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The Journal of Applied Case Research

The *Journal of Applied Case Research* (JACR) is a publication of the Southwest Case Research Association (SWCRA). The *Journal* accepts cases and critical incidents, as well as research and pedagogical articles about the case method and teaching. This journal is double-blind peer reviewed with an acceptance rate of less than 40%.

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CELINA TEXAS CAJUN FEST

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ABSTRACT

Cities regularly explore major events, festivals, and activities to drive tourism, visitors, and customers to their businesses. Celina, Texas, a rapidly growing city in north Texas has proven particularly adept at promotion and no event there is bigger than Cajun Fest. This case examines their annual Cajun Fest and has students conduct a SWOT Analysis for the event. The case also has a virtual reality video component that was filmed with special full-surround video that can be used with appropriate video headsets for a full immersive experience in Cajun Fest and hear first-hand the interviews conducted as well as sights and sounds of the festival. Teaching notes, and access to the virtual reality video components are available from the lead author.

Keywords: Festivals, city events, growth, downtown business, city marketing, community marketing

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INTRODUCTION

The City of Celina focuses on events to help create recognition, attract visitors, and boost business throughout the area. In addition to “Cajun Fest,” the city hosted six annual events. Due to the pandemic, some of these events were cancelled the previous year. Likewise, Cajun Fest had also been rained out the previous year. Fortunately, event insurance compensated the city for the expenses it had already incurred in their commitment for several bands from Louisiana and Texas and for the 5,000 pounds of crawfish that had been purchased and guaranteed for the event. This demonstrates the importance of proper planning and risk management for such events. Most of these events attract between 2,000 to 7,000 visitors and are publicized in the area media. These events, usually lasting from 11:00 AM through 9:00 PM, generated heavy foot traffic for the city and brought in thousands of dollars for local businesses and vendor booths set up for the events. These events, therefore, not only generate tremendous publicity, but also increase retail revenue for local businesses. Events are all admission-free, and many guests bring lawn chairs and make a full day of the events.

However, there is still potential for new events to be added to the calendar and to build off the other events. But what type of events could be accommodated and be counted on to attract visitors? There seemed to be a large list of possibilities to consider, but there was a concern for using effective target marketing in the event selection. In other words, what types of events best serve the community, promoted the culture and aesthetics of the local community, and promote the local and downtown business community. As you view the videos, consider what kind of additional events might be appropriate for Celina city leaders to consider?

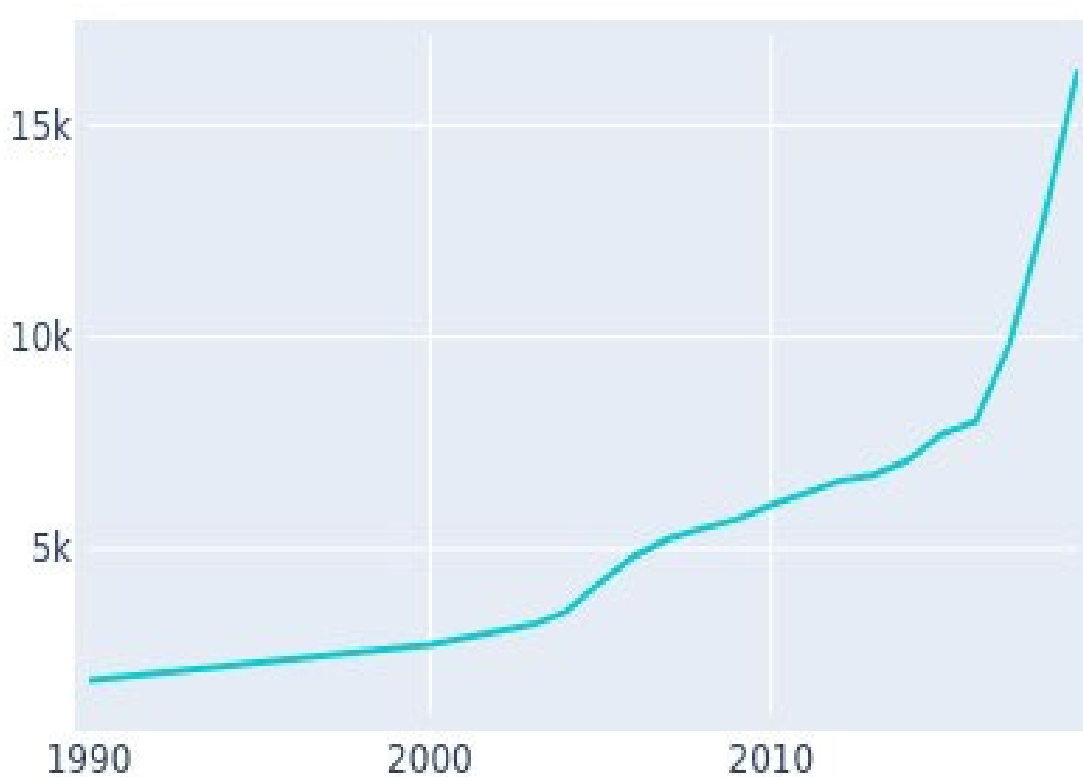
CASE OVERVIEW

Celina History and Current Growth Trends

Established in 1879, and named Celina by the first postmaster, John T. Mulkey in honor of his hometown of Celina, Tennessee, the original townsite was located one mile south of the present town

square. As the St. Louis and San Francisco Railroad was built through the area, Old Celina was relocated to a row of frame buildings facing the railroad on the west side. Later, J. Fred Smith rebuilt this section of uniform brick buildings around a square. Celina was officially incorporated in 1907, and Will L Newsom was the first mayor (Hall, 1975; Stambaugh 1958; Hammond's New Supreme World Atlas, 1955). Jack Ousley is a member of one of the founding families of Celina. He is a fourth-generation family member and current president of the Main Street board of directors. In an interview, Ousley discussed the progress of the city from the historical square in the early 1900s to its designation by then Texas First Lady (later U. S. First Lady) Laura Bush's announcement twenty-five years ago of Celina as a Texas Main Street City, designating it as a city that recognizes its roots and preserves and sustains its history. Ousley also gives a brief overview of the establishment of the Cajun Fest that was established to bring in tourists and visitors and promote the historic square and local business community (Ousley, 2021). [Virtual Reality Video of Donna Lynch is available]

Population in Celina grew from 150 in 1884 to 1,126 in 1920. Like many other rural communities during the Great Depression, however, the population in 1940 had shrunk to 994. Since then, Celina has grown exponentially—from 1,051 in 1950 to 1,520 in 1980, and by 1990 to 1,737. From 2000 Celina increased from 1,861 to 5,500 by 2009 (CelinaTexas.gov, 2021). Celina's population growth parallels the growth of Collin County, which is set to have over 2.4 million residents by 2050 according to the Texas Demographic Center—more than three times its population was in 2010. Other estimates put the county's 2050 population as high as 3.5 million. For perspective, according to 2017 population estimates from the U.S. Census Bureau, Dallas County had 2.6 million residents and Tarrant County just over 2 million (Scudder, 2019). Currently Celina's population is over 30,000 and is the fastest-growing city in North Texas (Adjamy, 2020). Current estimates indicate that by 2050 the Celina population will be upwards of 350,000 (CelinaTexas.gov, 2021). See Graphic 1.

Graphic 1: Population Growth of Celina, Texas since 1990 (BiggestCities.com., 2019)

The City of Celina is approximately 33 square miles and sits between the major arteries of Preston Road on its east, and future Dallas North Tollway on its west. The ultimate boundary is roughly 78 square miles, and as stated previously, has a projected build-out population of 350,000 residents (CelinaTexas.gov, 2021). Residential building permits were up 50% in 2020 and are expected to grow even more in 2021. The city's population has tripled in the past four years and is expected to hit 160,000 by the end of this decade. Corson Cramer Development, a Dallas-based land development company, is developing a new community named North Sky Celina west of Preston Road off Louisiana Drive that will have 783 residential homesteads ranging from \$200,000 to the \$400,000s (Hethcock , 2021). The Dallas Builders Association estimates that even Celina — just over 6,000 people, according to the 2010 census — will grow to more than 300,000 residents by 2050 (Scudder, 2019).

Celina Annual Events

Celina has a well-organized Chamber of Commerce and organization called Downtown Celina, which cooperate in promoting the city and its downtown merchants. Originally, called “Celina Main Street,” the Downtown Celina Program is a “volunteer-run organization with a mission to develop downtown Celina into a center of cultural and economic vitality and safeguard Celina’s rich history through target revitalization and preservation.” On this same page, it is stated that “Downtown Celina’s mission is to use the 4-Point approach to revitalization—organization, promotion, design, economic restructuring—to encourage reinvestment and preservation; and to entice businesses, customers, visitors and downtown residents to the historic district” (Downtown Celina, 2021).¹

Cajun Fest, scheduled each May, has become a highlight of the annual event calendar in Celina. In 2021 alone, Downtown Celina organized and scheduled over twenty-five events, with Cajun Fest having become the biggest and most anticipated event of the calendar year (see Graphic 2). [Virtual Reality Video interview with Joel Stevens available].

Graphic 2: Celina, Texas 2021 Events (Downtown Celina, Texas, 2021)



**2021
EVENTS**

CELINA TEXAS
Life Connected.

DOWNTOWN CELINA TEXAS

Mar. 5	Friday Night Market	July 23	Movie Night
Mar. 27	Wine Crawl	Aug. 6	Friday Night Market
Apr. 2	Friday Night Market	Aug. 14	Music Series
Apr. 3	Easter Egg Hunt	Sept. 3	Friday Night Market
Apr. 24	Movie Night	Sept. 18	Touch-A-Truck
May 1	Cinco de Mayo	Sept. 25	Movie Night
May 4	Golf Tournament	Oct. 1	Friday Night Market
May 7	Friday Night Market	Oct. 5	National Night Out
May 8	Cajun Fest	Oct. 9	Oktoberfest
June 4	Friday Night Market	Oct. 23	Beware! Of the Square
June 12	Street Dance	Nov. 5	Friday Night Market
June 19	Make Music Day	Nov. 13	Celina Craft & Cork
June 26	Splash & Blast	Dec. 1	Christmas on the Square
July 9	Friday Night Market	Dec. 1-25	Countdown to Christmas
July 16	Music Series	Dec. 4	Gift Tour

lifeincelinaTX.com

* Please note the events in blue are hosted by our community partners.
* Events may be subject to change. Follow us on Facebook @LifeInCelinaTX or visit us online at LifeInCelinaTX.com for complete event details.

Are you interested in sponsoring one of our events?

The city offers a range of events from day to night, big to small, sporty to spooky. With an array of unique events, we have plenty of opportunities for you to partner with us. We would love an opportunity to promote your organization while continuing to expand and enhance our events. Click the button below to get a general idea about some of our major events.

[Sponsorship Overview](#)

Contact marketing@celina-tx.gov for more information or to sign up today!

¹ [Event home page - 28th Annual Downtown Celina Golf Tournament \(eventcaddy.com\)](#). This may be an item students should address to advise clarification of mission and purpose of the Downtown Celina Program.

But the city and Downtown organization hosts a variety of events throughout the year to promote the City and the downtown merchants. Other events scheduled by Downtown Celina (listed in calendar order) include:

- **Friday Night Markets** (March 5; April 2; May 7; June 4; July 9; August 6; September 3; October 1; November 5, 2021): Held once a month, these are open-air markets held in Downtown Celina offering a variety of vendors. Shopping, food, and live music are featured on the Square.
- **Movie Nights on the Square** (April 24; July 23; September 25, 2021): With seating on bleachers or on the lawn at the Square, families are invited Downtown to enjoy movies on an outdoor screen reminiscent of the old outdoor drive-ins. Vendors and children's activities that are coordinated with each movie's theme are held, and many wear movie-theme oriented costumes.
- **Annual Downtown Celina Golf Tournament** (May 4, 2021): Begun in 1997, this event is the Downtown Celina Program's largest fundraising effort. This helps underwrite—along with corporate sponsorships (“hosted by”), the various activities held each year.
- **Cajun Fest** (May 8, 2021): Highlights include live music on the historic square [Virtual Reality Video Available] and a massive crawfish boil [Virtual Reality Video Available]. This year's crawfish boil—Celina's Ninth Annual Cajun Fest—served 13,500 visitors. In addition to the crawfish boil, the day features a live gator show [Virtual Reality Video Available] and downtown shopping.
- **Street Dance on the Square** (June 12, 2021): Free western style dance classes are offered on the Square by Arthur Murray Dance Studios. From the Texas two-step to line dancing,

and a free country music concert by featured musicians, this night promotes shopping and dining downtown.

- **Make Music Day** (June 19, 2021): Celebrating music around the world, this day features free activities including instrument making classes, a drum circle with a local non-profit, and a Bluegrass jam session. Local performers are featured and hosted by local downtown businesses throughout the day. Over 1,000 cities in 120 countries participate in this annual event.
- **Splash and Blast** (July 4, 2021): This annual celebration is held the weekend before Independence Day each year and features a free Kid's Zone with water slides and water games. Outdoor markets and food vendors, as well as live music are featured and capped off with a fireworks show.
- **Summer Music Series** (July 16; July 30; August 14): Concerts on the Square are presented free featuring a variety of musical artists. This year the following are featured: D City Rock, a local classic rock cover band; GoodnGone, a local country band playing originals and classic country covers; and 80s Gadgets, a cover band playing 1980s hits.
- **Touch-A-Truck** (September 18, 2021): Children are invited to come meet city employees from various departments who will show how their equipment and tools keep Celina running, as well as to hand out treats.
- **National Night Out** (October 5, 2021): Celina participates in the national effort to promote police and community partnerships and neighborhood camaraderie. Various neighborhoods host block parties for the evening and an annual Downtown Celina block party are featured each year.

- **Beware! of the Square** (October 23, 2021): This evening features trick-or treating, traditional haunts, shopping, activities for children, pumpkin carving and costumes for children and adults alike.
- **Craft and Cork** (November 13, 2021): A night of outdoor wine and craft beer tasting is held annually on the square and in front of the downtown businesses.
- **Christmas on the Square / Countdown to Christmas** (December 1, 2021): Live musical performances, amusements, food, and an annual tree-lighting ceremony are held each year. Free family-friendly amusements are provided in the Kid's Zone including train rides, live reindeer, bounce houses, and photo opportunities with Santa. Activities and events are scheduled during the day to promote shopping in downtown Celina.
- **Annual Gift Tour** (December 4, 2021): Described as a festive gift tour during the peak of the holiday shopping season, tickets are purchased, and a gift bag is given along with a map of all participating stores. At each store, participants receive a special free gift to fill their bag as well as enjoy shopping at the downtown merchants (Downtown Celina, Texas, 2021).

Central to the success of these Downtown events in Celina is the community cooperation, tireless efforts of local organizers, and the enlistment of corporate sponsors. While the annual golf tournament generates the primary funds necessary to conduct such an active community calendar, the Downtown Celina organization also utilizes corporate sponsorships for most of the events. Both on their primary website, and on their corresponding Facebook pages promoting each event, the individual event's business sponsor is listed. For example, the "Beware of the Square" event is "presented by Mario Sinacola & Sons" (Beware of the Square | Facebook).

Promotional efforts are extended primarily through their website (LifeinCelinaTexas.com), and their Facebook page (Life In Celina TX | Facebook) and Instagram account (Instagram.com/celinamainstreet).² The main website for the organization appears well-coordinated and linked with their Facebook page(s), but is not integrated with their other social media efforts. Overall, the City and the Downtown Celina organization have built an enviable infrastructure of support and activities that promote the community and area merchants. Other cities should consider Downtown Celina as a model organization for success.

Events vs. Festivals

The terms “event” and “festival” are used interchangeably in the literature on the topic of event management as well as in common language usage by event management professionals. There is, however, a difference between an “event” and a “festival.” An event is generally considered a one-time or infrequent event that occurs outside of the regular program of the sponsoring entity (e.g., a town or city). Examples include such megaevents as the Super Bowl or the Olympics and smaller events such as a high school football play-off game (Wilson, et al., 2017). A festival, on the other hand, is a “public, themed celebration that is held regularly” (Wilson, et al., 2017, p. 196). A festival’s theme helps promote community pride, highlighting things that make a town special. The regularity of a festival strengthens the relationship between attendees and the town’s citizens as well as instilling civic pride among the town’s residents (Grames and Vitcenda, 2012).

Festivals as a Marketing Tool

An important aspect of a festival is its environment, known as the “festivalscape” (Lee, et al., 2008). The festivalscape is a combination of tangible factors relating to the festival as well as the intangible atmosphere of the festival, such as social and aesthetic factors. As you watch the case video, identify the tangible and intangible factors that make up Celina’s Cajun Fest festivalscape. Another aspect

² Students may take note, that no Twitter account could be located, and that the Instagram account still utilizes the former “Main Street” moniker replaced by “Downtown Celina.” Integrated marketing and branding for their activities and coordination between their website and various social media sites should be investigated.

of festivals is that, as recurring events, they become better associated with the host destination (Draigin-Jensen & Kwiatkowski, 2017). Further, it is often unlikely that a single festival, such as the Celina Cajun Fest, can build a destination image or brand. Thus, it is beneficial for festival planners to have a portfolio of events to generate a long-lasting and positive image of the destination (Westerbeek & Linley, 2012).

Origins of Celina Cajun Fest

Celina's Cajun Fest was an idea originally presented to the city administration by the Main Street Advisory Board in 2013. This advisory board has since been renamed The Downtown Commission. As a member of the Main Street Advisory Board, Joel Stevens took a lead role in creating and facilitating the festival downtown in the spring to attract visitors and give the town a signature event that would differentiate it from other small towns in the area. Mr. Stevens is a former resident of Louisiana and proposed a festival themed on the Cajun motif. The city administration liked the idea and Celina's Cajun Fest was born. [Virtual Reality Video of Joel Stevens available].

To create the atmosphere for the event, two key elements were needed: First, a Zydeco band (a band specializing in Cajun style music) and second, Crawfish—the most recognizable Louisiana cuisine associated with Cajuns or the Indigenous people of Louisiana. Locating and hiring a Zydeco band was fairly easy as Mr. Stevens had experience managing events and bands from his time in Louisiana. As a Grammy Award winning artist and arguably the country's most famous Zydeco performer, Wayne Toups was an obvious choice. Toups manager, Susan Champagne with Kingsland Entertainment Agency, was the first call that was made, and a contract was signed for him to play at Cajun Fest on a portable stage in the town square. Toups was one of several bands hired to perform. The second element, crawfish, was more of a challenge. Not only did the company catering the event have to bring fresh crawfish, but they also had to prepare the crawfish at the event and provide other typical Cajun cuisine like boiled corn and potatoes along with all of the necessary plates and utensils. Mr. Stevens was able to leverage his contacts in Louisiana to secure a catering company to prepare 5,000 pounds of crawfish for consumption the day of the festival. After vetting potential suppliers, a company was secured, and a contract was signed.

Celina, Texas hosted the city's first Cajun Fest Saturday, March 23, 2013. The festival attracted a crowd of an estimated 3,500 with seven sponsors and 25 booths of exhibitors. Cajun Fest became an annual festival, with the exception of the two cancelled events, mentioned earlier. Cajun Fest 2021 was held on Saturday, May 8 with much anticipation for a great crowd. The festival broke all other festivals for the city in terms of attendance, sponsors, and exhibitors. In 2021, Celina's Cajun Fest had over 13,500 attendees, with 90 booths and exhibitors, and 6,000 pounds of crawfish served. [Virtual Reality Video of Lucy's owner, Moises Callisa available]. The Wayne Toups Band was again the featured performers with another band opening for him. The portable stage set up featured professional lighting and sound and an area for attendees to sit and listen or dance while the band played. Interviews with vendors, guests, and local businesses owners echoed the excitement of the festival and the crowd it drew. [Virtual Reality Video with Vendor, Orthodontist Blake Hemphill, and video with visitors available].

Financial analysis of Cajun Fest 2021

For Cajun Fest 2021, the City of Celina budgeted \$86,200 with an additional \$56,300 expected to come in from sponsors for a total budgeted revenue of \$142,500. Once the festival was complete, the actual expenses were \$148,759 resulting in a \$6,259 deficit. In addition to sponsorships, the city brought in \$53,700 from vendors and crawfish sales leaving the city with \$47,441. With a festival like the Cajun Fest, return on investment (ROI) is difficult to completely grasp. Revenue and attendance are especially important to analyze year to year, but neither can point directly to the full quantifiable return to the city on their investment, given the multitude of area businesses and vendors whose retail sales are not tracked but are anecdotally reported as greatly increased as a result of the festival. Likewise, tracking goodwill and future increased sales as a result of repeat customers and sales generated by first-time customers from the festival is not fully and accurately known. The \$86,200 budgeted by the city of Celina was expected to be covered by vendor booth rentals and crawfish sales. Vendors could rent a booth for \$150 – nonfood; \$300 – food; and \$50 – nonprofit. Sponsor levels varied from \$10,000 Title; \$7,500 Gold; \$5,000 Purple;

\$2,500 Green; \$1,000 Activity. At the time the budget was proposed for approval, sponsorships had already been secured for the \$56,300.

Decisions to participate in future events are based on past performance. While attendance and revenue are important numbers, growth and a greater return on investment require further analysis of other key performance indicators (KPI). KPIs are quantifiable indicators of the success of a festival. Festival goals and desired outcomes should drive the KPIs used to measure the success of the festival. The goal may be profit, social engagement or a variety of other measures such as new businesses, population growth or anything that can help grow and thrive the city of Celina. Eventbrite is an online tool for organizing events, building a community, and making data driven decisions. Based on years of experience, Eventbrite bloggers list KPI that can be analyzed both before and after the festival. Before the festival even begins, the City of Celina can begin analyzing sales by ticket type, sales by marketing source, attendee geography, website conversion rate, email marketing engagement rate. After the event, Eventbrite recommends analyzing total revenue, attendance, new vs. returning attendees, top attendees by money spent, feedback surveys, content engagement, social media engagement, speaker/performer engagement and sponsorship page engagement (Eventbrite, 2018).

Based on the City of Celina's goals and desired outcomes, the KPIs analyzed for the Cajun Festival are listed in the table below. The expected and actual numbers will result in a variance that will allow the city to not only identify if goals are met, but also to analyze the variance. Variance analysis is simply looking at the difference in actual and expected to determine the cause of the variance. Variance can be attributable to quantity or price.

KPI	How Measured	Expected	Actual	Variance \$\$	Variance %
Team members	Number of city employees	4	4	0	0
Attendance	Number of Visitors	8,000-10,000 (9,000 median)	13,500	4,000 (U)	44% (U)
Total number of booths Food	Receipts from booth rentals	11	10	5 (U)	33% (U)
Total number of booths Non-food	Receipts from booth rentals	79	75	25 (U)	25% (U)
Revenue from vendors	Vendor fee sales	\$19,500	\$14,250	\$5,250 (U)	26.9% (U)
Revenue from crawfish sales	Crawfish sales	\$66,700 9,000 * \$7.41 per person	\$42,450	\$47,550 (U)	52.8%
Revenues	Sponsorships	\$56,300	\$56,300	0	0
City Investment *	City Budget	\$0	\$32,700	\$32,700 (U)	NA
Expenses	City Records	\$142,500	\$148,759	\$6,259 (U)	4.4%

*City investment of \$86,200 was expected to be covered with revenues from crawfish sales and vendor booths.

Planning for the future

A planning group of City Council members, business owners, and volunteers conducted a brainstorming session to address two questions: (1) What can be done to make the festival even more successful in terms of attendees, sponsors, and exhibitors? (2) What other types of festivals might be added to the annual calendar that would attract large numbers of attendees, sponsors, and exhibitors but still be unique and appropriate to Celina? (3) Given the anticipated growth over the next few decades, how will Celina's ability to host these festivals and events be affected? (4) What steps should Celina festival and event coordinators begin to take to plan for the attempted growth of the city and what strategic partnerships should be developed to enable the continued success of their robust schedule?

QUESTIONS

1. What approach should be used to evaluate the festivals/events sponsored by the city?
2. What other types of festivals might be added to the annual calendar that would attract large numbers of attendees, sponsors, and exhibitors but still be unique and appropriate to Celina?

3. Given the anticipated growth over the next few decades, how will Celina's ability to host these festivals and events be affected?
4. What steps should Celina festival and event coordinators begin to take to plan for the attempted growth of the city and what strategic partnerships should be developed to enable the continued success of their robust schedule?

TEACHING NOTES

Available to SWCRA members.

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RACHEL MILLER'S AMISH KITCHEN

Martin Bressler

ABSTRACT

Lancaster County, Pennsylvania, is known best by many people for having a large Amish population. Rachel Miller's mother operates a farm stand at the farmer's market where Rachel sells her famous Amish Whoopie Pies. Rachel began selling them at the family stand almost ten years ago and would often get requests to ship her product to customers across the country. This year already looks like another record year as by May 1, sales already exceeded all last year. Rachel is approached by two business professors who want to invest in the business and help the business public.

Keywords: Entrepreneurship, marketing, Amish, farmer's market, scaling, business development, baking, whoopie pie

INTRODUCTION

Rachel Miller grew up in Lancaster County, Pennsylvania, known best by many people for having a large Amish population. The area was settled by German immigrants from the early 1680s to throughout the American Revolution. Founded on the principle of religious liberty, German Lutherans, Dutch and German Quakers, and many others flocked to the colony. Amish settlers began arriving in 1749 with the arrival of Bishop Jacob Hertzler. The Swiss and German Mennonites who also began arriving in Pennsylvania in the 1680s are also often referred to as Amish, although their rules and traditions are less strict than the Amish (German Society of Pennsylvania). Rachel and her family are Mennonites and very entrepreneurial.

In addition to living and working on the family farm, Rachel's mother operates a farm stand at the farmer's market where she and Rachel sell vegetables in season, along with jams and preserves, baked goods, and handmade Amish quilts. The Amish Farmers' Market is one of many farmer's markets throughout Lancaster County and has been in operation since 1730! The Lancaster market is the oldest in Pennsylvania and one of the oldest in the country. Lancaster County is also home to many Amish restaurants that offer outstanding "Pennsylvania Dutch" home cooking at affordable prices. The farmer's markets and local restaurants team together to build upon the popular concept of farm-to-table dining. In this area known for outstanding food, one of the best known and most loved by locals and visitors is the Whoopie Pie. It is believed that the delicious treat got its' name as the treats were often packed in children's lunches, and when opening their lunch bags and finding them, exclaimed "Whoopie!"

What is a Whoopie Pie?

The simple answer might be, "A simple treat that will become one of your favorite desserts!" But a better description might be a small chocolate cake sandwich with crème

filling—something like a Moon Pie or an Oreo cookie but tasting more like a cake. Whoopie Pies are also sometimes called the Black Moon, gobs, black-and-whites, BFOs, or Big Fat Oreos. The traditional filling is marshmallow, but several kinds of buttercream are also popular. The most popular flavor of Whoopie Pie is chocolate but many other flavors have been developed including vanilla and pumpkin. The batter tastes like a cross between cake batter and cookie dough, resulting in a cake texture that is tender and not at all crumbly. Today, many variations of whoopie pies can be found including vanilla with raisins or red velvet cake. In addition, you can get whoopie pies with peanut butter or fruit-flavored fillings.



Who gets Bragging Rights?

You can tell a dessert is good when several states argue over which state was first to produce the tasty treat. The states of Virginia, Massachusetts, New Hampshire, Maine, and Pennsylvania all claim to be the first to develop the Whoopie Pie. Mainers claim to have invented the whoopie pie back in the 1920s at a small bakery in Lewiston, Maine. But folks in Pennsylvania also claim to have originated the Whoopie Pie and in 2005 started the Hershey Farms Whoopie Pie Festival. Not to be outdone, Dover-Foxcroft, Maine started their own Whoopie Pie Festival in 2009.

Whoopie pies are both a Maine classic and a Pennsylvania Amish tradition, in addition to being one of Maine's most loved foods.³ Today, Whoopie Pies are widely sold throughout the

³ In 2011, the Maine State Legislature considered naming the whoopie pie the official state pie. The proposal received bipartisan support. L.D. 71, officially known as "An Act to Designate the Whoopie Pie as the State Dessert", read "The whoopie pie, a baked good made of two chocolate cakes with a creamy frosting between them, is the official state dessert." The Maine Legislature eventually decided to declare the whoopie pie the official state treat and chose blueberry pie (made with wild Maine blueberries) as the official state dessert. https://en.wikipedia.org/wiki/Whoopie_pie.

United States as well as around the world. Whoopie pies have been sold since 1925, which proves how good they are, or they wouldn't be around for that long. A clue to how the Amish dessert might have become so popular in New England can be found in a 1930s cookbook called *Yummy Book* by the Durkee Mower Company, the manufacturer of Marshmallow Fluff. In this New England cookbook, a recipe for "Amish Whoopie Pie" was featured using Marshmallow Fluff in the filling. And, although a story in the *New York Times* about the tasty treat credits the Amish in Pennsylvania as the Whoopie Pie originators, regardless, of who produced the idea, we all can agree on how good they taste!

Rachel Goes National?

Rachel's Whoopie Pies have been a favorite at the Farmer's Market since she began selling them at the family stand almost ten years ago. Rachel also makes Whoopie Pies for several restaurants in Lancaster County. Two years ago, Rachel reached the point where she could not handle making all the pies on her own and recruited two of her young cousins to work with her part-time after school and on weekends. Rachel would often get requests to ship her product to customers' home addresses for when they returned home from their vacation to Pennsylvania.

This year was already beginning to look like another record year for Rachel and her Whoopie Pies as by May 1st sales already exceeded all last year. Rachel hired a couple more girls---trusted friends of her cousins---to help keep up with the orders. That day, a husband and wife stopped by the family stand and while each was eating one of the traditional Whoopie Pies, they were trying to convince Rachel to take the tasty treat public. They told Rachel of another baker in Maine that sold her Whoopie Pies under the name of Lighthouse Treats. The couple told Rachel that they were business professors at a college in Wisconsin and would like to invest in

the business if she would take the business nationally. But what would “go national” really mean?

Many desserts and tasty treats tend to be more preferred in their home part of the country, and whoopie pies are no exception. Although well-known in some parts of the northeast and enjoyed by tourists when traveling to that part of the country, distribution around the country is primarily limited to local bakeries that will ship nationwide. Williams-Sonoma, Stonewall Kitchen, and Easy Bake also market Whoopie Pie mix online and in their stores for bakers who enjoy baking at home.

At first, Rachel declined and stated she was not interested in working with a large company. Rachel preferred living and working in Lancaster County and being close to her family and friends. However, she told the couple she would think about the offer and discuss it with her family. The couple told Rachel they would be back on Saturday to see if she had reconsidered their offer and would develop her business into a national company. After discussing the business proposal with her close friends and family members she went to bed. But Rachel couldn't sleep. She kept thinking of all the issues and potential threats she would have to deal with if she decided to take the company nationally.

There seemed to be so many unanswered questions from packaging and shipping to branding and possible franchising. What do you think Rachel should do?

QUESTIONS

1. Selling her Whoopie Pies at the local Farmer's Market is one thing but selling them nationally is something quite different. What are some of the issues Rachel needs to consider?
2. It is flattering that the husband and wife are interested in investing in Rachel's business, but does she need them? What are the advantages and disadvantages of taking on partners?

3. There are many cookie and frosting variations in Whoopie Pies, and it would not be practical to make them all as the freshness shelf life is limited? How should Rachel determine which flavors to focus on? See Figure 1.
4. Can you think of any other issues Rachel should consider when taking her Whoopie Pie

Figure 1. Rachel Miller's Whoopie Pie Flavors

Chocolate Whoopie Pies

Chocolate Cake
Amish cocoa flavor
Red Velvet Cake
With or w/o powdered sugar
Mocha
Peppermint Pattie (white or green)

Frostings
Buttercream
Marshmallow
Chocolate
Nut flavoring (Hazelnut, pistachio)

Blonde Whoopie Pies

Vanilla cake
Chocolate Chip
Amazin' Raisin
Nut flavoring (hazelnut, pistachio)
Strawberry
Maple Sundae
Orange, Lemon, or Lime

Frostings
Buttercream
Marshmallow
Boston Creme
Chocolate
Nut flavoring (Almond, hazelnut, pistachio)
Peppermint Pattie

We can also add chocolate or rainbow sprinkles to the frosting. Other flavor variations are limited only by your imagination. We also offer a special selection of gluten-free Whoopie Pies.

business national?

5. How important is branding, or is this just another commodity baked good?
6. Rachel certainly has a lot to consider. If you were Rachel, what course of action would you take and why? Be specific.

NOTE

This case is based on an actual company. Names and certain other information have been changed to maintain client confidentiality. Historical product information is accurate. Company information contained herein was altered by the author. Any similarity contained herein to actual persons, businesses, events, etc. is purely coincidental and is the responsibility of the author. Please contact the case author directly with any concerns.

TEACHING NOTES

Available to SWCRA members.

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SHARPWORX: CUTTING EDGE OF GROWTH

Rhonda Richards
Courtney Kernek
Kendra Ingram

ABSTRACT

SharpWorx is a small, local start-up in Texas owned and operated by Mark Turnbaugh who is an engineer by trade. Mark has a passion for building things and solving problems. Mark saw a problem with the way people sharpen knives and decided to use his engineering degree and his tools of the trade along with some Arkansas Stone from his dad's shop to build his very first knife sharpener. Since then, he has invented two other versions of his knife sharpener and has launched a website and commercials. This case describes Mark's start-up venture, his desire to be an entrepreneur and his successes.

Keywords: Entrepreneurship, growth, chef knives, marketing, advertising, scaling

This case was awarded the *Federation of Applied Disciplines Distinguished Paper Award* for SWCRA at the 2023 FBD Conference. Papers selected as the Distinguished Paper during the annual conference are double-blind reviewed and automatically accepted for publication in the *Journal of Applied Case Research*.

OVERVIEW


Even as a little boy growing up in Chicago, Mark Turnbaugh would often find himself in his dad's workshop tinkering with tools. Mark enjoyed taking things apart, putting them back together and trying to understand how things work. Mark also has a knack for being helpful and trying to solve problems. After all those years of tinkering in the shop, he went on to Auburn University to earn a degree in engineering. Mark loves the field of engineering, but memories from his younger years in his dad's shop drew him back to his own shop where he began to tinker again.

As many entrepreneurs get their start, Mark saw a problem and spent many hours thinking of ways and trying different tools and methods to solve the problem. He saw a problem he could relate to and enjoyed the mental challenge of solving it. Sharpening a knife is seemingly simple, however many people struggle with it or don't even have an idea how to do it. They have kitchen knives they purchased or inherited 20 years ago, and they have no idea how to sharpen them and have been struggling to cut their food for years. He wanted to design a system that allowed the average person to be able to sharpen in the same way that a professional chef would sharpen and have just as sharp knives.

Keeping to his heritage, Mark asked his dad for some of the Arkansas soft stone he kept in his barn where Mark grew up. Mark had tried to use the stone as young man to sharpen knives, but never could get the right angle. However, with his engineering knowledge and 30 years of worldly expertise, he wanted to try it again. His diligence and tenacity led him to invent his very first knife sharpener in 2020. Mark wanted to make a fixture that would sharpen more effectively. With random rods and bearings in his garage, tools of the engineering trade, Mark

tried several prototypes before he produced a working model. He sold that working model and after just six months, had customers asking for additional features, leading to two new products.

Mark's Launch

While Mark is proficient at engineering and knife-sharpening, he knew he needed some help with the other aspects of business. Entrepreneurs benefit from either having business knowledge, or surrounding themselves with people  who do. Mark's wife, Melissa, has been a great encourager for Mark and also has been instrumental in helping him communicate a clear message and develop brand perception. Melissa is a successful architect and business partner in a large firm in Texas and spends much of her time communicating both outside and inside her organization. Melissa's expertise, knowledge and interpersonal skills has helped Mark turn his passion into a business. Entrepreneurs also need business knowledge. Successful entrepreneurs will tell you that they wear many hats. According to Forbes, entrepreneurs need basic understanding of accounting and finance so that they can: (1) make predictions about the future, (2) help make more effective commitments of time, energy and money to attract customer and deliver goods and services at a larger and more efficient scale and (3) measure and reassess their progress so that they can reward profitable behavior, report progress to third parties, and change directions when necessary (Forbes, 2012). Entrepreneurs also need a solid marketing plan and growth strategy. Skills that help entrepreneurs move ahead in marketing are (1) the ability to write, (2) comfort with ambiguity and 3) the ability to focus (Puri, 2014). However, without a solid marketing plan, even these skills may not help the entrepreneur grow a successful business.

Mark's Business

Since 2020, Mark has done paid ads on forums, YouTube and Facebook. His most effective marketing has been through his YouTube channel videos. This advertising helped Mark



sell 300 units in the last two years. In 2001, Mark grossed around \$10,000 while barely breaking even. In 2022, he is expecting to gross around \$35,000. All revenue at this point

has been reinvested in marketing, website maintenance and products. Currently, Mark's primary product retails for \$179.99 and costs about \$40 to produce. The \$40 cost does not include Mark's time and opportunity cost nor any manufacturing overhead. Mark works out of his home garage and in his spare time away from his full-time job as a petroleum engineer, husband and dad to two adorable children.

Mark has three products: Master Sharpener – retails \$119.95, Utility Sharpener – retails at \$67.95-\$144.95, and Professional Sharpener – retails at \$120.00-\$400.00. Mark set his price by comparing to other premium sharpeners. Premium sharpeners were around \$400 plus and are usually machined from metal. He feels this is a good price for the value. Currently he has 980 master sharpeners in inventory and ready to sell. He has contracted with a manufacturing facility to produce up to 30,000 sharpeners a month with an approximate three-month window from purchase order to delivery. Mark hand crafts the Utility and Professional sharpener to order and has supplies on hand to make 30. In addition, Mark sells a Japanese Chef knife, Arkansas Stones and Tennessee Abrasive Bench Stones.

Mark's Goals

Mark and Melissa believe in their product and have the passion and commitment to move forward with the business. Mark's goals for his third year in business are to sell 1,000 sharpeners and have a full digital marketing system in place which would include online ads, email

campaigns, maturing social media presence on YouTube, Instagram and Facebook. Mark's email campaign goals are to have a database with 100+ emails set to send automatically bi-weekly.

Mark's goal is to have sold 100,000 sharpeners by the end of his fifth year in business. He would also like to expand his product line to include other kitchen supplies and have a presence in over 20 stores worldwide. And by the end of his 10th year, Mark would like SharpWorx to be a household brand name with one million sharpeners sold and looking toward a steady future of selling 250,000 products per year.

TEACHING NOTES

Available to SWCRA members.

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SPIRIT AIRLINES, INC: A TAX AND MANAGERIAL ACCOUNTING CASE

Amanda Marino
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ABSTRACT

This critical incident case examines the opportunities available to Spirit Airlines, Inc., considering three recent major tax law changes within the TCJA. It asks the students to act as Spirit's executives in deciding whether to utilize certain available tax benefits.

Recommendations are based on selected financial data. The quantitative analysis, including consideration for the time value of money, combined with qualitative guided discussion questions, highlights the role of changing tax policy in managerial decision making and tax planning.

Keywords: Tax planning, managerial decision making, TCJA, top corporate income tax rate, bonus depreciation, NOL rules

OVERVIEW

As tax laws change, companies evaluate the cost and benefits of changes to their tax planning strategies, with the goal of maximizing their after-tax return. The case examines the opportunities available to Spirit Airlines, Inc. (Spirit), considering three recent major tax law changes. It asks the students to act as Spirit's executives in deciding whether to utilize certain available tax benefits. Recommendations are based on selected financial data. The quantitative analysis, including consideration for the time value of money, combined with qualitative guided discussion questions, highlights the role of changing tax policy in managerial decision making and tax planning.

CASE OBJECTIVES & USE

The 2017 Tax Cuts and Jobs Act (TCJA) was the largest overhaul of the U.S. tax system more in more than thirty years, since The Tax Reform Act of 1986 (TRA 86), bringing significant change to the existing Internal Revenue Code (IRC). Although major revisions to the IRC happen infrequently, the tax law is constantly changing, more so in recent years. eFile.com reports that the tax code has been amended or revised over 4,000 times over the past 10 years.⁴ It is important for students to understand how the frequent changes in tax law affect a company's tax planning and their other business decisions.

Three of the most significant corporate changes within the TCJA include 1) a reduction in the top corporate income tax rate from 35 percent to a flat 21 percent, 2) 100 percent bonus depreciation for qualified property purchased during 2017 – 22, and 3) revisions to the existing net operating loss (NOL) rules. After the TCJA, The Coronavirus Aid, Relief, and Economic Security

⁴ <https://www.efile.com/tax-history-and-the-tax-code/>

Act (CARES Act) further amended the NOL provisions. The case asks the student to consider these three provisions, and to make decisions around timing of income recognition, expense deduction, and capital investment, specifically concerning Spirit's utilization of tax benefits related to bonus depreciation and NOL utilization.

The case could be used in a U.S. Federal Income Tax course, a Cost Management Accounting course, or a Managerial Accounting course. It involves an analysis of the corporate capital investment decision and tax planning strategies that can be adapted for upper division undergraduates and graduate students. This case is by no means intended to incorporate all facets of the TCJA, it should provide insight into how tax law changes can influence corporate decisions, and tax planning strategies. It should also highlight how tax law changes can compound and have combined effects.

FACTS

Spirit Airlines Inc. (Spirit) is a low-cost and fast-growing airline carrier in the USA. Spirit was initially called "Charter One" and was founded in Michigan in 1983 to cater the market of travelers/gamblers to Atlantic City, Las Vegas, and the Bahamas. In 1992 Charter One changed its name to become Spirit Airlines and offered scheduled flights between Detroit and Atlantic City. By 1999 Spirit moved its headquarters in Atlantic City and Detroit to Miramar, Florida. From 2006, under CEO Ben Baldanza's tenure, Spirit started its transformation into an ultra-low-cost carrier with a "Bare Fare" model. Spirit is publicly traded on New York Stock Exchange. The company made a revenue of \$3.23 billion in 2021.

Spirit replaced its McDonnell Douglas aircraft with Airbus A320 and A320neo family aircraft in 2009. As of December 31, 2016, Spirit operated a fleet of 95 Airbus aircraft (36 owned and 59 leased) and planned to increase its fleets to 108 aircraft in 2017.

On December 22, 2017, the Tax Cuts and Jobs Act (“TCJA”) was enacted. Three of the most significant corporate changes within the TCJA include 1) a reduction in the top corporate income tax rate, 2) 100 percent bonus depreciation, and 3) revisions to the existing NOL rules. For bonus depreciation, the new law increases the bonus depreciation percentage from 50 percent to 100 percent for qualified property acquired and placed in service after September 27, 2017, and before January 1, 2023. For NOLs, the TCJA eliminated NOL carrybacks and permitted NOLs to be carried forward indefinitely. In 2020 the CARES Act changed those rules temporarily by permitting NOLs incurred in 2018, 2019, or 2020 to be carried back for five years to the earliest year first and suspending the 80 percent taxable income limitation through 2020.

ISSUES

1. How did the TCJA affect management’s capital investment decisions and tax planning strategies in 2017, 2018 and 2019?
2. When should Spirit start to take advantage of the bonus depreciation? What economic factors affect Spirit’s capital investment amount for bonus depreciation?
3. Because bonus depreciation is mandatory for qualified property, should Spirit elect out of bonus depreciation for its capital investment in 2017 and 2018? Why or why not?
4. After the CARES Act allowed NOL carrybacks into 2017 and 2018, should Spirit elect out of the bonus depreciation in 2017 and 2018? Why or why not?

QUESTIONS

Below are guided discussion questions which aim to leverage quantitative analysis, combined with qualitative reflection, to develop an understanding of managerial decision making around changing tax policy. Instructors can ask their students one or more of the following:

1. Calculate Spirit's tax benefit if they choose to utilize 100 percent bonus depreciation on the purchase of a new Airbus, relative to cost recovery under the Modified Accelerated Cost Recovery System (MACRS). Assume that the average price of an Airbus aircraft is \$100 million and that it is categorized as a seven-year asset.⁵ Remember to include provision in your calculation for the time value of money, using a discount rate of 8 percent, and a flat 21 percent corporate income tax rate. Why could utilizing bonus depreciation be beneficial to companies?
2. Consider the timing of the effective date for the reduced corporate income tax rate, and the timing of the effective date of the increased bonus depreciation allowance. Would you make any recommendations related to timing of the capital acquisitions?
3. In 2017 Spirit owned 18 more aircrafts than in 2016. In 2018 Spirit owned 28 more aircrafts than in 2017. In addition to the discounted present value for the depreciation deduction over MACRS, what factor(s) will you consider as you make recommendations to Spirit regarding whether to elect out of bonus depreciation in 2017 and 2018?
4. Explain the tax benefit of a net operating loss (NOL) prior to the 2017 TCJA. How did the NOL provisions change with the 2017 TCJA, and how might these changes impact Spirit's tax planning decisions?
5. The 2020 CARES Act made further changes to the NOL provisions. Briefly summarize these changes and describe how these provisions might again change Spirit's tax planning strategies, specifically around their utilization of bonus depreciation. Keep in mind that tax returns can be amended to remove the mandatory bonus depreciation election for qualified property (and return to MACRS depreciation).

⁵ As of December 31, 2017, Spirit had 54 aircraft with depreciable lives of 25 years on its book. According to NBAA, aircrafts used in common, or contract carriage are depreciable under 7-year MACRS. <https://nbaa.org/flight-department-administration/tax-issues/depreciation/>

6. Discuss the possible reasons for Spirit reporting a lower effective tax rate (ETR) in 2017 and 2018. How did the TCJA affect Spirit's deferred tax assets and liabilities in 2017?
7. Overall, how did the TCJA & CARES Act affect Spirit's capital investment decisions and tax planning strategies in 2017, 2018 and 2019?

TEACHING NOTES

Available to SWCRA members.

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TWICE BANKED: FRAUD IN EMPLOYEE ACCOUNTS RECEIVABLE

Stephanie Metts
Liz Mulig

ABSTRACT

Internal controls are important throughout an organization. The lack of this type controls makes it much easier for fraud to be perpetrated. These controls are necessary in production, sales, accounting and every other facet. The specific methods implemented as internal controls should be documented and employees should be trained to adhere to the controls. There should be audit functions (external, internal and operational) that provide assurance that the controls are in place and are being followed. In cases where there are no controls and there is risk for abuse, controls should be implemented. Cash is an area that is especially susceptible to misappropriation if not properly monitored. Any transactions involving cash should have strong, well implemented controls. Employee Accounts Receivable transactions fall in this area. Therefore, specific controls should be in place to assure that any Cash Advances are properly accounted for, that employees are not paid twice for legitimate expenditures and that funds are not disbursed to employees for false claims. As an integral part of internal control, Employee Accounts Receivable should have regular reconciliations to ensure that fraud is not being perpetrated.

Keywords: Asset Misappropriation, Internal Controls, Internal Control Weakness, Fraud, Employee Reimbursement, Employee Accounts Receivable, Employee Cash Advances

INTRODUCTION

Don Exacto, manager of the General Accounting Group at LaLa Land, a publicly traded company, recently attended a seminar on cash management and control. He learned from the seminar the importance of implementing internal controls for their organization to help safeguard their assets and to ensure that their financial information is accurate. He also learned that proper internal controls are required by the Public Company Accounting Oversight Board (the PCAOB).

Don was eager to ensure that all cash transactions at LaLa Land are subject to proper approval, handling and regular reconciliations. In his extensive review of cash disbursements, Don noted a sizable number of Cash Advances (which are booked on the general ledger as Employee Accounts Receivable) were made to employees for company travel, and he wanted to ascertain that proper controls and reconciliations were in place in this area to minimize the likelihood of asset misappropriation by employees who are receiving the Cash Advances.

RELATED LITERATURE

Internal control weaknesses make it much easier for fraud to be perpetrated. In their study of 2,110 cases, the Association of Certified Fraud Examiners (ACFE) found that close to half of the reported cases occurred because of a lack of internal controls (29%) or due to the existing controls being overridden (20%) (ACFE, 2022). These statistics highlight the importance of creating and maintaining an effective internal control system in preventing fraud. Internal controls are important throughout an organization and if a company fails to exercise the controls, fraud could be perpetrated without detection and the financial statements would not be a valid representation of the true position of the company. The Committee of Sponsoring Organization of the Treadway Commission (COSO) defines internal control as “a process effected by an

entity's board of directors, management, and other personnel, designed to provide reasonable assurance regarding the achievement of objectives relating to operations, reporting, and compliance" (COSO, 2013).

The Public Company Accounting Oversight Board (PCAOB) provides that a public company's internal control policies and procedures, in part, "pertain to the maintenance of records that should, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company" (PCAOB, 2023). Furthermore, the PCAOB states that 'if one or more material weaknesses exist, the company's internal control over financial reporting cannot be considered effective' (PCAOB, 2023).

Internal controls are necessary in production, sales, accounting and every other area of a company. The specific methods implemented as controls should be documented and employees should be trained to adhere to the controls. The objective of audits of internal control is so that the auditor can express an opinion on the effectiveness of the internal controls over the company's financial reporting. There should be audits (external, internal and operational) that provide assurance that the controls are in place and are being followed (PCAOB, 2023). In cases where there are no controls and there is risk for abuse, controls should be implemented. Asset misappropriation, the theft of a company's assets, is often carried out by employees. These amounts are often relatively small and immaterial (Chapple et al., 2007). These thefts include many schemes such as inflated or untrue expense claims, altering or stealing checks and fraudulent transfers of cash, among others (Turner, 2008).

Cash is an area that is especially susceptible to misappropriation if not properly monitored. Any transactions involving cash should have strong, well implemented controls. Employee Accounts Receivable transactions fall in this area. According to the *ACFE 2022 Report to the*

Nation on Occupational Fraud and Abuse (2022) employee expense reimbursement fraud accounted for 11% of all the cases, lasted on average of 18 months before being uncovered and resulted in a median loss of \$40,000. Koomson et al. (2020) found that the extent to which an individual will misappropriate assets depends largely on their perception of how strong the company's internal controls are. Therefore, specific controls should be in place to assure that any Cash Advances are properly accounted for, that employees are not paid twice for legitimate expenditures and that funds are not disbursed to employees for false claims. Employee Accounts Receivable should also have regular reconciliations to ensure that fraud is not being perpetrated.

CASE OVERVIEW

After attending a seminar on internal control, Don Exacto, manager of the General Accounting Group at LaLa Land, was eager to ensure that all cash transactions at LaLa Land are subject to proper approval, handling and regular reconciliations. One concern that he specifically investigated was the sizable number of Cash Advances (which are booked on the general ledger as Employee Accounts Receivable) that were being made to employees for company travel. He wanted to ascertain that proper controls and reconciliations were in place in this area to minimize the likelihood of asset misappropriation by the employees receiving the Cash Advances.

Cash Advance Procedures

LaLa Land had established procedures that were to be followed for all Employee Cash Advances and Expense Reports. The procedures were as follows.

- A. An employee who is going on a trip for company business may request a cash advance toward the cost of the trip.
- B. The employee's manager is to review, approve and sign all cash advance requests.

- C. Accounts Payable receives the cash advance request and issues a cash advance check to the employee and makes the following entry:
- a. Debit Accounts Receivable
 - b. Credit Cash
- D. When the employee returns from their trip, they are to file an expense report. The report enumerates all the business expenses paid by the employee and the accounts that should be debited for those expenses. The report also shows a subtraction of any cash advance received and the balance that is to be paid to the employee to make them whole (i.e., the payment amount required so that the total costs incurred on the trip are paid by the company to the employee, not born by the employee).
- E. The employee's manager is to review, approve and sign the expense report.
- F. Accounts Payable receives the expense report and issues a check for the balance owed to the employee and makes the following entry:
- a. Debit Various expense accounts for the business expenses incurred on the trip
 - b. Credit Employee Accounts Receivable for the cash advance given prior to the trip
 - c. Credit Cash for the balance owed to the employee after the trip

Don was concerned whether anyone was verifying, once employees had completed their travel and turned in their expense reports, that travel advances were subtracted before preparing checks to reimburse employees. He was also concerned about whether anyone was reconciling the Employee Accounts Receivable balance on a regular basis. He learned in the seminar that establishing internal control policies and procedures isn't enough, the control policies and procedures should be monitored to provide assurance they are being followed and that

employees are not overriding or disregarding the controls. Nawawi & Salin (2018) voiced these same concerns.

In preparation for analyzing the Employee Accounts Receivable, Don instructed his staff to obtain records for the following: (1) each separate Employee Account Receivable that has had activity in the last year and (2) each separate Employee Account Receivable that makes up the current balance of Employee Accounts Receivable. He further asked that they study the zero balance accounts to ascertain that the original advances were cleared when the employees returned from their business trips and submitted their expense reports. Next, he requested that they study the makeup of the currently active Employee Accounts to ascertain that any balances were simply waiting on expense reports to be filed.

Results of the Analysis of Employee Accounts Receivable at LaLa Land

Upon analysis, Employee Accounts Receivable were determined to fall in three categories. Each is discussed below:

The majority of Employee Accounts Receivable for Cash Advances were cleared within 45 days as employees completed their trips and then submitted their expense reports. Their managers reviewed, approved and signed the expense reports, the employees received cash for the remainder of the costs incurred (over their cash advance amount) and the Accounts Payable entry cleared the Employee Accounts Receivable balances.

There were also a significant number of accounts that were current. These were simply waiting for expense reports to be filed and paid and the accounting entries to be recorded to clear the balances.

However, there was a third category that consisted of a number of Employee Accounts Receivable that contained old balances. The General Accounting Group next began analysis of

those accounts. Visits were made to the managers of the employees who had these outstanding Accounts Receivable. For most of them, it was discovered that their managers had approved a “standing” Cash Advance. That is, the managers had decided that, rather than preparing a new Cash Advance for each trip, the employees would receive the full reimbursement for all expense report amounts and each of these employees would thus retain their previously issued Cash Advance to use toward their next trip. *Note: The procedures were amended to add standing Cash Advances as appropriate, with manager approval.*

Not all the old account balances were explained as standing Cash Advances, though. One manager did not realize that one of his employees had a \$15,000 balance in her Employee Accounts Receivable. The General Ledger Group obtained all the Cash Advance Requests and Expense Reports turned in by this employee from Accounts Payable. They discovered that the manager’s signature was on each of these reports! The manager admitted to trusting the employee to be honest and, thus, did not review the Expense Reports properly to determine if there had been Cash Advances issued for trips taken by the employee over the last three years. Lampton (2017) found that organizational cultures with high levels of trust tend to have better communication, collaboration, innovation and better relationships with all stakeholders and that managers should ensure they maintain a level of trust in their employees. However, they need to verify that trust is accurately bestowed (Kramer, 2015). In the situation with this manager and employee, there was obviously a case of misplaced trust and a lack of adherence to established internal controls. The entire \$15,000 balance was for Cash Advances that were received before the trips were take but were not subtracted from the total expenses listed on the Expense Reports when preparing the checks for reimbursement after the trips were completed. *Note: A monthly*

analysis of Employee Accounts Receivable, to ensure that Cash Advances are properly handled, is now part of the Cash Advance procedures at LaLa Land.

In summary, this employee was (1) First requesting a Cash Advance for travel. Entry was Debit Employee Accounts Receivable and Credit Cash. 2) Next submitting their Expense Report and not subtracting the prior Cash Advance. This resulted in the employee receiving payments twice. The approved expense amount of \$15,000 was paid to cover the trip expenses shown on the Expense Report and the other \$15,000 (originally paid by the company as Cash Advances) was kept by the employee.

CONCLUSION

Don was right to be concerned about controls over Employee Cash Advances. These was an issue of a number of managers deciding to grant standing Accounts Receivable amounts, which was not part of the regular procedures. These was also a manager who was not verifying, once his employee had completed her travel and turned in her expense reports, that travel Cash Advances were subtracted before preparing checks to reimburse her. In addition, there was no one reconciling the Employee Accounts Receivable balance on a regular basis to discover the twice made payments. This provided ample opportunity for fraudulent activity to occur.

At Issue

At LaLa Land, as with many other companies, numerous employees travel regularly for business. The expenses incurred by the employee for their business travel are covered by the company so that the employee does not bear the costs. At issue was ensuring that internal controls were in place and being followed in compliance with PCAOB standards and to minimize the opportunity for fraudulent activity to occur within the process.

QUESTIONS

1. What controls should be in place for handling Cash Advances for employee business travel?
2. Why do you think the company was not previously exercising proper controls over the Employee Accounts Receivable?
3. Do you find it unusual that verifying that controls were in place and working for Cash in general led to the discovery of an issue specifically in Employee Accounts Receivable?
4. Do you believe that the controls that are now in place for Employee Accounts Receivable are sufficient?
5. How would you explain to other companies the importance of controls over Employee Accounts Receivable?
6. What does the future look like at LaLa Land for proper handling of Employee Accounts Receivable?

Note: This is a fictitious case. All information contained herein was fabricated by the authors. Any similarity contained herein to actual persons, businesses, events, etc. is purely coincidental and is the responsibility of the authors. Please contact the case authors directly with any concerns.

TEACHING NOTES

Available to SWCRA members.

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MORRIS AND BASS PRO SHOP

Timothy Wise

ABSTRACT

Bass Pro Shops Outdoor World in Springfield, Missouri, is sometimes referred to as the Disneyland of outdoor sports retailing. When walking through the huge and immersive retail and tourist spaces, and studying the breadth of its operations, it is hard to imagine this company as a tiny entrepreneurial startup, but that is how it began. The history of Bass Pro Shops is a fascinating study of niche marketing that has gone mainstream as well as a study in concentric diversification. This descriptive case will look at how a small start-up is now a retail giant, tourism draw, and hospitality powerhouse, and look briefly at the life of its founder.

Keywords: Retailing, sports retailing, tourism, hospitality management, outdoor retailers, scaling, entrepreneurs

INTRODUCTION

In 2022, the Bass Pro Shops chain boasted nearly 200 retail locations and marine centers in the U.S. and Canada. Though the business started out as a small niche retailer for serious bass fishermen, Bass Pro Shops has expanded beyond retailing into hospitality and tourism as well. Bass Pro Shops' outdoor stores are listed among the top five tourist destinations in nine states and are the number one tourist destinations in three. The original store in Springfield has surpassed the gateway arch in Kansas City, Missouri, to become Missouri's number one tourist destination. With the Wonders of Wildlife National Museum and Aquarium operating under the same roof, it is easy enough to see why. In addition to the superstore, the original museum, and the aquarium, the site also includes two mini-museums—a NASCAR museum and a gun museum—as well as a restaurant.

The company also owns the Big Cedar Lodge and the Top of the Rock Ozark Heritage Preserve and Native American Museum near Branson, Missouri, and the Pyramid in Memphis, Tennessee. In addition to its high-end accommodations, the company's Angler's Lodge hotels offer more affordable lodging near the company's attractions. Bass Tracker Boats, launched to supply boats for the Bass Pro Shops catalog, has grown into a diversified boat manufacturing enterprise that also includes the White River Marine Group. ("Johnny Morris, A Business Visionary," 2022) The company purchased Cabela's, another leading outdoor sports retailer, for \$5.5 billion in 2016. (Russell, 2016) The visionary company is also known for its conservation efforts. (Johnny Morris...Visionary, 2022) Bass Pro Shop founder Johnny Morris received the Teddy Roosevelt Conservation Award from President George W. Bush in 1992.*

* www.bassfishinghof.com/inductee/johnny-morris

Johnny Morris Background

Johnny Morris, the entrepreneur behind Bass Pro Shops, is the son of John A. Morris and his wife Genny. Both parents were born in Willard, Missouri, in 1911. Growing up in a rural community, they developed a healthy love for the outdoors. Both enjoyed hunting and fishing. John A. served in World War II and became a successful businessman in the Springfield, Missouri, area in the years following the war. (Johnny Morris...Visionary, 2022) He managed a service station and a restaurant before operating a chain of Brown Derby Liquor stores and some dry-cleaning shops. His experience would come in handy for his son when he became a retailer. He would also provide retail and storage space in the early years of the Bass Pro Shop venture (Covell, 2011). Morris spent his childhood and youth fishing the rivers and lakes of Southern Missouri with his parents and uncles (The History of Bass Pro Shops," 2004). He attended Drury College, a private college in Springfield, and graduated with a business degree in 1971 (Covell, 2011).

Three years earlier, in 1968, Ray Scott had founded the Bass Anglers Sportsman Society (BASS) with the goal of growing bass fishing into a professional sport. In 1971, Scott launched the Bassmaster Classic, an annual championship tournament. With bass boat and fishing gear manufacturers as sponsors, Scott envisioned developing the Bassmaster Classic into the "PGA Tour of bass fishing" (Sandomir, 2022). After entering a tournament on Table Rock Lake in Branson, Missouri, Johnny Morris entered the new world of professional bass fishing and spent five years on the professional circuit (Johnny Morris...Visionary, 2022). During his time on the circuit, Johnny became acquainted with the pioneers of the bass-fishing industry. Bill Dance, Bill Norman, Tom Mann, and Carl Lowrance (and Morris himself) are all members of the Bass Fishing Hall of Fame. Bill Dance began producing "Bill Dance Outdoors" in 1968 and became

one of the bass fishing celebrities associated with Ray Scott's BASS organization (Ontario, 2004, and <https://www.bassfishinghof.com/inductee/bill-dance>). Norman, Lowrance and Mann were all entrepreneurs. Bill Norman was the founder of Norman Lures, an internationally known fishing lure manufacturer in Greenwood, Arkansas (<https://www.bassfishinghof.com/inductee/bill-norman>). Carl Lowrance, who developed the first consumer sonar device in 1957, could rightfully be considered the father of sonar fishing technology (<https://www.lowrance.com/about-us/>). Tom Mann, a former Alabama game warden, was an innovator in both sonar and fishing lures. Mann was the founder of Allied Sports Company (later renamed Telesonic Industries), a manufacturer of depth finders, and Southern Plastics, which would grow to be the world's largest private brand manufacturer of soft plastic fishing lures. (<https://www.bassfishinghof.com/inductee/tom-mann>)

RETAILING

Johnny's entry into retailing started around the same time as his professional fishing career. He had gone to the manager of the local Gibson's store to try to get him to carry high-end fishing gear, but the manager had refused. That was when he decided to develop his own shop. His father owned a chain of liquor stores, and he agreed to give Johnny eight square feet of retail space in one of the stores. John A. Morris was not excited about his son's idea at first. He had already tried selling fishing lures in his stores and still had boxes of unsold merchandise in his basement. Johnny finally convinced him to co-sign a \$10,000 loan to purchase inventory for his store. (Ontario, 2004) Then, as one source describes it, Johnny Morris "took to the road with a trailer, buying up regional fishing lures until he ran out of cash (Covell, 2011). The grand opening of Johnny's store was a big event. He even managed to convince his friend Bill Dance to appear as a celebrity guest. (Ontario, 2004) The space in Brown Derby Liquor would be sole

location of the Bass Pro Shop for the first fifteen years of the company's existence (Johnny Morris...Visionary, 2022). Ironically, he would eventually relocate to the building occupied by the Gibson's store whose manager had refused to stock high-end fishing gear. (Ontario, 2004) Johnny's knowledge of bass fishing made him the go-to source of information about lures and equipment, and hardcore fans of the sport would seek him out. He began to receive phone calls about his merchandise from out-of-town customers. More and more of them wanted him to ship products to him through the UPS service, leading to the next phase of his venture (Covell, 2011).

Growing into Mail Order

As the volume of out-of-town orders increased, Johnny decided to develop a mail order catalog for bass fishermen. He purchased mailing lists of potential customers (Covell, 2011) and published his first catalog in 1974. It was 180 pages and listed 1,500 items. It was distributed in 20 states (Ontario, 2004). With the basement of his father's warehouse serving as a distribution center and his sisters working with him to develop the infrastructure of his business, Morris expanded his business dramatically. The catalog, which came to be viewed as the bass fisherman's Bible, grew to over 400 pages and was mailed to around four million people. More than 500 customer service representatives were hired to receive orders 24 hours a day year-round (Covell, 2011). With his catalog business built up, Morris began to have products manufactured exclusively for his company. To manage the demand, he set up the American Rod and Gun wholesale operation in 1975 and sold his private brand products to independent sporting goods stores. This led to another big facet of his business (Covell, 2011).

Bass Tracker

By 1975, Johnny's catalog of products for bass fishing enthusiasts included boats. He had gotten into that niche against the advice of others, but it turned out to be successful. He found a

niche in selling an all-in-one package for fishermen that included the boat, trailer, and motor and such extras as fish-finders, trolling motors, padded seats, and built-in coolers (Covell, 2011). Though Johnny Morris would eventually expand into the boat manufacturing industry, the first aluminum boats sold with the original Bass Tracker package in 1978 were manufactured in Delhi, Louisiana. Terry Boats, the company that manufactured them, was a subsidiary of Woolworth's. Terry also manufactured aluminum boats for Sears, Montgomery Ward, and other companies.⁶

Trailstar trailers, originally built in Springfield, were later built in a plant in Nixa, Missouri starting in 1980. In 1982, when demand for the boats outpaced what the Delhi boat manufacturer could keep up with, the company opened a boat manufacturing plant in Lebanon, Missouri. After this, the boat production portion of the company's portfolio began to expand rapidly. They added a pontoon boat package in 1983 and a fiberglass package in 1985. Then they began to grow through the acquisition of existing businesses, purchasing SeaCraft, a saltwater boat line, in 1987, and Nitro, a performance boat line in 1988, and Myacht Houseboats in the 1990s. (Covell, 2011). During those years, however, the rest of the business had grown into some interesting directions as well.

A Retail Adventure

The original Springfield location of Outdoor World, the business that would expand the fame of Bass Pro Shops beyond its original niche of bass fishing enthusiasts, opened in 1981. The reason for the store's opening was a sense of need, on Johnny's part, for a showroom where customers could experience the merchandise first-hand. Johnny's sister Susie, who was also his

⁶ <http://www.shrimpnfishflorida.com/forums/threads/terry-bass-boat-history.5037/>; See also: <https://bass-archives.com/the-beginning-of-packaged-boats/>; and the Bass Tracker Heritage Story available on YouTube

executive vice president, was there when he visited L.L. Beane's store in Freeport, Maine (Covell, 2011). Johnny went with his sister Susie Henry to see L.L. Beane's "impressive" store in Freeport, Maine. They saw how people were coming around to see it and thought Springfield would be easier to reach than Freeport.

That is when they began converting a 40,000-foot store into a tourist attraction. They made their first aquarium from an abandoned gas storage tank (Ontario, 2004). The original focus of the Outdoor World stores was the breadth of their selection and the wide range of needs they were able to serve, but they continued to add entertainment functions as they grew in size. The store eventually grew to a size of nearly 300,000 square feet. Morris had seen fish feeding shows at Chicago's Shedd Aquarium, and he adapted a storage tank for that purpose. He also added shooting ranges like those featured in Swedish and German sporting goods stores (Covell, 2011). One of the most popular attractions at the store was a 17.67-pound bass named Ethel who had been caught by Mark Stevenson, a Lake Fork fishing guide, in Texas. Ethel had entertained customers for ten years, and the store held a funeral for her when she died (Ontario, 2004). In 1993, Johnny Morris opened a Wildlife Museum near the store to strengthen the appeal of Outdoor World. It would later be expanded into a major attraction (Covell, 2011).

HOSPITALITY

Even though Morris would eventually extend his megastore concept into other areas, he was cautious about stretching himself too far at first. His next big venture was to open the Big Cedar Lodge Resort by Table Rock Lake in 1988. Two wealthy businessmen had built a 300-acre vacation retreat in the area south of Branson, Missouri, in the early 1920s. They had both built log mansions there (Covell, 2011). Table Rock Lake did not exist at that time, and Branson would not have indoor plumbing until the Herschend family who developed Silver Dollar City

settled there in the 1950s. The conversion of the beautiful White River Valley into Table Rock Lake in the 1950s had saddened locals who enjoyed the river's natural beauty, but it had turned the Branson area into a popular destination for tourists. In the 1990s, the popularity would increase even more as country music stars like Mel Tillis opened theaters there (Payton, 1998). The building of Big Cedar was well-timed, as many of the celebrities who performed there would become customers. The site would offer three lodges, 81 private cabins, a restaurant that was built in the home of one of the original owners and a registration building and gift shop built in the other. Fishing and other water sports, trail rides, miniature golf, hiking, and cave exploration were all attractions, but the prices were high. Some of the cabins rented for nearly \$1,000 a night during the peak season (Covell, 2011).

STRATEGIC PARTNERSHIPS

Though Morris chose to keep the company private, he needed ways to raise cash and disperse risk, so he began to form strategic partnerships. In 1992, Brunswick Corporation became the company's exclusive provider of engines, trolling motors, and other equipment that sold with Bass Tracker boats after purchasing a minority interest in Tracker Marine for \$25 million. Gaylord Entertainment, the owner of The Nashville Network (TNN) and Country Music Television, purchased a minority stake in Bass Pro Shops for \$60 million. Through them, Bass Pro Shop would be able to produce hunting and fishing TV shows as well as Bass Pro Shops Outdoor World, a syndicated radio show broadcast all over the U.S. and on the Armed Forces Radio Network stations around the world. He also allied his company with Mills Corporation, a mall developer headquartered in Virginia, and with a hotel operator to combine Outdoor World stores with Embassy Suite Hotels (Covell, 2011).

RETAIL EXPANSION

In 1995, Bass Pro Shops opened the Sportsman's Warehouse in Duluth, Georgia, and purchased the Worldwide Sportsman store in Islamorada in Florida. Neither of these was an Outdoor World Megastore, but they did represent the expansion of Bass Pro Shops' retail presence beyond Springfield. Two years later, in 1997, they did open the second Outdoor World location at a mall in Gurnee, Illinois, and a third near Fort Lauderdale, Florida. A third opened in the Dallas/Fort Worth area in 1999, followed by another in the Detroit area. In 2001, another location opened in Nashville, Tennessee, at the Opryland Mills mall. This was in done in conjunction with both Mills Corporation and Gaylord Entertainment. Store openings in Cincinnati, Ohio; Charlotte, North Carolina; St. Charles, Missouri; and in the Washington, D.C. area soon followed. The company also opened an Outdoor World in Duluth, Georgia, where they had previously opened the Sportsman's Warehouse (Covell, 2011).

In 2015, Bass Pro Shop opened one of its most impressive retail locations in the iconic Memphis Pyramid which is located on the banks of the Mississippi River. The pyramid includes not only a massive assortment of merchandise but a hotel, restaurants, the Ducks Unlimited National Waterfowling Heritage Center, and a spectacular three-story tall observation deck. Bass Pro Shops at the Pyramid welcomed over 3 million visitors in its first year. The story behind the pyramid is a fishing legend all its own. As the story is told, Johnny Morris first conceived of the idea of purchasing the pyramid while fishing near the giant structure. Fishing legend Bill Dance, who was from Memphis, and Bass Pro Shop fishing manager Jack Emmitt were fishing with Morris that day. The entrepreneur told the two men that he would commit to buying and transforming the pyramid if he caught a fish that weighed more than thirty pounds. According to

the story, he caught a 34-pound catfish and followed through on his commitment (Johnny Morris, Visionary, 2022).

In 2016, Bass Pro Shop announced that it would acquire Cabela's in a \$5.5 billion dollar deal, paying \$65.50 a share. The closing of this deal would initiate a multi-year partnership agreement between Bass Pro Shops and Capital One Financial Corporation's national banking subsidiary, Capital One, National Association. This organization would manage the Cabela's co-branded credit card divisions and the Cabela's Club. This would give the combined company control over three leading outdoor sports brands: Bass Pro Shop's in the fishing market White River Marine Group in boating, and Cabela's in hunting (Russell, 2016).

Johnny Morris said the agreement marked "an exceptional opportunity to bring together three special companies with an abiding love for the outdoors and a mission for serving sportsmen and sportswomen" (Russell, 2016).

CONSERVATION AND TOURISM

Though Bass Pro Shops had opened an outdoor museum in 1993, it launched the spectacular Wonders of Wildlife National Museum in 2017. The not-for-profit museum has been hailed as "the largest, most immersive conservation attraction in the world." (Johnny Morris, Visionary, 2022) With a 350,000-square foot complex, the scale of the museum exceeds that of even Smithsonian Museum of Natural History. Another attraction, the Top of the Rock Ozarks Heritage Preserve and Native American Museum, was built south of Branson near Big Cedar Lodge. The Ancient Ozarks Natural History Museum features a massive collection of Native American artifacts and exhibits celebration of the history and wildlife of the region. The larger complex includes a restaurant, wedding venue, golf course, and self-guided electric cart tour. Nearby is the 10,000-acre Dogwood Nature Park, a wildlife reserve which features a

conservation center, classrooms, tours, and a historical grain mill. Guests can enjoy the park on horseback rides, on trams, and on guided fishing trips (Johnny Morris, Visionary, 2022) .

Closing Remarks

By 2022, Bass Pro Shops would boast almost 200 stores and marine centers in the U.S. and Canada and would welcome over 200 million visitors each year (Johnny Morris, Business Visionary, 2022).

TEACHING NOTES

Available to SWCRA Members.

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