operation of the company.

March 1982–August 1986

Executive Vice President

Regency Investments, Inc.

Boone, N.C.

Chief executive officer for company reporting directly to the board of directors. Responsible for the entire operation of a Hardee's franchisee operating at one time as many as eleven (11) units. Duties include supervision of the administrative staff. During the first three years of employment with Regency the company opened six (6) Hardee's.

July 1981–March 1982

Partner and Manager

Peaches, Inc.  
Greenvile, N.C.

Manager of Private club with mixed beverages featuring live entertainment as well as recorded music presented by in-house disc jockeys. Duties included: purchasing all inventory; employing and training all personnel; scheduling all entertainment; supervision of bookkeeping; payroll; filing all tax reports; coordinating advertising.

January 1979–July 1981

Partner and Manager

Quincy's Old Place  
Lumberton, N.C.

Managed a 48-seat restaurant and 300 seat-club featuring live entertainment as well as recorded music presented by in-house disc jockeys. Duties included: purchasing all inventory; employing and training all personnel; scheduling all entertainment; supervision of bookkeeping; payroll; filing all tax reports; coordinating advertising.

June 1978–January 1979

Partner

Jerio Enterprises  
Lumberton, N.C.

Operated a management firm for two convenience stores, two restaurants and one restaurant/discotheque. Duties included: supervision of management at each location, plus supervision of bookkeeping, payroll, tax reports, etc., of entire operation.

(Continued)

## (Continued)

January, 1977—June, 1978

Owner and Manager

Fins, Furs &amp; Feather Pet Shop

Lumberton, N.C.

October, 1975—January, 1977

Assistant Commissioner of Labor

North Carolina Department of Labor

Raleigh, N.C.

Administrative and managerial employment as immediate assistant to the Commissioner of Labor. Duties included: directing, managing, and coordinating the day-to-day operational functions of the department working closely with the Deputy Commissioner in evaluating existing programs, deciding questions of policy, and in planning for future services.

July, 1970—October, 1975

Executive Vice President

North Carolina Jaycees

Ashboro, N.C.

Served as chief administrator for the State Jaycee organization with overall management responsibilities for the corporation. Duties included: supervision of the office staff; preparing and administering yearly budget; securing corporate sponsors for major state projects; coordinating all regional and state meetings; i.e., programs, publicity, agendas, etc.; developed marketing program for Jaycee sales items (plaques, jewelry, clothing items, etc.); coordinated travel schedule of state Jaycee president (speaking engagements); served as liaison officer between state organization and national Jaycee organization. Also coordinated public relations programs.

1964—1970

Agent and Staff Manager

State Capital Life Insurance Company

Lumberton and Newton, N.C.

Originally appointed as a sales representative and later promoted to a staff manager's position supervising five agents.

1958—1964

Sales Representative

Gibson Sales Company

(Wholesale farm equipment dealer)

Lumberton, N.C.

Travelled eastern North and South Carolina calling on retail farm equipment dealers.

EDUCATION

Littlefield High School

Lumberton, N.C.

Graduated, 1958

Attended Carolina School of Broadcasting

Charlotte, N.C.

Raleigh Institute of Realty, Inc.

Raleigh, N.C.

Graduated, 1977

(Holder of a current North Carolina Broker's License)

Hardee's Management Internship

Graduated June 30, 1982

Hardee's BASIC for Crew Selection

Presented Certificate of Achievement December 15, 1982

Hardee's Management BASIC

Behavior Assessment Selection Interview Course

June, 1985

State of North Carolina, Division of Health Services

Food Service Manager's Training Course in Food Protection and Sanitation

November, 1985

Hardee's Performance Planning and Review

July, 1985

## PERSONAL

Born: August 16, 1941 (age 46)

Height: 5' 11 1/2"

Weight: 190 lbs

Married: 5 children

Health: Good-No physical limitations

Hobbies: Camping, Fishing, Swimming

Affiliations: Former president of Newton, North Carolina, Jaycees

Life Member of the Newton, North Carolina, Jaycees

ICI Senator

Former member of the Newton, North Carolina, Elks Lodge

Member of Boone Area Chamber of Commerce

Elected member of the Hardee's Area III Business Planning

Council

Elected member of the Hardee's Marketing Advisory Review Council (one of only 22 elected members representing the franchise community in the entire Hardee's system)

Member Milan Lions Club

Lumberton, North Carolina. Fred Musselwhite was a prominent attorney in Boone who had an established law practice. Jerry Soles was the owner and operator of a very successful 300-seat restaurant in Boone. He had started the restaurant ten years before, and it was very profitable.

After an initial meeting with the three potential stockholders, Gibson scheduled a visit to each of the four units in West Tennessee. Lewis was a licensed pilot with his own airplane. On August 3, 1987, the group flew to Jackson, Tennessee, and drove to the Hardee's in Lexington, Milan, and Waverly. The weather forecast included thunderstorms, so the group returned to Boone without visiting the Savannah location. Additional information concerning each

## EXHIBIT 14.4

## Supplemental Information on Locations

	LEXINGTON	MILAN	SAVANNAH	WAVERTY
Population				
City	6,200	8,300	7,100	5,100
County	2,500	51,000	22,000	48,000
Date competitors opened	1965	1966	1970	1972
Dairy Queen	—	—	1970	—
McDonald's	—	—	1987	—
Burger King	—	—	—	—
Wendy's	—	—	—	—
Sonic	1982	1980	1981	1981
No. of major industries	7	18	10	7
Average per capita income	8,659	10,236	7,999	7,265

location was secured from the individual chambers of commerce. (See Exhibit 14.4.)

The group was excited about the potential of owning four Hardee's franchises. Each of the units was strategically located and possessed great potential for profits based on the sales figures provided by Hardee's. (See Exhibit 14.5.) Musselwhite secured the corporate charter for the West Tennessee Restaurant Corporation. Each of the four stockholders contributed \$70,000 in capital to the new corporation. It was agreed that Gibson would resign from his current position and move to Milan to serve as Vice-President and General Manager of the corporation.

## EXHIBIT 14.5 Actual Average Sales Volume, Hardee's

As of March 31, 1987, there were 1,793 domestic licensed Hardee's restaurants and 839 Hardee's restaurants owned by Hardee's and its affiliates ("company-owned") in operation. Of the company-owned restaurants, 601 were in operation for the entire 12-month period ending March 31, 1987, and had sales volumes of \$600,000 or more. The licensor does not receive regular reports providing financial data from licensees and consequently, the table on the following page reflects the results of company-owned restaurants only.

The Licensor offers essentially the same services to company-owned restaurants as is offered to licensed restaurants of Hardee's. The Licensor provides greater supervisory services in connection with company-owned restaurants than it offers licensees; however, the Licensor believes that this difference is generally compensated for by closer control and supervision provided by individual licensees.

Company-owned restaurants offer substantially the same products and services to the public as those offered to the public by licensees of Hardee's. Services offered to the public vary in some instances, e.g., providing "any-breakfast-service" and providing 24-hour (or extended hour) service, but such variation exists among both company-owned and licensed restaurants and is reflected in the table. Data from company-owned restaurants used in the Table represent free-standing as well as mall-located restaurants. Licensed restaurants include similar locations in approximately the same distribution. The data presented in the table was received from restaurants reporting on a uniform accounting method. Revenue is actual reported sales accumulated for a standard accounting period. Costs/operating expenses are actual expenses paid or accrued in order to match expenses with revenues. Reports are prepared consistent with generally accepted accounting principles.

The table does not include data from approximately 298 company-owned restaurants that have reported gross sales volumes of less than \$500,000. The Licensor believes that data provided from company-owned restaurants reporting sales under \$600,000 is not representative of sales and the associated costs in company-owned restaurants or sales which may be achieved by licensed restaurants because

(a) these units have been in operation less than 12 months, or (b) these units are generally older restaurants with fixed costs generally lower than those shown in the table. Included in this older restaurant category are 234 restaurants. Of those, 105 reached the break-even point, which the Licensor estimates at \$350,000. 43 of these 234 restaurants are less than five years old, 83 restaurants are over five, but less than ten years old, and 106 restaurants are over 10 years old.

There were 2,442 domestic Hardee's restaurants (both company-owned and licensed) opened and reporting sales for 12 continuous months ending as of March 31, 1987. Of these,

- Approximately 82% (or 2,011 company-owned and 1,409 licensed restaurants) had annual sales volumes in excess of \$600,000.
- Approximately 69% (or 473 company-owned and 1,208 licensed restaurants) had annual sales volumes in excess of \$700,000.
- Approximately 52% (or 317 company-owned and 965 licensed restaurants) had annual sales volumes in excess of \$800,000.
- Approximately 38% (or 218 company-owned and 711 licensed restaurants) had annual sales volumes in excess of \$900,000.
- Approximately 25% (or 140 company-owned and 476 licensed restaurants) had annual sales volumes in excess of \$1,000,000.

The highest annual sales volume for all domestic company-owned and licensed restaurants was \$2,194,000; and the lowest annual sales volume of any restaurant was \$141,000, at a restaurant located on a college campus. The average annual sales volume of domestic Hardee's company-owned and licensed restaurants was approximately \$842,000. The break-even-point for the company-owned restaurants noted on the table is approximately \$650,000, when royalty expenses, depreciation and rent are implied or included per the table. As noted above, older restaurants, for which reports are not included in the table, generally have a lower break-even point. The median sales volume for the 2,442 restaurants was approximately \$817,000.

**EXHIBIT 14.5 (Continued)**

Table of Hardee's Average Restaurant Performance: 12 Months Ending March 31, 1987

SUMMARY ACCOUNT	GREATER THAN \$1 MILLION SALES	BETWEEN \$900,000 & \$999,999 SALES	BETWEEN \$800,000 & \$899,999 SALES	BETWEEN \$700,000 & \$799,999 SALES	BETWEEN \$600,000 & \$699,999 SALES
Net Sales	\$1,156,170	\$ 943,980	\$ 845,406	\$ 746,631	\$ 653,830
Cost of food	-333,288	-276,448	-246,045	-218,971	-192,856
Cost of paper	-47,083	-38,926	-34,579	-30,999	-27,197
Labor hourly	-179,188	-153,708	141,050	-126,923	-117,787
Labor manager	-85,857	-80,750	-73,279	-68,966	-65,923
Taxes payroll	-25,660	-22,249	-19,669	-18,136	-16,728
Benefits	-6,035	-6,080	-5,959	-5,905	-5,879
Labor other	-2,431	-2,404	2,318	-2,368	-2,398
Utilities	-35,675	-33,275	32,712	-29,695	-30,320
Supplies	-13,691	-11,801	-10,649	-9,674	-9,115
Other controllables	-13,619	-12,568	-11,199	-9,684	-9,589
Co-op adv. expenses	-35,883	-30,136	-26,481	-23,876	-21,416
Coupon food costs	-14,906	-13,051	-11,111	-11,278	-8,815
Local non-broadcast	-13,970	-14,074	-13,113	-11,506	-10,478
All other advertising	-3,270	-3,294	-3,256	-3,232	-3,216
Taxes property	-5,005	-5,800	-5,482	-5,740	-6,087
Repair & maintenance	-16,013	-14,826	-14,187	-13,159	-13,212
Workers comp	-6,851	-6,120	-5,886	-5,276	-5,191
Other occupancy	-3,215	-2,677	-3,295	-2,557	-2,219
Other expenses	-7,129	-6,237	5,741	-5,216	-5,396
Other income—exp	4,861	3,323	3,613	2,819	2,566
	\$312,262	\$ 212,879	\$ 183,008	\$ 146,289	\$ 102,574
Royalty expense	-46,247	-37,759	33,816	-29,865	-26,153
Depreciation	-48,571	-48,571	-48,571	-48,571	-48,571
Rent	-28,000	-28,000	-28,000	-28,000	-28,000
Pre-tax profit (loss)	189,444	98,549	72,621	39,853	-150
Pre-tax margin	16.4%	10.4%	8.6%	5.3%	↪ %

SOURCE: Hardee's, Inc.

NOTES:

Royalty rate 4.0% of net sales.

Depreciation based on straight-line method with average equipment and building package of \$600,000 (equipment \$200,000, building \$400,000 (inclusive of site preparation costs)), and as calculated using a seven year life for equipment and a twenty-year life for building and site work.

Rent based on 14% of average land cost of \$200,000.

No provision in the Table has been made for supervisory costs or other administrative overhead above the store management level.

No provision in the Table has been made for financing costs, if any, associated with the purchase of equipment or construction of the restaurant(s).

Licenses are required to pay a minimum of 5% of net sales per month on advertising.

On August 31, 1986, Storrie sold the four units to WTRC for \$650,000 with a \$150,000 cash down payment and a note for \$500,000 at 10% interest for twelve years. The inventory was valued at \$40,000, which was purchased by WTRC for cash of \$40,000 in addition to the \$650,000 selling price. WTRC agreed to assume all liabilities of the lease with Franchise Finance Corporation of America (FFC). Storrie had financed his first two units with FFC. Under the provisions of the agreement, FFC owned the land, building, and equipment at the two locations. FFC negotiated a 13% fixed interest rate on the land and building for ten years, or 8½% of the annual sales volume, whichever was greater. FFC set the interest rate at 8% on the equipment for seven years. The average amount financed by FFC at the two locations was \$505,000 on the land and building and \$119,000 on the equipment. At the end of the lease period, the land, building, and equipment could be acquired for the fair market value as determined by three independent MAI (Member of Appraisal Institute) appraisers. In addition, WTRC assumed the loans on the Milan and Waverly units, which were secured for \$50,000 each at a fixed rate of 10½% for fifteen years.

The WTRC was formed when each of the four investors contributed \$80,000 to form the initial capitalization of \$320,000. Each stockholder owned 25% of the corporation's stock. The officers were Fred Minneswhite, President; John Gibson, Vice-President; and Henry Lewis, Secretary. The stockholders personally guaranteed the \$500,000 note to Nelson Storrie, the lease to FFC, and two notes on the Milan and Waverly units.

The stockholders were anticipating profits based on the information secured from the Hardee's Corporation and the sales information provided by Storrie (Exhibit 14.2). Storrie did not provide any financial statements to the investors but supplied only sales figures by each unit. With Gibson's background and experience, the other three stockholders were content in their role of absentee investors.

#### Financial Information

During its first year of operation, WTRC reported a consolidated net income of \$84,985. The units in Lexington and Waverly reported net income of \$115,237 and \$45,432, respectively. In Milan and Savannah, net losses of \$44,958 and \$30,726 were shown, respectively (See Exhibits 14.6-14.10). During September, October, and November 1987, sales declined dramatically. At November 30, 1987, WTRC was showing a loss of \$223,944. (See Exhibit 14.11.) The units at Lexington and Waverly reported net income of \$93,659 and \$33,489, respectively. But losses were reported at Milan of \$38,978 and at Savannah of \$39,919. (See Exhibits 14.11-14.16.) These amounts did not include any allocations of the expenses of the general office in Milan. Gibson prepared quarterly financial statements and distributed them to the stockholders.

#### EXHIBIT 14.6

#### West-Tennessee-Restaurants, Inc. Consolidated Statement of Revenue and Expenses for the Twelve Months Ended August 31, 1987

	Sales	Advertising
Cost of sales	\$ 746,879.15	Advertising national program
Purchases food	120,797.50	Advertising coupons & promo.
Purchases nonfood	13,302.75	Advertising local
Raw waste	36,814.84	Promotion items
Finished waste	(10,892.03)	Advertising co-op
Purchase discounts	\$ 906,902.21	Advertising pop kits
Total cost of sales	\$ 1,673,851.12	Billboard rent
Labor		Total advertising
Salaries employees	\$ 447,191.48	Occupancy
Salaries managers	187,142.86	Rent
Payroll taxes	61,707.14	Repairs and maintenance
Insurance group	7,258.50	48,362.96
Insurance workers' comp.	12,194.77	Insurance general
Employees benefits	1,230.10	20,117.28
Total labor	\$ 716,724.85	Property taxes
Manager controllables		5,081.25
Cash short & over	\$ (301.00)	\$ 444,691.21
Outside services	40.00	Miscellaneous
Uniforms	6,420.08	Dues & subscriptions
Laundry	3,807.73	\$ 1,700.76
Store supplies	26,261.04	Contributions
Birthday cake	778.61	Travel & entertainment
Office supplies	443.35	2,502.23
Cleaning supplies	4,520.26	Taxes & licenses
Small equipment	5,693.26	10,501.85
Electricity, water and gas	89,387.15	624.53
Telephone	5,709.11	Stationery & printing
Landscaping	32.33	536.87
Waste removal	10,951.59	183.82
Extermination	802.19	206.34
Total manager controllables	\$ 154,544.90	77,691.75
		Net income operations
		\$ 53,160.18
		Other income
		\$ 1,293.98
		Sale of by-product
		3,180.85
		Commissions earned
		\$ 27,349.96
		Promo item net profit
		\$ 84,985.97
		Total income

**EXHIBIT 14.7** **West Tennessee Restaurants, Inc.: Hardee's of Lexington**

Unit Statement of Revenue and Expenses for the Twelve Months Ended August 31, 1987

Sales	\$834,941.38	Advertising	
Cost of sales		Advertising national program	\$ 3,012.02
Purchases food	\$25,957.41	Advertising coupons & promo.	1,387.85
Purchases nonfood	36,249.58	Advertising local	2,295.15
Raw waste	3,251.01	Promotion items	4,171.24
Finished waste	10,617.74	Advertising co-op	24,849.07
Purchase discounts	(4,254.73)	Advertising pop kits	1,820.23
Total cost of sales	\$281,821.01	Billboard rent	813.80
Total income	\$552,220.37	Total advertising	\$ 813.80
Labor		Occupancy	
Salaries employees	\$134,675.32	Rent	\$ 90,146.32
Salaries managers	49,527.01	Repairs and maintenance	16,396.21
Payroll taxes	18,005.57	Insurance general	5,029.32
Insurance group	2,093.64	Property taxes	553.75
Insurance workers' comp.	3,063.96	Total occupancy	\$112,125.60
Employees benefits	355.03	Miscellaneous	
Total labor	\$207,720.53	Dues & subscriptions	\$ 270.66
Manager controllables		Contributions	\$ 706.49
Cash short & over	\$ (1,987.83)	Travel & entertainment	768.98
Uniforms	1,799.03	Taxes & licenses	5,281.04
Laundry	817.08	Office supplies & expense	134.51
Store supplies	7,335.07	Stationery & printing	131.93
Birthday cake	79.22	Postage & freight	74.90
Office supplies	81.90	Bank charges	48.30
Cleaning supplies	1,388.49	Royalties	25,144.96
Small equipment	1,813.09	Total miscellaneous operating expense	\$32,561.77
Electricity, water and gas	23,566.55	Total expenses	\$446,713.51
Telephone	1,745.84	Net income operations	\$105,506.86
Landscaping	32.33	Other income	1,374.88
Waste removal	1,332.50	Sale of by-product	2,148.47
Extermination	200.00	Commissions earned	300.00
Total manager controllable	\$ 38,203.07	Promo item net profit	\$ 7,962.04
		Net income (Loss)	\$115,237.00

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**EXHIBIT 14.8** **West Tennessee Restaurants, Inc.: Hardee's of Milan**

Unit Statement of Revenue and Expenses for the Twelve Months Ended August 31, 1987

Sales	\$511,886.44	Advertising	
Cost of sales		Advertising national program	\$ 2,277.42
Purchases food	\$149,153.67	Advertising coupons & promo.	1,596.25
Purchases nonfood	24,016.69	Advertising local	4,598.28
Raw waste	4,171.24	Promotion items	18,232.08
Finished waste	8,243.67	Advertising co-op	15,244.81
Purchase discounts	(1,484.99)	Advertising pop kits	1,863.12
Total cost of sales	\$184,100.28	Billboard rent	1,153.80
Total income	\$327,786.16	Total advertising	\$ 44,956.76
Labor		Occupancy	
Salaries employees	\$ 90,146.32	Rent	\$102,318.27
Salaries managers	16,396.21	Repairs and maintenance	9,333.59
Payroll taxes	5,029.32	Insurance general	5,029.32
Insurance group	1,306.98	Property taxes	1,092.50
Insurance workers' comp.	3,327.85	Total occupancy	\$117,773.68
Employees benefits	295.02	Miscellaneous	
Total labor	\$163,220.21	Dues & subscriptions	\$ 392.81
Manager controllables		Contributions	\$ 223.33
Cash short & over	\$ 680.07	Travel & entertainment	642.62
Uniforms	40.00	Taxes & licenses	2,007.81
Laundry	1,661.65	Office supplies & expense	135.69
Store supplies	734.45	Stationery & printing	131.91
Birthday cake	6,397.06	Postage & freight	30.92
Office supplies	569.40	Bank charges	51.70
Cleaning supplies	121.61	Royalties	14,116.01
Small equipment	1,009.66	Total miscellaneous operating expense	\$17,732.80
Electricity, water and gas	1,514.50	Total expenses	\$79,463.27
Telephone	19,228.07	Net income operations	(51,677.11)
Landscaping	1,374.88	Other income	\$ 257.03
Waste removal	2,148.47	Sale of by-product	493.91
Extermination	300.00	Commissions earned	\$ 5,968.45
Total manager controllables	\$ 35,779.82	Promo item net profit	\$ (44,956.76)
		Net income (Loss)	

X

**EXHIBIT 14.9** **West Tennessee Restaurants, Inc.: Hardee's of Savannah**

Unit Statement of Revenue and Expenses for the Twelve Months Ended August 31, 1987

Sales	\$374,524.32	Advertising
Cost of sales		Advertising national program
Purchases food	\$178,589.10	\$ 2,097.42
Purchases nonfood	29,741.67	1,433.24
Raw waste	4,337.31	7,046.85
Finished waste	6,597.32	21,948.82
Purchase discounts	(2,715.67)	11,356.11
Total cost of sales	<u>\$216,589.73</u>	Advertising co-op
Total income	<u>\$357,934.59</u>	Advertising pop kits
Labor		Billboard rent
Salaries employees	106,847.73	1,358.80
Salaries managers	45,598.47	Total advertising
Payroll taxes	14,731.75	\$ 53,199.12
Insurance group	1,913.84	
Insurance workmen's comp.	3,165.00	
Employees benefits	<u>250.03</u>	
Total labor	<u>\$172,506.83</u>	
Manager controllables		
Cash short & over		
Uniforms	527.12	Dues & subscriptions
Laundry	754.48	\$ 308.34
Store supplies	1,086.78	Contributions
Birthday cake	6,431.79	278.30
Office supplies	143.98	Travel & entertainment
Cleaning supplies	139.85	Taxes & licenses
Small equipment	1,160.85	1,428.06
Electricity, water and gas	26,276.56	Office supplies & expense
Telephone	1,634.19	Stationery & printing
Waste removal	5,829.46	Postage & freight
Extermination	\$ 180.00	Bank charges
Total manager controllables	<u>\$ 45,537.05</u>	Royalties
		17,279.45
		Net income operations
		\$ 20,451.09
		Total expenses
		\$397,190.75
		Net income
		(\$39,264.16)
		Other income
		\$ 160.04
		Sale of by-product
		764.60
		Commissions earned
		Promo item net profit
		\$ 7,613.28
		Net income
		<u><u>\$ (30,726.24)</u></u>

**EXHIBIT 14.10** **West Tennessee Restaurants, Inc.: Hardee's of Waverly**

Unit Statement of Revenue and Expenses for the Twelve Months Ended August 31, 1987

Sales	\$660,301.19	Advertising
Cost of sales		Advertising national program
Purchases food	\$183,178.97	\$ 2,277.42
Purchases nonfood	30,789.56	871.08
Raw waste	1,503.19	4,932.90
Finished waste	21,948.82	18,838.88
Purchase discounts	(2,436.64)	25,709.28
Total cost of sales	<u>\$224,391.19</u>	2,525.72
Total income	<u>\$435,910.00</u>	Billboard rent
Occupancy		23.80
Rent	\$ 106,922.50	Total advertising
Repairs and maintenance	46,759.38	\$ 55,219.08
Insurance general	14,883.38	
Property taxes	1,744.04	
Total occupancy	2,637.96	
Miscellaneous		
Dues & subscriptions	\$ 728.95	
Contributions	96.19	
Travel & entertainment	413.04	
Taxes & licenses	2,204.92	
Office supplies & expense	1,169.42	
Stationery & printing	6,097.12	
Postage & freight	(18.99)	
Bank charges	99.99	
Royalties	961.26	
Net income operations	21,151.33	
Total expenses	\$ 24,506.82	
		Net income
		(\$39,315.41)
		Net income operations
		\$ 38,594.59
		Other income
		\$ 150.35
		Sale of by-product
		880.80
		Commissions earned
		Promo item net profit
		\$ 5,806.19
		Net income
		<u><u>\$ 45,431.93</u></u>

## West Tennessee Restaurants, Inc.

Consolidated Statement of Revenue and Expenses  
For the One Month and Eleven Months Ended  
November 30, 1987 (Unaudited)

	CURRENT MONTH		YEAR TO DATE (11 MONTHS)	
	Amount	%	Amount	%
Sales				
Sales food	\$199,834.60	100.0	\$2,274,682.12	100.0
Gift certificates	0.00	0.0	19.50	0.0
Total sales	\$199,834.60	100.0	\$2,274,701.62	100.0
Cost of sales				
Purchases food	\$ 57,386.01	28.7	\$ 665,596.01	29.3
Purchases nonfood	10,000.67	5.0	107,029.64	4.7
Raw waste	1,169.33	0.6	15,881.64	0.7
Finished waste	608.60	0.3	15,090.53	0.6
Purchase discounts	(691.11)	(0.3)	(9,770.66)	(4)
Total cost of sales	\$ 68,474.38	34.3	\$ 791,827.16	34.8
Total income	\$131,360.30	65.7	\$1,482,874.46	65.2
Labor				
Salaries employees	\$38,096.68	19.1	\$ 402,074.65	17.7
Salaries managers	13,488.05	6.7	157,180.41	6.9
Casual labor	60.72	0.0	413.78	0.0
Payroll taxes	4,716.98	2.4	55,318.61	2.4
Insurance group	1,320.16	0.7	7,286.61	0.3
Insurance workers' comp.	800.49	0.4	10,938.62	0.5
Employee benefits	0.00	0.0	350.00	0.0
Total labor	\$ 58,482.88	29.3	\$ 633,522.68	27.9
Manager controllables				
Cash short & over	\$ 384.43	0.2	\$ 3,043.81	0.1
Uniforms	575.02	0.3	6,032.91	0.3
Laundry	138.10	0.1	3,016.94	0.1
Store supplies	2,406.42	1.2	21,353.97	0.9
Birthday cake	64.25	0.0	753.60	0.0
Office supplies	15.00	0.0	400.71	0.0
Cleaning supplies	334.93	0.4	3,532.68	0.2
Small equipment	139.05	0.1	4,800.63	0.2
Electricity, water and gas	6,752.60	3.4	87,681.31	3.9
Telephone	356.70	0.2	5,588.65	0.2
Landscaping	0.00	0.0	32.33	0.0
Snow removal	0.00	0.0	12.00	0.0
Waste removal	899.23	0.4	11,462.95	0.5

	CURRENT MONTH		YEAR TO DATE (11 MONTHS)	
	Amount	%	Amount	%
Extermination	89.00	0.0	890.77	0.0
Total manager	\$ 12,654.73	6.3	\$ 148,611.26	6.5
Advertising				
Advertising national	\$ 800.00	0.4	\$ 9,294.60	0.4
Advertising coupons & program	929.24	0.5	9,205.84	0.4
Advertising local	855.55	0.4	16,246.46	0.7
Promotion items	3,538.57	1.8	62,844.43	2.8
Advertising co-op	6,481.39	3.2	73,830.51	3.2
Advertising pop kits	1,062.35	0.5	10,611.57	0.5
Billboard	750.00	0.4	7,110.35	0.3
Total advertising	\$ 14,417.10	7.2	\$ 189,143.76	8.3
Occupancy				
Rent	\$ 31,405.39	15.7	\$ 345,459.29	15.2
Repairs and maintenance	3,015.88	1.5	39,509.83	1.7
Insurance general	2,600.59	1.3	20,264.14	0.9
Total occupancy	\$ 37,021.86	18.5	\$ 405,233.26	17.8
Misc. operating expenses				
Dues & subscriptions	\$ 58.30	0.0	\$ 1,484.25	0.1
Contributions	0.00	0.0	435.60	0.0
Travel & entertainment	246.60	0.1	2,094.66	0.1
Taxes & licenses	524.50	0.3	11,499.51	0.5
Office supplies & expense	0.00	0.0	88.42	0.0
Stationery & printing	0.00	0.0	227.45	0.0
Postage & freight	21.90	0.0	216.90	0.0
Bank charges	13.77	0.0	195.65	0.0
Royalties	6,070.11	3.0	68,657.88	3.0
Misc. operating expense	\$ 6,935.18	3.5	\$ 84,899.72	3.7
Total expenses	\$129,511.75	64.8	\$1,461,410.68	64.2
Other income				
Sale of by-product	\$ 56.13	0.0	\$ 916.56	0.0
Commissions earned	0.00	0.0	2,647.46	0.1
Promo item net profit	1,908.73	1.0	23,222.64	1.0
Total other income (loss)	\$ 1,964.86	1.0	\$ 26,785.66	1.2
Net income (loss) before General and Administrative	\$ 3,813.41	1.9	\$ 48,250.44	2.1
Labor				
Officers's salaries	\$ 2,884.61	1.4	\$ 32,115.30	1.4

(Continued)

(Continued)

	CURRENT MONTH		YEAR TO DATE (11 MONTHS)	
	Amount	%	Amount	%
District managers'	0.00	0.0	7,614.23	0.3
Training expense	0.00	0.0	4,884.31	0.2
Office salaries	898.30	0.4	10,806.85	0.5
Ins—workers comp.	9.16	0.0	18.32	0.0
Payroll taxes	255.40	0.1	4,442.48	0.2
Labor total	\$ 4,067.47	2.0	\$ 59,881.49	2.6
Manager controllables				
Vehicle expense	\$ 0.00	0.0	\$ 1,846.70	0.1
Utilities	107.55	0.1	467.14	0.0
Telephone	653.13	0.3	8,540.65	0.4
Office rent	300.00	0.2	2,100.00	0.1
Total manager controllables	\$ 1,060.68	0.5	\$ 12,954.49	0.6
Occupancy				
Amortization expense	\$ 9,044.48	4.5	\$ 108,930.86	4.8
Depreciation	656.67	0.3	5,349.79	0.2
Insurance general	32.75	0.0	74.92	0.0
Insurance group	293.22	0.1	1,878.76	0.1
Total occupancy	\$ 10,027.12	5.0	\$ 116,254.33	5.1
Misc. operating expenses				
Miscellaneous	\$ 85.00	0.0	\$ 1,468.58	0.1
Dues & subscriptions	79.95	0.0	296.28	0.0
Contributions	0.00	0.0	50.00	0.0
Travel & entertainment	404.90	0.2	8,805.39	0.4
Taxes & license	0.00	0.0	91.98	0.0
Office supplies & expense	179.73	0.1	3,213.64	0.1
Printing	0.00	0.0	288.91	0.0
Postage	289.25	0.1	3,690.31	0.2
Bank charges	✓ 90.00	0.0	3,478.77	0.2
Interest expense	✓ 6,014.93	3.0	62,769.28	2.8
Professional fees	1,025.00	0.5	11,025.00	0.5
Life insurance	435.16	0.2	4,059.22	0.2
Total misc. operating expense	\$ 8,503.92	4.3	\$ 100,057.36	4.4
Total general & adm. expenses	\$ 23,739.19	11.9	\$ 289,127.67	12.7
Net operating income (loss)	\$ (19,925.78)	(10.0)	\$ (248,877.23)	(10.6)
Other income	—	—	—	—

## EXHIBIT 14.12

West Tennessee Restaurants: Hardee's of Lexington  
Unit Statement of Revenue and Expenses  
for the One Month and Eleven Months Ended  
November 30, 1987 (Unaudited)

	CURRENT MONTH		YEAR TO DATE (11 MONTHS)	
	Amount	%	Amount	%
Sales				
Sales food				
Total sales				
Cost of sales				
Purchases food				
Purchases nonfood				
Raw waste				
Finished waste				
Purchase discounts				
Total cost of sales				
Total income				
Labor				
Salaries employees				
Salaries managers				
Casual labor				
Payroll taxes				
Insurance group				
Insurance workmen's comp.				
Employee benefits				
Total labor				
Manager controllables				
Cash short & over				
Uniforms				
Laundry				
Store supplies				
Birthday cake				
Office supplies				
Cleaning supplies				
Small equipment				
Electricity, water and gas				
Telephone				
Landscape				
Waste removal				
Extermination				
Total manager controllable	\$ 3,594.19	5.7	\$ 39,869.42	5.4

(Continued)

## (Continued) West Tennessee Restaurants: Hardee's of Lexington

	CURRENT MONTH		YEAR TO DATE (11 MONTHS)	
	Amount	%	Amount	%
Advertising				
Advertising national program	\$ 200.00	0.3	\$ 2,874.60	0.4
Advertising coupons & promo.	247.45	0.4	2,433.18	0.3
Advertising local	201.54	0.3	1,993.21	0.3
Promotion items	963.01	1.5	16,025.80	2.2
Advertising co-op	1,924.92	3.0	22,219.68	3.0
Advertising pop kits	278.85	0.4	2,466.76	0.3
Billboard rent	160.00	0.3	1,238.80	0.2
Total advertising	<u>\$ 3,975.77</u>	<u>6.3</u>	<u>\$ 49,252.03</u>	<u>6.7</u>
Occupancy				
Rent	\$ 7,407.08	11.7	\$ 81,477.88	11.1
Repairs and maintenance	185.07	0.3	14,267.55	1.9
Insurance general	316.25	0.5	4,700.12	0.6
Total occupancy	<u>\$ 7,908.40</u>	<u>12.3</u>	<u>\$ 100,445.55</u>	<u>13.7</u>
Miscellaneous				
Dues & subscriptions	\$ 0.00	0.0	\$ 228.16	0.0
Contributions	0.00	0.0	400.00	0.1
Travel & entertainment	0.00	0.0	353.59	0.0
Taxes & licenses	179.75	0.3	5,579.50	0.8
Office supplies & expense	0.00	0.0	21.49	0.0
Stationery & printing	0.00	0.0	58.18	0.0
Postage & freight	9.80	0.0	96.20	0.0
Bank charges		0.90	0.0	1.44
Royalties		1,924.92	3.0	22,219.68
Misc. operating expense		<u>\$ 2,115.37</u>	<u>3.3</u>	<u>\$ 28,958.24</u>
Total expenses	<u>\$ 34,194.73</u>	<u>53.9</u>	<u>\$ 40,256.40</u>	<u>55.0</u>
Other income				
Sale of by-product	\$ 23.63	0.0	\$ 236.88	0.0
Commissions earned	0.00	0.0	810.66	0.1
Promo item net profit	507.28	0.0	6,949.17	0.9
Total other income (loss)	<u>\$ 550.91</u>	<u>0</u>	<u>\$ 7,996.71</u>	<u>1.1</u>
Net income (loss) bef. G&A	<u>\$ 8,236.97</u>	<u>13.0</u>	<u>\$ 93,659.07</u>	<u>12.7</u>
Net operating income (loss)	<u>\$ 8,236.97</u>	<u>13.0</u>	<u>\$ 93,659.07</u>	<u>12.7</u>
Net income (loss) bef. taxes	<u>\$ 8,236.97</u>	<u>13.0</u>	<u>\$ 93,659.07</u>	<u>12.7</u>
Net income (loss)	<u><u>\$ 8,236.97</u></u>	<u><u>13.0</u></u>	<u><u>\$ 93,659.07</u></u>	<u><u>12.7</u></u>

## EXHIBIT 14.13

West Tennessee Restaurants: Hardee's of Milan  
Unit Statement of Revenue and Expenses  
for the One Month and Eleven Months Ended  
November 30, 1987 (Unaudited)

	CURRENT MONTH		YEAR TO DATE (11 MONTHS)	
	Amount	%	Amount	%
Sales				
Sales food	\$ 42,238.01	100.0	\$ 458,003.00	100.0
Total sales	<u>\$ 42,238.01</u>	<u>100.0</u>	<u>\$ 458,003.00</u>	<u>100.0</u>
Cost of sales				
Purchases food	\$ 11,171.14	26.4	\$ 133,440.45	29.1
Purchases nonfood	1,600.17	3.8	21,515.90	4.7
Raw waste	183.06	0.4	4,661.29	1.0
Finished waste	106.03	0.3	3,376.89	0.7
Purchase discounts	<u>(89.45)</u>	<u>(0.2)</u>	<u>(1,304.68)</u>	<u>(0.3)</u>
Total cost of sales	<u>\$ 12,970.95</u>	<u>30.7</u>	<u>\$ 161,689.85</u>	<u>35.3</u>
Total income	<u>\$ 29,267.06</u>	<u>69.3</u>	<u>\$ 296,313.15</u>	<u>64.7</u>
Labor				
Salaries' employees	\$ 8,445.31	20.0	\$ 86,371.24	18.9
Salaries managers	<u>3,458.45</u>	<u>8.2</u>	<u>37,470.51</u>	<u>8.2</u>
Casual labor	0.00	0.0	50.20	0.0
Payroll taxes	1,106.74	2.6	12,158.80	2.7
Insurance group	335.96	0.8	1,653.27	0.4
Insurance workers' comp.	199.83	0.5	3,047.11	0.7
Employee benefits	0.00	0.0	150.00	0.0
Total labor	<u>\$ 13,546.29</u>	<u>32.1</u>	<u>\$ 149,901.13</u>	<u>30.8</u>
Manager controllables				
Cash short & over	\$ 52.11	0.1	\$ 530.04	0.1
Uniforms	176.93	0.4	1,674.76	0.4
Laundry	0.00	0.0	489.37	0.1
Store supplies	581.81	1.4	5,163.09	1.1
Birthday cake	49.75	0.1	634.85	0.1
Office supplies	8.27	0.0	49.49	0.0
Cleaning supplies	121.53	0.3	739.59	0.2
Small equipment	69.32	0.2	1,471.39	0.3
Electricity, water and gas	1,611.10	3.8	20,760.17	4.5
Telephone	98.77	0.2	1,370.83	0.3
Snow removal	0.00	0.0	12.00	0.0
Waste removal	197.61	0.5	1,961.50	0.4
Extermination	25.00	0.1	330.00	0.1
Total manager controllable	<u>\$ 2,992.20</u>	<u>7.1</u>	<u>\$ 35,187.08</u>	<u>7.7</u>

(Continued)

## EXHIBIT 14.13 (Continued)

	CURRENT MONTH		YEAR TO DATE (11 MONTHS)	
	Amount	%	Amount	%
<b>Advertising</b>				
Advertising national program	\$ 200.00	0.5	\$ 2,140.00	0.5
Advertising coupons & promo.	225.25	0.5	2,953.22	0.6
Advertising local	28.00	0.1	3,512.03	0.8
Promotion items	716.62	1.7	14,342.22	3.1
Advertising co-op	1,284.24	3.0	13,829.37	3.0
Advertising pop kits	252.99	0.6	2,356.46	0.5
Billboard rent	320.00	0.8	2,151.38	0.5
Total advertising	\$ 3,027.10	7.2	\$ 41,284.68	9.0
<b>Occupancy</b>				
Rent	\$ 8,458.31	20.0	\$ 93,041.41	20.3
Repairs and maintenance	1,314.75	3.1	9,404.31	2.1
Insurance general	1,662.52	3.9	6,185.14	1.4
Total occupancy	\$11,435.58	27.1	\$108,630.86	23.7
<b>Miscellaneous</b>				
Dues & subscriptions	\$ 35.30	0.1	\$ 343.00	0.1
Contributions	0.00	0.0	10.00	0.0
Travel & entertainment	0.00	0.0	487.66	0.1
Taxes & licenses	117.36	0.3	2,135.62	0.5
Stationery & printing	0.00	0.0	55.17	0.0
Postage & freight	0.00	0.0	34.24	0.0
Bank charges	12.87	0.0	130.47	0.0
Royalties	1,234.24	3.0	12,523.65	2.7
Misc. operating expense	\$ 1,449.77	3.4	\$ 15,719.81	3.4
Total expenses	\$32,450.94	76.8	\$341,723.56	74.6
<b>Other income</b>				
Sale of by-product	\$ 8.00	0.0	\$ 282.03	0.1
Commissions earned	0.00	0.0	653.16	0.1
Promo item net profit	645.31	1.5	5,496.74	1.2
Total other income (loss)	\$ 653.31	1.5	\$ 6,431.93	1.4
Net income (loss) bef. G & A.	\$ (2,530.57)	(6.0)	\$ (38,978.48)	(8.5)
Net operating income (loss)	\$ (2,530.57)	(6.0)	\$ (38,978.48)	(8.5)
Net income (loss) bef. taxes	\$ (2,530.57)	(6.0)	\$ (38,978.48)	(8.5)
Net income (loss)	\$ (2,530.57)	(6.0)	\$ (38,978.48)	(8.5)

## EXHIBIT 14.14 West Tennessee Restaurants: Hardee's of Savannah Unit Statement of Revenue and Expenses for the One Month and Eleven Months Ended November 30, 1987 (Unaudited)

	CURRENT MONTH		YEAR TO DATE (11 MONTHS)	
	Amount	%	Amount	%
<b>Sales</b>				
Sales food	\$40,070.62	100.0	\$481,236.49	100.0
Total sales	\$40,070.62	100.0	\$481,236.49	100.0
<b>Cost of sales</b>				
Purchases food	\$12,009.98	30.0	\$148,219.75	30.8
Purchases nonfood	2,324.73	5.8	25,343.34	5.3
Raw waste	334.48	0.8	4,820.56	1.0
Finished waste	97.58	0.2	2,412.33	0.5
Purchase discounts	(153.65)	(0.4)	(2,311.38)	(0.5)
Total cost of sales	\$14,613.12	36.5	\$178,484.60	37.1
Total income	\$25,457.50	63.5	\$302,751.89	62.9
<b>Labor</b>				
Salaries employees	\$ 7,952.04	19.8	\$ 92,278.34	19.2
Salaries managers	3,199.11	8.0	36,991.77	7.7
Casual labor	0.00	0.0	18,43	0.0
Payroll taxes	989.70	2.5	12,887.99	2.7
Insurance group	309.63	0.8	1,766.11	0.4
Insurance workmen's comp.	199.82	0.5	2,773.41	0.6
Total labor	\$12,650.31	31.6	\$146,716.05	30.5
<b>Manager controllables</b>				
Cash short & over	\$ (37.41)	(0.1)	\$ 656.61	0.1
Uniforms	21.31	0.1	593.26	0.1
Laundry	62.62	0.2	924.30	0.2
Store supplies	481.91	1.2	5,047.62	1.0
Birthday cake	8.00	0.0	106.48	0.0
Office supplies	0.00	0.0	99.62	0.0
Cleaning supplies	203.30	0.5	815.01	0.2
Small equipment	42.24	0.1	757.68	0.2
Electricity, water and gas	1,630.82	4.1	25,364.18	5.3
Telephone	33.93	0.1	1,430.06	0.3
Waste removal	272.26	0.7	5,641.52	1.2
Extermination	20.00	0.0	200.00	0.0
Total manager controllable	\$ 2,738.98	6.8	\$ 41,636.34	8.7

(Continued)

## (Continued) West Tennessee Restaurants: Hardee's of Savannah

	CURRENT MONTH		YEAR TO DATE (11 MONTHS)	
	Amount	%	Amount	%
Advertising				
Advertising national program	\$ 200.00	0.5	\$ 2,140.00	0.4
Advertising coupons & promo.	227.25	0.6	1,998.02	0.4
Advertising local	395.16	1.0	6,787.80	1.4
Promotion items	915.29	2.3	17,364.39	3.6
Advertising co-op	1,215.84	3.0	14,504.58	3.0
Advertising pop kits	251.66	0.6	2,718.99	0.6
Billboard rent	270.00	0.7	2,421.37	0.5
Total advertising	\$ 3,475.20	8.7	\$ 47,935.15	10.0
Occupancy				
Rent	\$ 7,540.00	18.8	\$ 82,940.00	17.2
Repairs and maintenance	814.72	2.0	6,737.20	1.4
Insurance general	310.91	0.8	4,659.44	1.0
Total occupancy	\$ 8,665.63	21.6	\$ 94,366.64	19.6
Miscellaneous				
Dues & subscriptions	\$ 12.00	0.0	\$ 269.59	0.1
Travel & entertainment	222.20	0.6	648.35	0.1
Taxes & licenses	80.22	0.2	1,494.02	0.3
Office supplies & expense	0.00	0.0	64.32	0.0
Stationery & printing	0.00	0.0	58.92	0.0
Postage & freight	0.00	0.0	28.46	0.0
Bank charges	0.00	0.0	37.00	0.0
Royalties	1,215.84	3.0	14,504.67	3.0
Misc. operating expense	\$ 1,530.26	3.8	\$ 17,097.33	3.6
Other income				
Total expenses	\$ 29,060.38	72.5	\$ 347,751.51	72.3
Sale of by-product	\$ 10.00	0.0	\$ 192.04	0.0
Commissions earned	0.00	0.0	\$ 533.72	0.1
Promo item net profit	302.47	0.8	4,354.78	0.9
Total other income (loss)	\$ 312.47	.8	\$ 5,080.54	1.1
Net income (loss) bef. G.&A.	\$ (3,290.41)	(8.2)	\$ (39,919.08)	(8.3)
Net operating income (loss)	\$ (3,290.41)	(8.2)	\$ (39,919.08)	(8.3)
Net income (loss) bef. taxes	\$ (3,290.41)	(8.2)	\$ (39,919.08)	(8.3)
Net income (loss)	\$ (3,290.41)	(8.2)	\$ (39,919.08)	(8.3)

## EXHIBIT 14.15

West Tennessee Restaurants: Hardee's of Waverly  
Unit Statement of Revenue and Expenses  
for the One Month and Eleven Months Ended  
November 30, 1987 (Inaudited)

	CURRENT MONTH		YEAR TO DATE (11 MONTHS)	
	AMOUNT	%	AMOUNT	%
Sales				
Sales food	\$ 54,106.85	100.0	\$ 600,700.42	100.0
Gift certificates	0.00	0.0	19.50	0.0
Total sales	\$ 54,106.85	100.0	\$ 600,719.92	100.0
Cost of sales				
Purchases food	\$ 16,028.18	29.6	\$ 174,065.63	29.0
Purchases nonfood	2,805.94	5.2	28,044.96	4.7
Raw waste	438.52	0.8	2,772.40	0.5
Finished waste	246.84	0.5	4,141.30	0.7
Purchase discounts	(149.58)	(0.3)	(2,195.03)	(0.4)
Total cost of sales	\$ 19,371.90	35.8	\$ 206,829.26	34.4
Total income	\$ 54,734.95	64.2	\$ 393,890.66	65.6
Labor				
Salaries employees	\$ 10,378.01	19.2	\$ 102,897.30	17.1
Salaries managers	3,392.29	6.3	38,930.47	6.5
Casual labor	60.72	0.1	74.72	0.0
Payroll taxes	1,289.50	2.4	13,961.71	2.3
Insurance group	364.93	0.7	1,831.41	0.3
Insurance workmen's comp.	199.83	0.4	2,378.13	0.4
Employee benefits	0.00	0.0	100.00	0.0
Total labor	\$ 15,685.28	29.0	\$ 160,174.34	26.7
Manager controllables				
Cash short & over	\$ 56.97	0.1	\$ 802.28	0.1
Uniforms	87.62	0.2	1,527.00	0.3
Laundry	26.75	0.0	860.64	0.1
Store supplies	809.30	1.5	5,267.44	0.9
Birthday cake	0.00	0.0	(94.24)	(0.0)
Office supplies	0.00	0.0	82.19	0.0
Cleaning supplies	308.47	0.6	929.42	0.2
Small equipment	0.00	0.0	1,076.77	0.2
Electricity, water and gas	1,680.26	3.1	18,305.13	3.0
Telephone	129.15	0.2	1,215.89	0.2
Waste removal	206.84	0.4	1,777.13	0.3
Extermination	24.00	0.0	168.77	0.0
Total manager controllable	\$ 2,329.26	6.2	\$ 31,918.48	5.3

(Continued)

## HIBIT 14.15

## (Continued) West Tennessee Restaurants: Hardee's of Waverly

	CURRENT MONTH	YEAR TO DATE (11 MONTHS)		
	AMOUNT	%	AMOUNT	%
Advertising				
Advertising national program	\$ 200.00	0.4	\$ 2,140.00	0.4
Advertising coupons & promo.	229.29	0.4	1,821.42	0.3
Advertising local	230.85	0.4	3,953.42	0.7
Promotion items	943.65	1.7	15,112.02	2.5
Advertising co-op	2,056.39	3.8	23,276.88	3.8
Advertising pop kits	278.85	0.5	3,069.36	0.5
Billboard rent	0.00	0.0	1,298.80	0.2
Total advertising	<u>\$ 3,939.03</u>	<u>7.3</u>	<u>\$ 50,671.90</u>	<u>8.4</u>
Occupancy				
Rent	\$ 8,000.00	14.8	\$ 88,000.00	14.6
Repairs and maintenance	701.34	1.3	9,100.77	1.5
Insurance general	310.91	0.6	4,889.44	0.8
Total occupancy	<u>\$ 9,012.25</u>	<u>16.7</u>	<u>\$ 101,790.21</u>	<u>16.9</u>
Miscellaneous				
Dues & subscriptions	\$ 11.00	0.0	\$ 643.50	0.1
Contributions	0.00	0.0	25.00	0.0
Travel & entertainment				
Taxes & licenses	147.17	0.3	2,290.37	0.4
Office supplies & expense	0.00	0.0	2.61	0.0
Stationery & printing	0.00	0.0	55.18	0.0
Postage & freight				
Bank charges	12.10	0.0	58.00	0.0
Royalties				
Bank charges	0.00	0.0	26.74	0.0
Misc. operating expense				
Total expenses	<u>\$ 33,805.70</u>	<u>62.5</u>	<u>\$367,679.21</u>	<u>61.2</u>
Other income				
Sale of by-product	\$ 14.50	0.0	\$ 205.61	0.0
Commissions earned	0.00	0.0	649.92	0.1
Promo item net profit	453.67	0.8	6,421.95	1.1
Total other income (loss)	<u>\$ 468.17</u>	<u>0.9</u>	<u>\$ 7,277.48</u>	<u>1.2</u>
Net income (loss) before G. & A.	<u>\$ 1,397.42</u>	<u>2.6</u>	<u>\$ 33,488.93</u>	<u>5.6</u>
Net operating income (loss)	<u>\$ 1,397.42</u>	<u>2.6</u>	<u>\$ 33,488.93</u>	<u>5.6</u>
Net income (loss) bef. taxes	<u>\$ 1,397.42</u>	<u>2.6</u>	<u>\$ 33,488.93</u>	<u>5.6</u>
Net income (loss)	<u><u>\$ 1,397.42</u></u>	<u><u>2.6</u></u>	<u><u>\$ 33,488.93</u></u>	<u><u>5.6</u></u>

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## EXHIBIT 14.16

## West Tennessee Restaurants, Inc.

Consolidated Balance sheet For the Month Ended November 30, 1987 (Unaudited)

Assets	
Current assets	
Cash on hand	\$ 2,200.00
Cash in bank—Checking #1	<u>34,206.32</u>
Cash in bank—Payroll	82.32
Cash in bank—Savings	32,000.00
Cash in bank—Checking #2	597.06
Cash in bank—Checking #3	268.34
Cash in bank—Checking #4	316.65
Cash in bank—Checking #5	569.79
Cash in bank—Checking #7	47.06
Accounts receive.—Employees	288.07
Inventory—Lexington	20,254.47
Inventory—Savannah	14,541.68
Inventory—Haverly	13,051.76
Inventory—Milan	<u>13,492.03</u>
Total current assets	<u>131,915.55</u>
Fixed assets	
Machinery and equipment	\$ 29,412.22
Vehicles	7,174.49
Accumulated depreciation	<u>(8,991.38)</u>
Total fixed assets	<u>27,595.33</u>
Other assets	
License agreement—Lexington	\$ 37,000.00
License agreement—Savannah	37,058.00
License agreement—Waverly	37,285.00
License agreement—Milan	37,295.00
Goodwill	19,000.00
Organization expense	562.50
Covenant not to compete	749.95
Utility deposits	6,900.00
Development agreement—Hardees	37,499.95
Lease agreement—Lexington	132,365.85
Lease agreement—Savannah	104,275.80
Lease agreement—Milan	<u>61,999.95</u>
Total other assets	<u>\$511,982.80</u>
Total assets	<u><u>\$671,493.68</u></u>

## HIBIT 14.16

## (Continued) West Tennessee Restaurants:

## Consolidated Balance Sheet

<i>Liabilities and Equity</i>	
Current liabilities	
Accounts payable	
FICA tax payable	
Federal withholding payable	
Accrued state unemployment	
Accrued federal unemployment	
Accrued interest	
Accrued salaries	
Sales tax payable	
Accrued insurance	
Notes payable—H&S Rest.	
Notes payable—stockholders	
Total current liabilities	
Long-term liabilities	
Notes payable—H&S Rest.	
Notes payable—stockholders	
Total long-term liabilities	
Stockholders' equity	
Capital stock outstanding	
Retained earnings—beginning	
Current earnings	
Total stockholders' equity	
Total liab. & stockholders' equity	

1496  
\$154,700.76

1,944.84  
576.55  
38,619.99  
14,512.23  
15,800.00  
(2,895.03)  
24,267.21  
59,059.16

1448  
1,944.84  
576.55  
38,619.99  
14,512.23  
15,800.00  
(2,895.03)  
24,267.21  
59,059.16

306,405.15

\$446,405.26  
208,058.96

654,464.22

\$960,869.37

\$ 4,000.00  
(9,339.67)  
(223,916.02)

(289,375.69)

\$ 671,493.68

Organization

WTRC has 130 employees in four locations. Each unit has a manager, three assistant managers, and two breakfast supervisors. The managers' salaries range from \$20,000 to \$25,000 per year. All other employees are hired on a part-time basis. Their wages range from \$3.35 to \$5 an hour. Gibson and his wife are in charge of the daily operations. Gibson earns \$36,000 and his wife earns \$12,000 annually.

The manager of the Lexington unit has been employed since the unit opened. He takes a great deal of pride in his job and is very active in community activities.

The Savannah location has had three different managers since the unit opened. Several customer complaints have been received on the quality of the

food and service. In addition, McDonald's opened a new store in September 1987, across the street from Hardee's.

The Waverly unit has had only one manager since it opened. Sales have been fairly stable at this location.

At Milan, (eight) different managers have been employed since the unit began operation. This has been a constant concern for Gibson: He intended to make the Milan store the showplace of his operation. Sales have been very disappointing at Milan.

Additional Information

In September 1986, Gibson secured the development rights to Madison County and Obion County. Jackson, the county seat of Madison County, has a population of 75,000. Union City in Obion County has a population of 10,500. In order to finalize the agreements for the development rights, Gibson had to send \$25,000 to the Hardee's Corporation in Rocky Mount, North Carolina.

Gibson contacted FFC to secure information relative to building additional units in Jackson and Union City. The management of FFC was willing to provide financing for both units with no money down. In fact, financing in excess of the cost of constructing a unit could be secured. Joe Adams of FFC mentioned that funds in excess of \$100,000 were provided to Nelson Storrie in order to start his business in Lexington and Savannah. Gibson attempted to convince the other stockholders to build units in the two other locations. It was a consensus of the other stockholders to make this decision after the business had been through a one-year operating cycle.

On December 15, 1987, Soles, Lewis, and Musselwhite met at Musselwhite's law office to discuss the financial condition of WTRC and to review the latest financial statements.

MUSSELWHITE: "I still for the life of me can't understand how we could make \$24,000 in our first year of operation and lose \$248,000 in the first three months of the second year. I can't understand these financial statements. Something is fishy about this whole thing."

SOLES: "Is John stealing us blind? Let's fire him and find us somebody else to run this operation."

LEWIS: "Let's look at our alternatives. Maybe we could sell to Boddie Noel who owns over-ten Hardee's units in West Tennessee."

MUSSELWHITE: "What do we have to sell?"

LEWIS: "Let's try to sell all four units and not just the Lexington and Waverly units."

SOLES: "Does anybody want to go to West Tennessee and try to save our investment? Henry, you need to conduct an audit for us."

SOLES: "Is there anyway we can get out of the 13% fixed payment on the lease? The prime interest rate is now under 10% and we are still paying 13%."

MUSSELWHITE: "It's iron clad. They would be stupid to let us out of the lease. I don't think we can buy our way out."

Lewis suggested that each stockholder could contribute some additional funds to bail out the corporation.

SOLES: "How much do we need

Lewis had no idea how much would be required to reduce the accounts payable. ✓

SOLES. "I want to be sure that John puts in his fair share." MISSET warms. "Do you think—"

**MCBURNIE** Do you think we could borrow some money from local banks in each town where we do business? I know the

LEWIS: We don't have anything to use for collateral in Lexington or Savannah to personally guarantee anything that we borrow.

I doubt that the bank in Milan would loan us anything based-on our profit and loss there."

Musselwhite commented that Gibson had never paid the \$25,000 to Hardee's for the development rights to Madison and Obion counties. Someone from Hardee's main office had told him that this was now open territory because the deposit had not been made.

LEWIS: "It looks like we made Storrie a rich man, and we are now paying for our ignorance. We need to find some short-term solutions and formulate some long-range plans if we plan to stay in business."

SOLES: "What shall we do to get out of this dilemma?"

Industry Six  
AGRIBUSINESS

CASE 15

Pioneer Hi-Bred International, Inc.

J. DAVID HUNGER • DEBORAH READING • DAVID SAVERAID  
MARRETT VARGHESE • LARRY MAXWELL

Perhaps Henry Agard Wallace will not be remembered as Vice-President United States under Franklin D. Roosevelt or as the Progressive Party's candidate for President in 1948, but the legacy he left to agriculture will not be forgotten. Chiefly responsible for the development of hybrid corn seed, he provided the impetus for a doubling of American corn yields per acre in the last forty years. As an Iowa high school student, Wallace produced the Copper Cross variety of corn seed in 1924, and sold all fifteen bushels to his genetic experiments. In 1926, Wallace and a few friends founded their first hybrid seed company, the Hi-Bred Corn Company, to market the results of his research. Around 1936, Pioneer was added to the company name.

The native Americans who first domesticated corn had simply saved ears from the healthiest plants to plant the next spring. The typical American corn grower continued to use this same breeding method through the 1930s. This time-honored program cost little to implement and generally produced good results over the years. By around 1870, however, average U.S. corn had leveled off at twenty-six bushels per acre. Fifty years later, in the 1930s, corn growers harvested only about twenty-eight bushels of grain for every acre planted.<sup>1</sup>

Henry Wallace forged an agreement during the Great Depression in the 1930s with a Des Moines real estate agent, Roswell Garst, to distribute Pioneered hybrid corn seed to the nation's skeptical farmers. The Garst-Pioneer relationship, cemented by a 1930 handshake, was to continue for more than a century.

This case was prepared by Professor J. David Hunger, Deborah Reading, David Sauerwein, Vangiees, and Larry Maxwell of Iowa State University. This case was presented at a Workshop of the Midwest Society for Case Research. Copyright © 1983 by J. David Hunger. Reprinted by permission.

## EXHIBITS

### AIDS FOR CASE ANALYSIS AND PRESENTATION

#### EXHIBIT A

##### STRATEGIC AUDIT OF A CORPORATION

Special Note: Terms underlined appear as headings in *Strategic Audit Worksheet* in ST. FAN™ SOFTWARE accompanying this textbook.

###### I. Current Situation

- A. How is the corporation performing in terms of return on investment, overall market share, profitability trends, earnings per share, etc?
- B. What are the corporation's current mission, objectives, strategies, and policies?
  1. Are they clearly stated or are they merely implied from performance?
  2. *Mission* (purpose or reason for the company's existence): What business(es) is the corporation in? Why?
  3. *Objectives* (quantified statements telling what is to be accomplished by a particular date): What are the corporate, business, and functional objectives? Are they consistent with each other, with the mission, and with the internal and external environments?
  4. *Strategies* (comprehensive master plan stating *how* a company will achieve its mission and objectives): What strategy or mix of strategies is the corporation following? Are they consistent with each other, with the mission and objectives, and with the internal and external environments?
  5. *Policies* (broad guidelines for decision making to link strategy formulation with its implementation): What are they? Are they consistent with each other, with the mission, objectives, and strategies, and with the internal and external environments?

###### II. Strategic Managers

###### A. Board of Directors

1. Who are they? Are they internal or external?
2. Do they own significant shares of stock?

SOURCE: T. L. Wheelen and J. D. Hunger, "Strategic Audit of a Corporation." Copyright © 1982 by Wheelen and Hunger Associates. Reprinted by permission. Revised 1989.

3. Is the stock privately held or publicly traded?
4. What do they contribute to the corporation in terms of knowledge, skills, background, and connections?
5. How long have they served on the board?
6. What is their level of involvement in strategic management? Do they merely rubber-stamp top management's proposals or do they actively participate and suggest future directions?

###### B. Top Management

1. What person or group constitutes top management?
2. What are top management's chief characteristics in terms of knowledge, skills, background, and style?
3. Has top management been responsible for the corporation's performance over the past few years?
4. Has it established a systematic approach to the formulation, implementation, and evaluation and control of strategic management?
5. What is its level of involvement in the strategic management process?
6. How well does top management interact with lower-level management?
7. How well does top management interact with the board of directors?
8. Is top management sufficiently skilled to cope with likely future challenges?

###### III. External Environment: Opportunities and Threats (S.W.O.T.)

###### A. Societal Environment

1. What general environmental factors among the sociocultural, economic, political-legal, and technological forces are currently affecting both the corporation and the industries in which it competes? Which present current or future threats? Opportunities?
2. Which of these are currently the most important (that is, are strategic factors) to the corporation and to the industries in which it competes? Which will be important in the future?

**B. Task Environment**

1. What forces in the immediate environment (that is, threat of new entrants, bargaining power of buyers, threat of substitute products or services, bargaining power of suppliers, rivalry among competing firms, and the relative power of unions, governments, etc.) are currently affecting the level of competitive intensity within the industries in which the corporation offers products or services?
2. What key factors in the immediate environment (that is, customers, competitors, suppliers, creditors, labor unions, governments, trade associations, interest groups, local communities, and stockholders) are currently affecting the corporation? Which present current or future threats? Opportunities?
3. Which of these forces and factors are the most important (that is, are strategic factors) at the present time? Which will be important in the future?

**IV. Internal Environment: Strengths and Weaknesses (S.W.O.T.)****A Corporate Structure**

1. How is the corporation presently structured?
  - a) Is decision-making authority centralized around one group or decentralized to many groups or units?
  - b) Is it organized on the basis of functions, projects, geography, or some combination of these?
2. Is the structure clearly understood by everyone in the corporation?
3. Is the present structure consistent with current corporate objectives, strategies, policies, and programs?
4. In what ways does this structure compare with those of similar corporations?

**B. Corporate Culture**

1. Is there a well-defined or emerging culture composed of shared beliefs, expectations, and values?
2. Is the culture consistent with the current objectives, strategies, policies, and programs?
3. What is the culture's position on important issues facing the corporation (that is, on productivity, quality of performance, adaptability to changing conditions)?

**C. Corporate Resources****1. Marketing**

- a) What are the corporation's current marketing objectives, strategies, policies, and programs?
  - i) Are they clearly stated, or merely implied from performance and/or budgets?
  - ii) Are they consistent with the corporation's mission, objectives, strategies, policies, and with internal and external environments?
- b) How well is the corporation performing in terms of analysis of market position and marketing mix (that is, of product, price, place, and promotion)?
  - i) What trends emerge from this analysis?
  - ii) What impact have these trends had on past performance and how will they probably affect future performance?
  - iii) Does this analysis support the corporation's past and pending strategic decisions?
- c) How well does this corporation's marketing performance compare with those of similar corporations?
- d) Are marketing managers using accepted marketing concepts and techniques to evaluate and improve product performance? (Consider product life cycle, market segmentation, market research, and product portfolios.)
- e) What is the role of the marketing manager in the strategic management process?

**2. Finance**

- a) What are the corporation's current financial objectives, strategies, policies, and programs?
  - i) Are they clearly stated or merely implied from performance and/or budgets?
  - ii) Are they consistent with the corporation's mission, objectives, strategies, policies, and with internal and external environments?
- b) How well is the corporation performing in terms of financial analysis? (Consider liquidity ratios, profitability ratios, activity ratios, leverage ratios, capitalization structure, and constant dollars.)
  - i) What trends emerge from this analysis?
  - ii) Are there any significant differences when statements are calculated in constant versus reported dollars?

- iii) What impact have these trends had on past performance and how will they probably affect future performance?
- iv) Does this analysis support the corporation's past and pending strategic decisions?
- c) How well does this corporation's financial performance compare with that of similar corporations?
- d) Are financial managers using accepted financial concepts and techniques to evaluate and improve current corporate and divisional performance? (Consider financial leverage, capital budgeting, and ratio analysis.)
- e) What is the role of the financial manager in the strategic management process?

3. Research and Development (R&D)

- a) What are the corporation's current R&D objectives, strategies, policies, and programs?
  - i) Are they clearly stated, or implied from performance and/or budgets?
  - ii) Are they consistent with the corporation's mission, objectives, strategies, policies, and with internal and external environments?
  - iii) What is the role of technology in corporate performance?
  - iv) Is the mix of basic, applied, and engineering research appropriate given the corporate mission and strategies?
- b) What return is the corporation receiving from its investment in R&D?
- c) Is the corporation technologically competent?
- d) How well does the corporation's investment in R&D compare with the investments of similar corporations?
- e) What is the role of the R&D manager in the strategic management process?

4. Operations (Manufacturing/Service)\*

- a) What are the corporation's current manufacturing/service objectives, strategies, policies, and programs?
  - i) Are they clearly stated, or implied from performance and/or budgets?
  - ii) Are they consistent with the corporation's mission, objectives, strategies, policies, and with internal and external environments?
  - iii) What is the type and extent of operations capabilities of the corporation?
    - i) If product-oriented, consider plant facilities, type of manufacturing system (continuous mass production or intermittent job shop), age and type of equipment, degree and role of automation and/or robots, plant capacities and utilization, productivity ratings, availability and type of transportation.
    - ii) If service-oriented, consider service facilities (e.g., hospital, theater, or school buildings), type of operations systems (continuous service over time to same clientele or intermittent service over time to varied clientele), age and type of supporting equipment, degree and role of automation and/or use of mass communication devices (e.g., diagnostic machinery, videotape machines), facility capacities and utilization rates, efficiency ratings of professional/service personnel, availability and type of transportation to bring service staff and clientele together.
  - c) Are manufacturing or service facilities vulnerable to natural disasters, local or national strikes, reduction or limitation of resources from suppliers, substantial cost increases of materials, or nationalization by governments?
  - d) Is operating leverage being used successfully with an appropriate mix of people and machines, in manufacturing firms, or of support staff to professionals, in service firms?
  - e) How well does the corporation perform relative to the competition? Consider costs per unit of labor, material, and overhead; downtime; inventory control management and/or scheduling of service staff; production ratings; facility utilization percentages; and number of clients successfully treated by category (if service firm), or percentage of orders shipped on time (if product firm).
    - i) What trends emerge from this analysis?
    - ii) What impact have these trends had on past

\* Research suggests that the strategic approach developed for manufacturing companies is very useful for service firms. See H. M. O'Neill, "Do Strategic Paradigms Work in Service Industries?" in *Handbook of Business Strategy, 1986/87 Yearbook*, edited by W. D. Guth (Boston: Warren, Forham, and Lamont, 1986), pp. 19.1-19.14.

6. **Operations Management**

Performance and how will they probably affect future performance?

- Does this analysis support the corporation's past and pending strategic decisions?
- Are operations managers using appropriate concepts and techniques to evaluate and improve current performance? Consider cost systems, quality control and reliability systems, inventory control management, personnel scheduling, learning curves, safety programs, engineering programs, that can improve efficiency of manufacturing or of service.
- What is the role of the operations manager in the strategic management process?

#### 5. Human Resources Management (HRM)

- What are the corporation's current HRM objectives, strategies, policies, and programs?
  - Are they clearly stated, or merely implied from performance and/or budgets?
  - Are they consistent with the corporation's mission, objectives, strategies, policies, and with internal and external environments?
- How well is the corporation's HRM performing in terms of improving the fit between the individual employee and the job? Consider turnover, grievances, strikes, layoffs, employee training, quality of work life.
  - What trends emerge from this analysis?
  - What impact have these trends had on past performance and how will they probably affect future performance?
  - Does this analysis support the corporation's past and pending strategic decisions?
- How does this corporation's HRM performance compare with that of similar corporations?
- Are HRM managers using appropriate concepts and techniques to evaluate and improve corporate performance? Consider the job analysis program, performance appraisal system, up-to-date job descriptions, training and development programs, attitude surveys, job design programs, quality of relationship with unions.
- What is the role of the HRM manager in the strategic management process?

#### 6. Information Systems (IS)

- What are the corporation's current IS objectives, strategies, policies, and programs?
  - Are they clearly stated, or merely implied from performance and/or budgets?
  - Are they consistent with the corporation's mission, objectives, strategies, policies, and with internal and external environments?
- How well is the corporation's IS performing in terms of providing a useful database, automating routine clerical operations, assisting managers in making routine decisions, and providing information necessary for strategic decisions?
  - What trends emerge from this analysis?
  - What impact have these trends had on past performance and how will they probably affect future performance?
  - Does this analysis support the corporation's past and pending strategic decisions?
- How does this corporation's IS performance and stage of development compare with that of similar corporations?
- Are IS managers using appropriate concepts and techniques to evaluate and improve corporate performance? Do they know how to build and manage a complex data-base, conduct system analyses, and implement interactive decision-support systems?
- What is the role of the IS manager in the strategic management process?

#### V. Analysis of Strategic Factors

- What are the key internal and external factors (S.W.O.T.) that strongly affect the corporation's present and future performance?
  - What have been the key historical strategic factors for this corporation?
  - What are the key short-term (0-1 year) strategic factors for this corporation?
  - What are the key intermediate-term (1-3 year) strategic factors for this corporation?
  - What are the key long-term (3-10 year) strategic factors for this corporation?

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- B. Are the current mission and objectives appropriate in light of the key strategic factors and problems?
  - 1. Should the mission and objectives be changed? If so, how?
  - 2. If changed, what will the effects on the firm be?

#### **VI. Strategic Alternatives**

- A. Can the current or revised objectives be met by the simple, more careful implementing of those strategies presently in use (for example, fine tuning the strategies)?
- B. What are the major feasible alternative strategies available to this corporation? What are the pros and cons of each? Can *scenarios* be developed and agreed upon?
  - 1. Consider stability, growth, and retrenchment as corporate strategies.
  - 2. Consider cost leadership, differentiation, and focus as business strategies.
  - 3. Consider any functional strategic alternatives that might be needed for reinforcement of an important corporate or business strategic alternative.

#### **VII. Recommendation**

- A. Specify which of the strategic alternatives you are recommending for the corporate, business, and functional levels of the corporation. Do you recommend different business or functional strategies for different units of the corporation?
- B. Justify your recommendation in terms of its ability to resolve both long- and short-term problems and effectively deal with the key strategic factors.
- C. What policies should be developed or revised to guide effective implementation?

#### **VIII. Implementation**

- A. What kinds of programs (for example, restructuring the corporation) should be developed to implement the recommended strategy?
  - 1. Who should develop these programs?
  - 2. Who should be in charge of these programs?
- B. Are the programs financially feasible? Can *pro forma* budgets be developed and agreed upon? Are priorities and timetables appropriate to individual programs?
- C. Will new standard operating procedures need to be developed?

#### **IX. Evaluation and Control**

- A. Is the current information system capable of providing sufficient feedback on implementation activities and performance?
  - 1. Can performance results be pinpointed by area, unit, project, or function?
  - 2. Is the information timely?
- B. Are adequate control measures, to ensure conformance with the recommended strategic plan, in place?
  - 1. Are appropriate standards and measures being used?
  - 2. Are reward systems capable of recognizing and rewarding good performance?

#### **EXHIBIT B SUGGESTED TECHNIQUES FOR CASE ANALYSIS AND PRESENTATION**

##### **A. Case Analysis**

- 1. Read the case rapidly, to get an overview of the nature of the corporation and its environment. Note the date on which the case was written so that you can put it into the proper time context of the decision issue.
- 2. Read the case a second time, and give it a detailed analysis according to the strategic audit (see *Exhibit A*) when appropriate. The audit will provide a conceptual framework for the examination of the corporation's objectives, mission, policies, strategies, problems, symptoms of problems, and issues. You should end up with a list of the salient issues and problems in the case. Perform a financial analysis.
- 3: Undertake outside research, when appropriate, to uncover economic and industrial information. *Exhibit C* suggests possible sources for outside research. These data should provide the environmental setting for the corporation. Conduct an in-depth analysis of the industry. Analyze the important competitors. Consider the bargaining power of suppliers, as well as buyers that might affect the firm's situation. Consider also the possible threats of future competitors in the industry, as well as the likelihood of new or different products or services that might substitute for the company's present ones.

4. Marshal facts and evidence to support selected issues and problems. Develop a framework or outline to organize the analysis. Your method of organization could be one of the following:
  - a) The case as organized around the strategic audit.
  - b) The case as organized around the key individual(s) in the case.
  - c) The case as organized around the corporation's functional areas: production, management, finance, marketing, and R&D.
  - d) The case as organized around the decision-making process.
  - e) The case as organized around the seven variables (McKinsey 7-S Framework) of structure, strategy, staff, management style, systems and procedures, skills, and shared values.
5. Clearly identify and state the central problem(s) as supported by the information in the case. Use the S.W.O.T. format to sum up the key strategic factors facing the corporation: Strengths and Weaknesses of the company; Opportunities and Threats in the environment.
6. Develop a logical series of alternatives that evolve from the analysis to resolve the problem(s) or issue(s) in the case.
7. Evaluate each of the alternatives in light of the company's environment (both external and internal), mission, objectives, strategies, and policies. For each alternative, consider both the possible obstacles to its implementation and its financial implications.
8. Make recommendations on the basis of the fact that action must be taken. (Don't say, "I don't have enough information." The individuals in the case may have had the same or even less information than is given by the case.)
  - a) Base your recommendations on a total analysis of the case.
  - b) Provide the evidence gathered in step A4 (p. 685) to justify suggested changes.
  - c) List the recommendations in order of priority—those to be done immediately and those to be done in the future.
  - d) Show clearly how your recommendations deal with each of the *strategic factors* that were mentioned earlier in step A5. How do they build

upon corporate *Strengths* to take advantage of environmental *Opportunities*? How do they deal with environmental *Threats* and corporate *Weaknesses*?

- e) Explain how each recommendation will be implemented. How will the plan(s) deal with anticipated resistance?
- f) Suggest feedback and control systems, to ensure that the recommendations are carried out as planned and to give advance warning of needed adjustments.

#### B. Written Presentation

1. Use the outline from step A4 (p. 685) to write the first draft of the case analysis. Follow steps A5 through A8.
  - a) Don't rehash the case material; rather, supply the salient evidence and data to support your recommendations.
  - b) Develop exhibits on financial ratios and other data for inclusion in your report. The exhibits should provide meaningful information. Mention key elements of an exhibit in the text of the written analysis. If you include a ratio analysis as an exhibit, explain the meaning of the ratios in the text and cite only the critical ones in your analysis.
2. After it is written, review your case analysis for content and grammar. Remember to compare the outline (step A4) with the final product. Make sure you've presented sufficient data or evidence to support your problem analysis and recommendations. If the final product requires rewriting, do so. Keep in mind that the written report is going to be judged not only on *what* is said but also on the *manner* in which it is said.
3. If your written or oral presentation requires *pro forma* statements, you may wish to develop a scenario for each quarter and/or year in your forecast. A well-constructed scenario will help improve the accuracy of your forecast.

#### C. Oral Presentation by Teams

1. The team should first decide upon a framework or outline for analysis, as mentioned in step A4. Although teams often divide the analysis work among team members, it is helpful if each team member also follows steps A5 through A8 in developing a preliminary analysis of the entire case to share and compare with team members.

2. The team should combine member input into one consolidated team audit, including S.W.O.T. analysis, alternatives, and recommendation(s). Gain agreement on the strategic factors and the best alternative(s) to support.
3. Divide among the team's members the further development and presentation of the case analysis and recommendation(s). Agree upon responsibilities for the preparation of visual aids and handouts.
4. Modify the team outline, if necessary, and have one or two rehearsals of the presentation. If there is a time constraint for the final presentation, apply it to the practice presentation. If exhibits are used, make sure to allow sufficient time for their explanation. Critique one another's presentations and make the necessary modifications to the analysis.
5. During the class presentation, if a presenter misses a key fact, either slip a note to him or her, or deal with it in the summary speech.
6. Answer the specific questions raised by the instructor or classmates. If one person acts as a moderator for the questions and refers the questions to the appropriate team member, the presentation runs more smoothly than it will if everyone (or no one) tries to deal with each question.

## EXHIBIT C RESOURCES FOR CASE RESEARCH

### A. Company Information

1. Annual Reports
2. *Moody's Manuals on Investment* (a listing of companies within certain industries, that contains a brief history and a five-year financial statement of each company)
3. Securities and Exchange Commission Annual Report Form 10-K
4. *Standard and Poor's Register of Corporations, Directors, and Executives*
5. *Value Line Investment Survey*

### B. Economic Information

1. Regional statistics and local forecasts from large banks
2. *Business Cycle Development* (Department of Commerce)
3. Chase Econometric Associates' publications

4. Census Bureau publications on population, transportation, and housing
5. *Current Business Reports* (Department of Commerce)
6. *Economic Indicators* (Joint Economic Committee)
7. *Economic Report of the President to Congress*
8. *Long-Term Economic Growth* (Department of Commerce)
9. *Monthly Labor Review* (Department of Labor)
10. *Monthly Bulletin of Statistics* (United Nations)
11. "Survey of Buying Power," *Sales Management*
12. Standard and Poor's Statistical Service
13. *Statistical Abstract of the United States* (Department of Commerce)
14. *Statistical Yearbook* (United Nations)
15. *Survey of Current Business* (Department of Commerce)
16. *U.S. Industrial Outlook* (Department of Defense)
17. *World Trade Annual* (United Nations)
18. *Overseas Business Reports* (published by country, by U.S. Department of Commerce)

### C. Industry Information

1. Analyses of companies and industries by investment brokerage firms
2. *Annual Report of American Industry* (a compilation of statistics by industry and company, published by *Fortune*)
3. *Business Week* (provides weekly economic and business information, and quarterly profit and sales rankings of corporations)
4. *Fortune Magazine* (publishes listings of financial information on corporations within certain industries)
5. *Industry Survey* (published quarterly by Standard and Poor Corporation)
6. *Value Line Investment Survey*.

### D. Directory and Index Information

1. *Business Information: How to Find and Use It*
2. *Business Periodical Index*
3. *Directory of National Trade Associations*
4. *Encyclopedia of Associations*
5. *Funk and Scott Index of Corporations and Industries*
6. *Thomas Register of American Manufacturers*

- 7. *Wall Street Journal Index*
- 8. *Where to Find Business Information*
- E. Ratio Analysis Information
  - 1. *Almanac of Business and Industrial Ratios* (Prentice-Hall)
  - 2. *Annual Statement Studies* (Robert Morris Associates)
  - 3. *Dun's Review* (Dun and Bradstreet: published annually in September-December issues)
  - 4. *Industry Norms and Key Business Ratios* (Dun and Bradstreet)
  - 5. *How to Read a Financial Report* (Merrill Lynch, Pierce, Fenner and Smith, Inc.)
  - 6. *Quality of Earnings: The Investor's Guide to How Much Money a Company Is Really Making* (T. L. O'Grove, Free Press, 1987)
- F. General Sources
  - 1. *Commodity Yearbook*
  - 2. *U.S. Census of Business*
- 3. *U.S. Census of Manufacturers*
- 4. *World Almanac and Book of Facts*
- G. Business Periodicals
  - 1. *Business Week*
  - 2. *Forbes*
  - 3. *Wall Street Journal*
  - 4. *Fortune*
  - 5. Industry-specific periodicals (e.g., *Oil and Gas Journal*)
- H. Academic/Practitioner Journals
  - 1. *Harvard Business Review*
  - 2. *Journal of Business Strategy*
  - 3. *Long-Range Planning*
  - 4. *Strategic Management Journal*
  - 5. *Planning Review*
  - 6. *Academy of Management Review*
  - 7. *SAM Advanced Management Journal*