JOURNAL OF APPLIED CASE RESEARCH
JACR Volume 6, Number 3, November 2006

Table of Contents

Editors and Reviewers

The Journal appreciates the time and commitment of all those who generously give their time in reviewing and editing manuscripts. The following are those who have assisted in this volume.

Charles Boyd, Southwest Missouri State University
Susan Cullers, Tarleton State University
Carol Cumber, South Dakota State University
Wilke English, University of Mary Hardin-Baylor
Lisa Ferguson, Nova University
Anne Fiedler, Barry University
Aundrea Kay Guess, St. Edward's University
Neil Herndon, University of Missouri, Columbia
Richard Jones, Hofstra University
Joe Kavanaugh, Sam Houston State University
Mark Kroll, Louisiana Tech
Lewis Lash, Barry University
Henry Maddux III, Sam Houston State University
Stephen Morrell, Barry University
Valerie Muehsam, Sam Houston State University
Marlene Reed, Samford University
Paul Reed, Sam Houston State University
Brenda Sonner, Troy State University, Montgomery
Mary Margaret Webber, University of New Mexico
Anita Williams, Henderson State University

PREVIOUS EDITORS OF JACR

Dan Jennings, Texas A&M University
Leslie Toombs, University of Arkansas-Fort Smith

NOTES TO REVIEWERS

In general, the Journal is interested in cases featuring "real" situations where there are specific problems to be resolved. This does not mean that students have to find a "black and white" answer. However, they must be given sufficient information such that a set of reasonable alternatives must be accessible to them.

In saying the above, I discern three separate outlets for cases; these outlets are not all mutually exclusive, but I will explain.

1) ***Conference Cases:*** Some cases have enough information about a situation to make them conference cases. In general, these cases are narrow in focus, have adequate information, but are not rich or compelling situations.

2) ***Book Cases/Vignettes***: These cases are short and focused entirely on exemplifying one management technique. In other words, they are perfect for using in conjunction with a text book.

3) ***Journal Cases***: These cases are rich in information, have enough background information to let students understand the business model in question, and provide an issue/situation that most (if not all) readers can see needs some resolution. In other words, there is a management issue to be dealt with that requires a broad approach to resolving.

Conference cases can become either Book Cases or Journal Cases. However, Book cases are not consistent with Journal Cases.

Your review should focus on the following criteria (at a minimum). If you consider other criteria in reviewing a case, please make sure you articulate those criteria explicitly in your review.

A) **Writing Quality**: The case should be well edited. Consider readability, grammar, syntax, and style. If you have suggestions/recommendations for changes in any of these, please give some examples (if only briefly) so the author(s) can make the changes you suggest.

B) **Learning Points**: All cases should have specific learning points for the students. The learning points do not have to be explicit, but all readers should recognize what needs to be done.

- How well does the case develop and present these points?
- How many points are there and do the points fit together?
- Do the Teaching Notes support classroom use of the case on these points?

C**) Superiority**: Is the case "superior" in the sense that:

- It is relatively easy to read and the situation is "compelling"
- Is the business situation relevant?
- Do the decisions require careful analysis or are they too obvious?

Please write your review with all comments laid out in separate points. Please do not indicate your identity on your review. If you mark up the original manuscript, please return it via mail so I can send it to the author(s). If possible, I would like all reviews to be completed within 60 days.

THANK YOU FOR YOUR HELP!!

NOTES TO AUTHORS

Thank you for considering the Journal of Applied Case Research as an outlet for your work. We would be very pleased to review your manuscript. Please review our guidelines set out on the website at www.swcra.org. As further information, the following is set out for your guidance.

1) The Journal of Applied Case Research is focused on cases depicting real management situations, and articles focused on the use of cases in the classroom. The cases can be either field researched or secondary research.

2) The Notes to Reviewers is published in this Journal to provide you with the guidelines given to those evaluating your manuscript. As noted therein, the Journal discerns 3 levels of cases:
   a) Conference Cases;
   b) Book Cases/Vignettes
   c) Journal Cases.

   Given these distinctions, we believe that cases accepted for the Journal have passed the highest level of double-blind review.

3) As an author, you seek the highest quality outlet for your work to facilitate your personal and professional goals. The Journal of Applied Case Research tries to turn manuscripts around in the shortest time possible. Where there might be delays, we try to keep you informed of the situation.

Please ensure that your revised case follows these guidelines. The case will not be published until it meets these criteria.

Font: Times New Roman (12 point)

Margins: 1 inch margins left and right. 1 inch margins top and bottom.

Footnotes: Please do not footnote your references. Use citation style (Jennings 1997). For clarification points, either incorporate the information in the body of the text or refer to an Appendix.

Line Spacing: Manuscripts submitted for review should be Double Spaced.

Justification: Fully justified.

Headings and Sub-Headings: Main headings should be centered, bold, and in CAPITALS. Sub-headings should be left justified, bold and lower case.

Tables: Should be in Word (Tables) with Times New Roman Font.

Appendices: Should be clearly labeled and clearly referenced in the body of the case.

Graphs and Figures: Times New Roman font and graph details should be discernible in black and white print.

Teaching Notes: A full and complete set of teaching notes is required with your final manuscript. These notes will not be published but may be made available to those who purchase your case at a future date.

LETTER FROM THE EDITOR

Dear Readers:

This is my last edition of the Journal. My successor is Steve Maranville and he is on the faculty of The University of Houston – Downtown.

For those of you who have served as a Reviewer I can only offer my thanks for all your support and timely comments. For those of you who submitted cases, thank you for considering the Journal. I hope the review process improved your case.

Many of those who submitted a case and received a review did not follow my advice and revise/resubmit. This I found surprising. Many of the cases were excellent pieces of work, but they needed more refinement before being included in the Journal. Having done the major portion of the work, I found it curious that authors did not re-submit. For their sakes, I hope they found alternative outlets because much of the work was very good.

Good Luck to everyone.

Alex Sharland

AUTHOR INFORMATION

Donald P. Howard is Associate Professor of Management at the College of Business Administration at Augusta State University, Augusta, Georgia.

Nabil A. Ibrahim is Grover Maxwell Professor of Business Administration at the College of Business Administration at Augusta State University, Augusta, Georgia.

Jill Brown is Assistant Professor of Accounting at the College of Business Administration at Augusta State University, Augusta, Georgia.

Robert L. Smalley is Assistant Professor of Accounting at the College of Business Administration at Augusta State University, Augusta, Georgia.

Jeff Miller is Associate Professor of Accounting at the College of Business Administration at Augusta State University, Augusta, Georgia.

Tom Leisz is at the University of Idaho

Steve Maranville is Associate Professor at the University of Houston Downtown

Joe Kavanaugh is Associate Professor at Sam Houston State University

John K. Masters is Assistant Professor of Management and Marketing at Louisiana State University at Shreveport.

COMMERCIAL DRIVER TRAINING

Donald P. Howard, Jill Brown, Nabil A. Ibrahim
Augusta State University

INTRODUCTION

It began six years ago, with their wives. The women had a lot of fun playing bridge together and decided their husbands should meet. It was an unlikely pairing. Samuel Anderson worked for the Carolina Driver School (CDS), a truck driver training company, and John Garner was a professor of business administration at Austin College. But they shared a common interest - cycling. So they began to ride together, and they talked about a lot of things.

Anderson had been a dispatcher and recruiter for a major trucking firm for eight years before joining Carolina Driver School. In the four years he was the director of the school its annual revenues grew an average of 15% each year. He was quite knowledgeable about the trucking business, and he had learned much about managing a driver training school. Anderson had always wanted to establish and manage his own school but lacked the capital.

John Garner had a solid background in business and financial management and had taught at the College for almost six years. Prior to entering the world of academia, he had enjoyed a very successful career in the retailing industry where he was President and COO of a $250 million apparel company. Along the way, he also became involved in several successful entrepreneurial business ventures. In the Fall of 1998, Garner sold his interest in two of his ventures for over one million dollars. He planned to move most of the profits from the sales to a conservative retirement portfolio, but became interested in pursuing a truck driving school venture with Sam Anderson.

As Garner investigated both the trucking industry and truck driving school industry, he discovered an immense, long-term demand for new drivers by the trucking industry and a healthy supply of men and women seeking employment in the trucking industry. The only question he had about the training school industry was, "Who's going to pay for the training?" Nevertheless, over the next several weeks, Garner and Anderson continued to discuss and plan the venture, and in December they "inked a deal" that would make Sam a 25% owner and School Director. John would retain controlling interest in the company and assist in the planning and financing effort. That same evening they decided on the name, Commercial Driver Training (CDT). As Anderson pointed out later, "Garner wasn't a hard sell. As a matter of fact, he was going to open a driving school with or without me. It was a great situation for both of us. We knew that we would succeed from day one!"

Since startup, enrollment climbed to an average of fifteen new students per week. The number of employees increased to twenty-six, including seventeen full-time instructors. To facilitate growth, additional trucks and equipment were purchased, and two mobile office/class rooms were moved to the property, one in 2000 and another in 2002. From its meager beginnings the company achieved favorable recognition from the industry for its professionalism and high quality training. Additionally, the company received numerous safety awards from the State Department of Transportation. Annual revenues were nearly $2.1 million in 2003 with a net income of $297,187.

Recently, the two partners met to exchange ideas about the company's future. Their discussion centered around the company's financial strength, market share and future growth. Sam wanted CDT to investigate acquiring another company as part of a growth strategy. John, however, felt that an acquisition was premature and raised the issue of inconsistency of company earnings and high bad debt right offs. Over the years, Sam and John had a good working relationship. However, recently the relationship became strained over their different interpretations of the company's performance. John's concerns were reinforced by the company's CPA who had pointed out the need for improved expense control, especially the student loan right offs, and cash flow management. Sam was quite frustrated by John's continued references to the CPA's comments and on one occasion fired back, "John, the bean counters don't know this business. High loan right offs are just another cost of doing business! Besides, our right offs aren't that much higher than our competition's and we do way more business than they do." Sam and John realized they had to reconcile these issues and after considerable debate they decided that the company must move forward to accomplish the growth strategy. However, both agreed that their major dilemma was how to better understand and manage the company's cash flow and bad debt problems.

EXTERNAL ENVIRONMENT

The Trucking Industry

The Motor Carrier Act of 1935 gave the Interstate Commerce Commission (ICC) the authority to regulate motor carriers and drivers involved in interstate commerce. The ICC was empowered to issue operating permits, set all tariffs, and approve all trucking routes. The intent of this legislation was to prevent large shippers from receiving an unfair trade advantage due to lower freight costs from volume discounts. Consequently, the ICC established uniform tariff rates for everyone.

Deregulation

The passage of the Motor Carrier Act of 1980 (and other similar laws that followed) had a dramatic impact on the industry by permitting price competition for the first time. This partial deregulation of the interstate trucking industry set the stage for the industry's growth and dominance as common carrier. Prior to deregulation, the industry had simply passed costs on to shippers.

Deregulation clearly had benefits for the consumer, the trucking industry and the economy as a whole. Shipping rates fell significantly and service to shippers was improved. However, it also resulted in numerous problems for the trucking industry, contributing to the emergence of low wages, long hours, and unsafe working conditions. Bankruptcies soared. Because many of the failing carriers were unionized, the Teamsters Union representation in the industry plummeted (Belzer, 2000).

Safety Issues

Driver exhaustion and poor working conditions were the most often mentioned concerns among truck drivers. While truck-related fatalities on the highways increased following deregulation, the number of new trucks far outpaced additional deaths. Between 1975 and 1990, fatality rates for tractor-trailer trucks declined by 59 percent, compared to 40 percent for all highway vehicles (NTS, 1995). The fatality rate per 100 million vehicle miles decreased to 1.9% in 2003 – representing a 29 percent drop over the last decade, even though total vehicle miles traveled increased by 42 percent over the same period of time (ATA, 2004). A number of initiatives contributed to improved safety over the last two decades, such as the Commercial Driver License (CDL) program mandated by Congress.

Growth

Since the trucking industry was one of the lynchpins of the economy, it was not surprising that the industry had grown dramatically in recent years. The amount of overland truck freight was projected to continue to increase through 2016 (ATA Forecast, 2004). In 2002, the trucking industry accounted for 68% of the annual freight transportation in the United States, with over 400 billion miles logged and 8.9 billion tons of freight moved. Furthermore, the number of interstate motor carriers had grown to over 500,000 carriers with 81% of them having 20 or fewer trucks (ATA, 2004).

High Driver Turnover

While the trucking industry had experienced unprecedented growth throughout the 1990s it also had had its challenges. In recent years, no segment of the economy had felt the workforce shortage more than the trucking industry.

There were more than 3.2 million commercial truck drivers in the United States (Bureau of Labor, 2003), and the American Trucking Association estimated the industry needed about 80,000 new drivers each year for the foreseeable future. The industry average for driver turnover was around 140% (ATA, 2003). In most trucking firms, drivers regularly jumped to competitors for better wages or improved working conditions. According to the American Trucking Association's latest estimates, 50,000 drivers leave the industry each year and 300,000 switch jobs within the industry. Reasons for the driver shortages were numerous. Most often cited was the dreary and lonesome lifestyle, with many weeks on the road away from home and almost every night spent sleeping in the cab. A long-haul trucker could spend up to 300 days on the road. In addition, increasingly demanding deadlines, often with less than five hours of sleep per night, and employer monitoring of the rigs' progress on the road by satellite contributed to dissatisfaction and stress among the drivers.

The industry was forced to respond to the workforce shortage. With the increased demand for drivers came the inevitable upward pressure on wages. Starting salaries averaged $45,000 (ATA, 2003) and many companies paid more than $50,000 for experienced drivers. Additionally, special retention bonuses, safety incentives, and other strategies were being used to attract and retain drivers.

The Commercial Driving School Industry

The Early Years

The commercial driving school industry evolved just after the second World War. The Department of Veterans' Affairs (VA) provided opportunities for the retiring Veterans to enter a variety of occupations. The commercial driving school industry had significant growth during this period, as did most other vocational type training programs.

The industry continued to grow through the late 1950s, driven by the VA vocational education program. In the early 1960s, however, Congress began an investigation into the misuse of federal funds for educational purposes through the Veterans Administration. As a result, of the investigations many loan programs were cut back dramatically, and far more stringent requirements for loan qualification were put in place. Many driving schools were forced out of business due to the loss of adequate student funding (McCloy, 2001). The demand for drivers continued to grow, but a cleansing of the industry took place.

CDL Program

During the late eighties and early nineties there was a major change in the truck driver training school industry toward very small "mom-and-pop" operations. However, many of these schools opened without adequate knowledge or experience in running a school. Some of them were short lived as new federal regulations put specific operational requirements on the schools. The most significant of these new laws was the Commercial Motor Vehicle Safety Act of 1986 which required testing and licensing for all commercial truck and bus drivers. It established minimum national standards for a state- issued Commercial Drivers License (CDL). These minimal national standards required substantial training on the part of the prospective driver. Many hours of classroom and range instruction as well as actual road time were required before the typical student could demonstrate adequate proficiency. The significant requirements of the CDL Program forced a fundamental change in the methods of delivery of driver training and gave rise to the "certified" driver training industry that we have today.

Competitive Analysis

Commercial Driving Training, Inc. had limited competition in the Augusta area. The major competitor, Carolina Driving School (CDS), located in nearby West Augusta, marketed its programs in the local media market. Another competitor, Alliance Trucking in McDuffie county, was over an hour away. Indirect competition included Aiken Tech and Augusta Tech vocational schools. While these institutions did not offer specific truck driving training courses, they did attract many potential CDT students.

CDS

Carolina Driving School (CDS), formerly managed by Sam Anderson, was an aggressive competitor. The competition was primarily based on tuition cost but was made more fierce and personal because of Sam Anderson's current involvement with CDT.

Tuition was $3850 at CDT and $2950 at CDS for the four-week program – a 30% differential. CDS offered a cash price of $2400 compared to $3450 for CDT; again, a 30% differential. The price elasticity of demand for the driver training industry was quite high; as a result, any lowering of price would be reflected in an increase in demand.

The contrast between CDT and its local competitor was evident to anyone who visited both sites. CDT operated out of a modern building with current furnishings and wall coverings and used newer trucks that were all painted with the same logo. CDS, on the other hand, was located in an older building on the west side of city. The furnishings were sparse with old, worn carpet covering the floors and brown paneling covering the walls. The training equipment was older and presented a less professional appearance.

Industry rumor was that CDS was looking for a buyer. Anderson felt that CDT should acquire its only major competitor. Although there was limited financial information available, the purchase price was said to be $650,000, which Anderson estimated was about five times CDS's annual earnings. This purchase price included five trucks, of which only two were less than six years old, as well as furniture and equipment. CDS leased the building at its current location, so the trucks were the primary assets in the asset base.

MISSION

According to its mission statement, CDT was "To provide high quality, cost-effective driver training resulting in safe, professional, employable drivers." Anderson was very proud of this mission statement and felt that it was useful in managing the company. He thought it adequately stated the reason for CDT's existence and it was used to help the company's management allocate resources. In addition, Anderson felt that it was broad enough so that it did not need to be rewritten each year to accommodate annual goals and objectives.

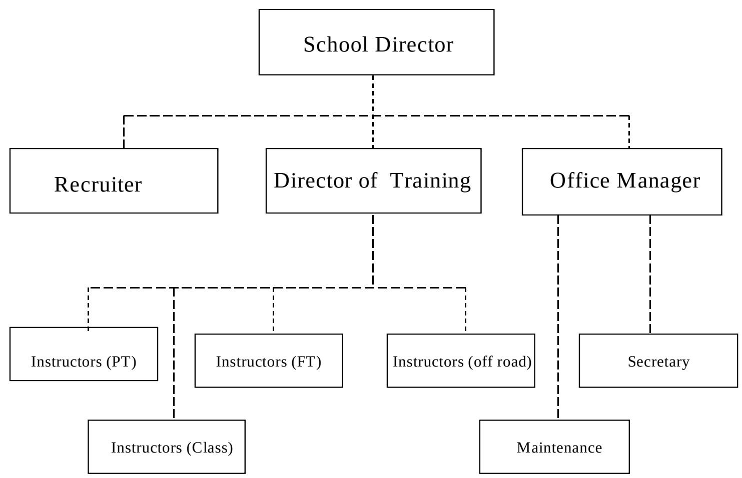
INTERNAL ENVIRONMENT

During the early years of operation, the focus of CDT management was a short-term survival strategy. Anderson's efforts were primarily spent getting the company established in the Central Savannah River Area (CSRA) and maintaining enough students to generate sufficient cash flow. Although CDT's goals for the future were growth and expansion, there was no plan in place for achieving these goals. The owners just never seemed to get around to formalizing their strategic direction.

Structure

CDT was a small organization with two shareholders: Anderson and Garner. Garner held a majority position, while Anderson was the Director of the school and ran the day-to-day operations including recruitment of students and developing relationships with trucking companies and driver recruiters. The workforce consisted of seventeen full-time and four part-time training instructors, one office manager, one secretary, and three recruiters. Anderson and Garner were the shareholders with Garner holding a majority position. Garner was the Business Manager. His involvement was primarily in the financial aspects of running the business.

Figure 1 – Organizational Chart



One of the seventeen full-time instructors was also the Director of Training. This person was responsible for the training staff, determining how many instructors were needed, and ensuring that the instructors had the necessary tools to perform their jobs. The Office Manager handled the necessary paperwork for the school and kept track of payroll. Reporting to the Office Manager was a Secretary who primarily worked with the students. She answered questions about the school for new and prospective students and also assisted with job placement of school graduates.

Due to the size and nature of the business, there was a very informal operating environment at CDT. This type of environment seemed to suit the needs of the organization. It also helped facilitate communication throughout the company. CDT did not have a formal organizational chart, but the chart shown in Figure 1 reflects CDT's organizational structure.

CDT did not have any formal job descriptions. Although Anderson maintained that these were not necessary for a company of its size, Garner felt that formal job descriptions would help CDT management better evaluate employee performance.
but the chart shown in Figure 1 reflects CDT's organizational structure.

People

Most of the instructors had their Commercial Drivers License (CDL). The only exceptions were Jeb Sawyer, who planned to retire in two years, and Willy Cofer. The latter insisted that a license was not necessary and, on one occasion, told Anderson "If one person can work here without a license, so can I." Anderson ignored this remark "Because Willy is one of our best off-road instructors and I don't want to upset him. My partner, John, doesn't agree, and I'm afraid we might be headed toward a confrontation. I just don't want to lose this guy to our competitors, and I don't know what to do about it."

Most of the instructors were former truck drivers. According to one of the instructors, this helped the students relate to the instructors. This also helped reduce the dropout rate because the instructors shared personal experiences with the students to reinforce their learning.

Anderson had an informal management style that produced a friendly, informal environment to work and teach. It was also well suited to CDT because he felt that a rigid management style would cause higher student dropout rates and lower enrollment. All of the staff are experienced in both the truck driver training industry and the trucking industry.

The culture was relaxed and friendly. The concern for the students was embodied in the mission statement and practiced by everyone at CDT. For example, instructors were willing to spend extra time with students to help them understand a concept or feel comfortable performing a task. Also, CDT was very flexible and willing to work with students to complete their course work even beyond the normal four weeks (weekday program) or ten weeks (weekend program). The goal was to graduate safe, employable drivers, not to run them through the programs as fast as possible.

Employee reward systems included a salary compensation plan, but not an incentive program to improve enrollment or to discourage dropouts. Anderson and Garner had discussed introducing some type of profit-sharing tied to these criteria. They felt it would help motivate employees towards CDT's goal of growth and expansion.

Marketing

CDT developed an extensive marketing strategy to attract new students. Its target market was primarily males between 25 and 40 years old who typically had a lower to middle income level. Most of the people in this target market were either unemployed or seeking a change in their job status. The attraction for most of the target market was the potential income that could be made in the trucking industry. CDT used a variety of advertising methods to reach their target market including job fairs and advertisements in local print and broadcast media. It did not send out mailers or inserts in the community.

CDT sponsored three job fairs at its training facility in the past year. These job fairs were designed to allow the students and the truck driving companies to get together. They provided these companies the opportunity to promote themselves and recruit new drivers. The students were shown the types of trucks they could be driving, the companies in which they could work, and the facilities where they would receive their training. The job fair was promoted by using radio advertisements, a newspaper advertisement in the "help wanted" section, and "live" radio feeds during the job fair.

CDT and many of the trucking companies set up seminars to recruit new students and inform the public about their service. These seminars were held on a monthly basis either at CDT or at a local conference center. This cooperative effort fostered the development of positive relationships with the companies at which CDT wanted to place its graduating students.

The use of county newspapers helped attract students from rural areas such as Millen, Sandersville, and Waynesboro, Georgia. Full-page advertisements in the Augusta Chronicle promoted the company's emphasis on safety. The advertisements also included testimonials from former graduates. The full-page inserts were scheduled to run four times a year in the Augusta Chronicle. CDT also used top-of-mind-awareness (TOMA) advertisements in the Augusta Chronicle to keep its name out in the public. CDT's TOMA advertisements ran in the Tuesday, Thursday, and Sunday editions of the Augusta Chronicle. Samples of the TOMA advertisements are shown in Figure 2.

CDT's television advertisements were shown on Augusta's Fox Channel 54 and WJBF (ABC) Channel 6. The advertisements usually appeared during talk shows, syndicated programming, and entertainment shows such as American Gladiator and World Championship Wrestling. A future infomercial was planned to explain in detail CDT's services to potential new students.

Figure 2 – Sample TOMA Advertisements

CDT also purchased advertisement space in the local IWANTA publication in the "trucks and vans" section. The IWANTA publication was a weekly publication distributed in area convenience stores that included a listing of new and used items that are for sale.

CDT's trucks were another form of advertising. The company's name, toll-free telephone number and safety statements were boldly displayed on the sides of its trucks. This "free" advertising source was visible to all when the drivers performed their road training in towns and communities throughout the area.

Recently, CDT was involved in the annual community job fair held at the Augusta Civic Center. As one of the sponsors, it was given an excellent booth location. During the job fair, many of its employees, along with a former graduate, were present to answer questions. Those who were interested were asked to provide their name and telephone numbers and were told that they would be contacted in the near future. CDT also displayed one of its trucks at the job fair. Trainers were standing outside to talk to those who showed an interest in CDT.

According to Garner, CDT needed to determine how effectively its advertising dollars were being used. As a first step, he wanted to ask those who enrolled or inquired about the program when, where, and how they heard about CDT (television, radio, newspaper, word of mouth, etc.). This could help CDT more effectively use advertising dollars to reach its target market.

In addition, Garner was considering a different strategy in the Augusta Chronicle advertisements. Instead of using TOMA advertisements, he wanted to place an advertisement in the Sunday help-wanted section. At $2.10 per line/per day, it would cost less than the TOMA advertisements. Further discounts were available if the Sunday advertisement ran three days in the same week. The TOMA advertisements, which could be placed by CDT anywhere in the paper, cost $54 per day with a three day per week required schedule. This change could reduce advertising cost. Garner believed it was more likely that potential students would look in the help-wanted section to see what jobs were available.

Training

CDT worked through several finance companies to ensure that financial assistance was available for every student. Job placement assistance was provided, at any time during their careers, for drivers who had graduated from CDT. New four-week training sessions began every Monday, and a weekend session began every other Saturday. This schedule enabled new students to start training at their convenience.

The company's educational philosophy was to provide its students with the knowledge and equipment to learn the fundamentals of over-the-road trucking with major emphasis on safety. There were three primary training objectives (CDT Handbook, 1999):

A. To qualify a student for employment as a Tractor Trailer Driver in interstate or intrastate commerce.
B. To equip the student with the confidence and attitude to succeed as a Professional Truck Driver.
C. To provide and assist the student in learning how to:
    1. Perform a pre-trip inspection.
    2. Conduct start up procedures, correct attachment and detachment of trailer.
    3. Safely make left and right turns.
    4. Perform all the backing maneuvers.
    5. Master the complexities of engine speed and shifting.
    6. Maintenance of equipment.
    7. Provide quality customer service.
    8. Properly fill out D.O.T. logs and re-cap sheets.

Training was conducted during weekdays or on weekends. The weekday program was for four weeks (200 hours, DOT required) with a daily schedule from 8:00 AM – 6:00 PM, Monday through Friday. The weekend program lasted ten weeks (200 hours) with a daily schedule from 8:00 AM – 6:00 PM, Saturday and Sunday.

FINANCIAL POSITION

The financial statements are shown in Exhibits 1 and 2. Garner was proud of the fact that the total income grew significantly from the first full year of operation to $2,156,000 for FYE 12/31/03. The gross profit margins of 46-52% in the first five years were below the industry average of 56.5% (Dun & Brad., 2003). However, even with increasing insurance costs and travel expenses, net profit margins were strong, ranging from 11-16%, with the exception of the second year, when large depreciation charges were expensed at the fiscal year-end. Also, for year 2003, other profitability ratios such as return on assets and return on equity, reflected favorable returns. Overall, CDT's income statements reflected a healthy start-up company with profit margins above industry averages.

However, Garner was quick to point out that an analysis of the balance sheets for the five years since CDT's inception reflected some working capital problems, which may be typical for start-up small businesses. Accounts receivable grew 394% over four years to a total of $3,483,518 at 12/31/03. Although the company categorized all A/R as short-term, over half of the receivables could be categorized as long-term receivables. The receivables turnover for the year ending 12/31/03 reflected an average collection period of 126 days, well above the industry average of 34 days. CDT's bad debt reserve account had also grown dramatically, indicating over half of the accounts receivable were presumed to be uncollectible.

Exhibit 1 – CDT Comparative Income Statements 1999-2003

	FYE 1999	FYE 2000	FYE 2001	FYE 2002	FYE 2003
Total Income	1,111,613	1,046,742	1,437,502	1,560,657	2,156,000
Bad Debt Reserve	-333,484	-314,023	-431,250	-480,397	-625,123
Total Income Less Bad Debt	778,129	732,719	1,006,251	1,080,260	1,530,877
Training Costs	196,634	241,489	327,709	341,308	491,764
Gross Profit	581,495	491,230	678,542	738,952	1,039,113
Expenses					
G & A Expenses	409,174	382,164	411,156	525,556	706,730
Payroll	24,619	25,800	34,253	35,441	38,957
Total Expenses	433,793	407,964	445,409	560,997	745,687
Net Ordinary Income	147,702	83,266	233,133	177,955	293,426
Net Other Income	0	6,079	-276	3,550	3,761
Net Income	147,702	89,345	232,857	181,505	297,187

According to Garner, the growing accounts receivable and reserve for bad debts stemmed from two primary causes. First, only 4% of CDT's students paid their tuition in cash. The remaining 96% were unable to obtain financing on their own due to poor credit ratings coupled with the resistance lenders had in financing unsecured educational loans. The majority of potential students relied on CDT's arrangement with finance companies to obtain tuition financing. The time between a student entering the program and the school's receipt of tuition payment was lengthy and collection took place in phases, as a result of the deal that CDT negotiated with the financing company. Most loans were for two years, despite the short 4-10 week training program. The collection cycle of loans for day students was somewhat shorter because the day program was shorter, but for both the day and weekend students, the finance company did not process student loans until the students had received their commercial truck drivers' licenses. For day students, this meant that the first installment of loan proceeds for CDT was received at week 5, while the first installment for weekend students was received at week 11. Even then, depending on the loan type and quality of the credit, the school received only 40% to 60% advance of the loan amount. The last half of the amount financed was not collected by CDT from the financing company until about four to six months before the loan matured (approximately 18-20 months). CDT did not begin to collect the remaining portion until the loan was close to maturity, and well after the student graduated from the program

Exhibit 2 – CDT Comparative Balance Sheets 1999-2003

	FYE 1999	FYE 2000	FYE 2001	FYE 2002	FYE 2003
Assets					
Cash	61,122	78,262	66,529	53,213	9,507
Accounts Receivable	348,251	639,919	988,414	1,341,385	1,719,259
Reserve	-166,742	-323,753	-539,379	-754,577	-959,257
Accounts Receivable (Net)	181,509	316,166	449,036	586,808	760,002
Petty Cash	0	17	-66	10	300
Total Current Assets	**242,631**	**394,444**	**515,499**	**640,030**	**769,808**
Fixed Assets					
Leasehold Improvements	179,876	191,179	199,279	204,079	205,279
Furniture & Equipment	114,575	115,622	135,645	135,645	138,195
Equipment	13,874	14,459	18,283	20,190	54,712
Trucks	331,015	352,023	352,023	844,023	844,023
Accumulated Depreciation	0	-181,953	-213,591	-245,230	-255,776
Total Fixed Assets	**639,340**	**491,330**	**491,639**	**958,707**	**986,433**
Other Assets					
Long-term Accounts Receivable	348,251	639,919	988,414	1,341,385	1,719,259
Reserve	-166,742	-323,753	-539,379	-754,577	-959,257
LT Accounts Receivable (Net)	181,509	316,166	449,036	586,808	760,002
Organizational Costs	27,853	27,853	29,796	29,796	29,796
Start Up Expenses	9,870	9,870	9,960	9,960	9,960
Accumulated Amortization	0	-3,360	-5,246	-7,132	-7,761
Total Other Assets	**219,232**	**350,529**	**483,545**	**619,431**	**791,996**
Total Assets	**1,101,204**	**1,236,303**	**1,490,683**	**2,218,168**	**2,548,238**
Liabilities and Equity					
Current Liabilities					
Accounts Payable	0	2,755	391	19,912	25,833
Bank Line of Credit	825,000	843,000	843,000	1,419,000	1,419,000
N-Payable- Officer	0	0	30,000	0	42,000
Payroll Taxes Payable	32,121	57,121	51,008	31,467	16,430
Total Current Liabilities	**857,121**	**902,876**	**924,399**	**1,470,379**	**1,503,263**
Total Liabilities	**857,121**	**902,876**	**924,399**	**1,470,379**	**1,503,263**
Equity					
Capital Stock	6,000	6,000	6,000	6,000	6,000
Retained Earnings	238,082	327,427	560,284	741,789	1,038,976
Total Equity	244,082	333,427	566,284	747,789	1,044,976
Total Liabilities and Equity	**1,101,204**	**1,236,303**	**1,490,683**	**2,218,169**	**2,548,239**

As a result of the long collection period on receivables, CDT had to rely on bank financing with a line of credit to fund working capital for the company. The company's line of credit usage grew from $825,000 to $1,419,000 by 12/31/03. Additionally, the company had to borrow $42,000 from Garner in the fifth year of operation. With the re-categorization of receivables from short-term to long-term, the company's current ratio (the ratio of current assets to current liabilities) in the fifth year was .51, which was well below the industry average of 1.5 times. However, despite its working capital problems, CDT's debt/assets of 59% for the fiscal year ending 12/31/03 was close to the industry average of 51.7%, indicating that while the company would benefit from more equity capital, its overall debt level was typical of the industry.

CDT's balance sheet also reflected a relatively high concentration of fixed assets, with fixed assets/total assets of 39% for the last year. CDT's trucks were new and in top condition, demonstrating the belief of the company that its high quality truck fleet separated it from its competition.

PERFORMANCE ISSUES

There were several financial performance measurements that concerned Garner, and which led to his disagreement with Anderson over the future direction of the company.

Break-even Analysis

Garner knew that a typical scenario for a student would be that he/she would be required to put $400 cash down on an average tuition of $3500 for the course ($3550 for weekend students and $3450 for weekday students). If the loan company financed the balance, a financing discount of 10% would be applied, as negotiated between CDT and the loan company. Within five weeks after the student started the program, 40-60% of the balance of the loan amount would be forwarded to CDT, with the remainder held by the finance company for up to 20 months from the time the student entered the program.

On the cost side, the training costs/week from the 12/31/03 financials were close to $10,000/week. These expenses seemed high, and Garner wanted to know how many students/week would be needed to break-even.

Analysis of the Weekend Program

Garner observed several differences when analyzing the enrollment statistics of day students versus weekend students. The number of dropouts was higher in the weekend program. In the weekday program, 19% of total enrollees dropped out compared to 34.5% of the weekend students. The percentage of loan defaults by students was slightly higher in the weekend program, but this was offset by a greater percentage of cash students in the weekend program. However, there was no way to get around the longer turnaround time of the weekend student. The daytime program was four weeks, and most students were able to complete the program in four weeks. The weekend program was ten weeks, but students rarely finished in ten weeks due to schedule conflicts. The students were allowed to finish at their own pace. If they missed a weekend, they could make it up, but this extended their completion date. Since CDT began, 28.5% of the students were weekend students. This indicated a strong interest in the weekend program. In addition, weekend students tended to be more ambitious and worked full time while going to school.

Analysis of Enrollment Statistics

Garner examined enrollment statistics from startup through 12-31-03. Average enrollment more than doubled from 337 students in the first full year of operation to 778 students. Offsetting this growth was a steady growth in the number of dropouts. In the first year of operation the dropout rate was only 6%. By 12-31-03 this rate had grown to 20%. Since 96% of the students obtain financing through CDT's arranged credit plan, CDT never received any money from the finance company if a student dropped out. Thirty-three students, or 5.4% of total students, defaulted on their student loans. Under the arrangement with the finance company the loan was not processed for payment until the student completed the course and received a commercial driver's license. Garner believed that CDT might be able to retain some of the $400 initial deposit. However, few students were allowed to begin school without paying their deposits. Some students walked away from CDT partially trained (with no license) and, in turn, CDT received no funding beyond the initial deposit. During the last year, only 17 students paid their tuition in cash. This represented only 2.2% of total enrollment net of dropouts.

FUTURE CHALLENGES

Recently, the two partners exchanged ideas about the company's future. Much of the discussions revolved around the CDT's financial strength, market share and future growth potential. Over the years, Sam Anderson and John Garner have had a good working relationship; however, the relationship had become strained recently as they could not reconcile two particular issues.

The first concerned the inconsistency of company earnings over the last few years. Garner was concerned about the major fluctuations in earnings. In reviewing the most recent statements he was pleased with revenue growth but was perplexed by the lack of expense control. For example, he pointed to the 40% increase in general and administrative expenses and similar large increases in student bad debts. Garner was concerned that system controls were not yet in place. He told Anderson, "the only trend I see is that income goes down in odd-numbered years and then improves the following year." Anderson, on the other hand, saw a positive trend in that income increased substantially between 2002 and 2003 and he expected this trend to continue. Another major disagreement was due to Anderson's desire to acquire CDS. Having managed that company for a number of years, he felt that the two cultures could easily be merged and the new company could become a major player in the regional market. Garner felt that such a move would be premature until there was more stability in CDT's earnings and "evidence of better expense and system management." Furthermore, given the aggressive, cutthroat nature of the competition, he felt that it would be difficult to merge the two very dissimilar companies. More importantly, both partners were in agreement that an objective assessment of CDS was not possible. They were uncertain about what specific information they needed to make such a decision.

With two diverse interpretations of the company's performance and two different attitudes toward acquisition, the partners were at a stand still. The critical question became: can the company move forward and accomplish its strategic objective of growth?

REFERENCE LIST

American Truckers Association, Economics & Statistical Analysis, 1998, page 67-69, Alexandria, Virginia.

American Truckers Association, U.S. Freight Transportation Forecast to 2016, 2004, www.truckline.com/ATA, Alexandria, Virginia.

American Truckers Association, The U.S. Trucking Industry: Safe, Sober and Secure, 2004, www.truckline.com/ATA, Alexandria, Virginia.

Anderson, Samuel, Personal Interview, June 2004, North Augusta, South Carolina.

Belzer, M.H., "Winners and Losers in Trucking Deregulation," New York: Oxford Press, 2000, p. 101.

Bureau of Labor Statistics, U.S. Department of Commerce, 1997, pages 458-461.

Commercial Driver Training Student Handbook, 1999 reprinted, Augusta, Georgia, pages 2-6.

Dun and Bradstreet Information Services, Industry Norms and Key Business Ratios, 1996-2000, SIC #8249.

Garner, John, Personal Interview, July 2004, Charlotte, North Carolina.

Gavzer, B., Should The Big Trucks Get Bigger?, Parade Magazine, July 20, 1997, pages 4-6.

McCloy, Al, Personal Interview, August 2001, Tampa, Florida.

National Transportation Statistics, 1995, pp. 111, 114.

Office of Motor Carriers Report, 2000, Washington, DC.

Standard & Poor's, U.S. Freight Transport Forecast to 2007, DRI, 1998, page 238.

BELLE'S DRIVE-INN

Tom Liesz, Idaho State University
Steve Maranville, University of Houston-Downtown

INTRODUCTION

"What a year this has been", thought Doug Benson, as he stared at the income statements prepared recently by a local accountant. "First, my brother loses his battle with cancer at age 42. Then just short of six months later Mom, who had been a widow for more than 17 years, passes away, leaving me the Drive-Inn. I know Mom wanted me to figure out a way to keep the Drive-Inn open, but now I see that the Drive-Inn has been losing money for the past several years. I need to figure out how to get the place back into the black in a hurry or I'll have no chance to sell it and might as well shut it down."

BACKGROUND

Belle's Drive-Inn was opened in a small western Colorado town (current population 10,000) in 1961 by Dave and Belle Benson. The town was very tranquil with tree-lined streets and friendly people; a place where folks took the time to get to know their neighbors. There was a strong sense of community in the town as easily seen by the crowds of people who would attend the local high school's sporting events, concerts, and plays. It was, as the Benson's had hoped, a wonderful place to start a business and raise a family.

The Bensons built the Drive-Inn in a vacant lot directly across the street from their home where they were raising their two sons, Dave Jr. and Doug. Since Belle had dreamed of "owning an ice cream place of (her) own" since she was a little girl, the young family unanimously voted to name the Drive-Inn in her honor. And the close proximity of the Drive-Inn to their home made it much easier for the Bensons to watch over both their business and their family.

ABOUT THE BUSINESS

Belle's was a success from the very first year it opened. Customers loved the home-cooked style burgers and hand-dipped shakes. Belle's was the first restaurant in town to feature curly fries, and made dozens of specialty drinks out of ice cream, soda water, and flavored syrups. There was a walk-up window for pedestrian traffic and two drive-through windows for motorists. While there was no indoor seating, a grass area with picnic tables adjacent to the parking lot could accommodate up to three dozen diners. The Bensons insisted upon providing their customers with a "quality dining experience at a reasonable price", the motto on the drive-inn's large sign along the roadway.

Belle's was open from 11:00 a.m. until 10:00 p.m. Sunday through Thursday with extended hours until midnight on Fridays and Saturdays. The Drive-Inn remained open throughout the year even though sales were about 25% less during the months of November through February as compared to the remainder of the year. Even with the arrival of the fast-food chains in town during the 70s and 80s Belle's maintained a loyal clientele as new generations of children were introduced to the Drive-Inn by their parents who had in turn been introduced to Belle's by their own parents some years before. And, one day when a stray dog happened by and Dave Sr. gave it a small bowl of vanilla ice cream to quench its thirst, a Belle's tradition was born: a free small cup of vanilla ice cream for any dog brought in by a customer.

Belle's was considered a "fun place" to work by local teens and there was always a steady pool of applicants from whom the Bensons could choose to hire. Both Dave Jr. and Doug worked at the Drive-Inn throughout their teen years and during summer vacations from college. The Bensons always tried to give annual raises to workers who stayed on the work crew and were considered very generous to their employees. It took a crew of four to staff the business, including a salaried shift manager and three hourly workers on duty at all times. The Bensons shared the shift manager position equally in the first 15 years of the business and gradually promoted others (including Dave Jr. and Doug) to shift managers over the years.

ABOUT THE BENSONS

By all accounts, the Bensons were a close-knit family. The only times they were separated for any length of time were when Dave Jr., and then Doug, went off to college. Still, the boys spent each summer working at the Drive-Inn during their college years and the entire family enjoyed those times together. Dave Jr. was two years older than Doug they always said that they felt they were as much friends as they were brothers. Seventeen years ago Dave Sr. was killed in a car accident, which devastated the family. Dave Jr. (at the time age 23 and a recent college graduate) moved back to town and took his father's place as co-manager of the Drive-Inn. Belle missed her husband very much and the Drive-Inn became her main focus in life, providing her an opportunity to see old friends and neighbors when they came in to eat or just to visit. Initially, Belle continued to make all the major decisions at the Drive-Inn, while Dave Jr. was content to live at home making a good salary and having some flexibility in his work hours. Over the years, however, Dave Jr. gradually assumed more of a "general manager's" position at the Drive-Inn, handling the day-to-day business as well as making most of the major decisions on his own or after obtaining Belle's input.

Doug, on the other hand, had graduated with a degree in library science from the University of Colorado and had never looked back. Unmarried and without dependents, he felt that life in a college town was more to his liking and he enjoyed having a broader range of activities to choose from in his free time. He obtained a job as a college librarian, earned a master's degree and gradually worked his way into library administration at a major university in a neighboring state. Still, Doug remained in regular contact with his family, even spending a week or so in town working a daily shift at the Drive-Inn during his vacation time each summer.

About three years ago Dave Jr. began losing weight and noticed he lacked the amount of energy he was accustomed to having. Belle insisted he get a complete physical and, after many weeks of prodding by his mother, he reluctantly agreed to see the family doctor. When the results of his blood tests came back, the Benson family was once again devastated - Dave Jr. had been diagnosed with a very aggressive form of cancer. He insisted that the doctor "level" with him on his chances of survival. The doctor said the cancer was very advanced and if he did not respond to treatment, he would likely not live more than six months to a year. Although still General Manager by title, Dave Jr. exercised less direct control over operations while battling with cancer. Dave Jr. put everything he had into fighting the cancer, and managing Belle's understandably became a lesser priority. The shift managers had to start making more decisions at the Drive-Inn as Dave Jr. became less able to spend as much time there as he always had in the past. After an eighteen month-long battle, Dave Jr. died.

Immediately after his brother passed away, Doug tried to talk his mother into selling the Drive-Inn. But Belle insisted that she wanted to keep it open until "(she) was gone." Doug understood how much the Drive-Inn meant to his mother; however, he had professional obligations that prohibited him from returning home to run the Drive-Inn. Less than six months later, though, Belle passed away herself. Friends said that she just had not been the same since the death of her oldest son.

THE SITUATION

Upon Belle's death the Drive-Inn was closed "indefinitely". Three weeks later Belle's Drive-Inn officially became Doug's property, as the sole heir to his mother's estate. Included with the will was a two-month-old letter from Belle pleading for Doug to consider moving back to town and keeping the Drive-Inn open. Before he could even contemplate such a move, Doug felt he needed to find out more about the current business operations of the Drive-Inn. Just being inside the building had brought unexpected feelings of nostalgia over him and he decided to pursue the possibility of keeping the business open himself or selling it to somebody who could. He knew he could also try to find somebody to run the business for him, but he preferred to not be an “absentee owner”.

The property upon which Belle’s Drive-Inn was located was paid off long ago. Virtually all of the equipment was paid for and fully depreciated, with the exception of a new cook stove purchased three years ago for $5,000. The stove has a 10-year depreciable life and is being depreciated on a straight-line basis.

Doug decided to take a 90-day leave of absence from his library position, had a meeting with all the current Drive-Inn employees and re-opened the business a few days later. The first week he was at the Drive-Inn virtually every hour it was open, observing the operations and talking to customers. He also analyzed the most recent income statements (see Exhibit 1) and tried to determine why the Drive-Inn was unprofitable even with what seemed to be very stable sales from a very loyal customer base. He realized that both his mother and brother had focused their attention on Dave Jr.'s illness the past couple of years, but he figured that, after so many successful years in business, the Drive-Inn should have just about "run itself".

DOUG’S FINDINGS

One of the first things Doug noticed was that, unlike the way he was taught by his parents more than 25 years before, none of the workers measured the ice cream or syrup put into the shakes and specialty drinks. By his estimation some of the drinks were, at best, being sold at prices that barely covered the cost of the raw materials to make them.

Doug was amazed to see that the same vendors that his parents first dealt with over 40 years ago were still supplying most of the food, plates, napkins, and other items the Drive-Inn was using. However, Doug was shocked to see that many of the prices Belle’s was paying these vendors were higher than prices he had himself paid when planning the annual library picnics at his job.

Finally, Doug discovered that there had not been any price increases at the Drive-Inn for three years. He found out from some of the workers and old-time customers that Belle and Dave Jr. had insisted on holding the line on prices while the local economy was doing poorly. They wanted their customers to feel like the Drive-Inn shared in their financial distress and they could still get a “quality dining experience at a reasonable price”.

DOUG’S DILEMMA

While Doug had not yet decided whether to give up his librarian career and return to manage Belle’s Drive-Inn, he did decide to try to determine a way to keep the business open. Talking to dozens of customers he discovered that Belle’s had truly become a landmark in town that would be sorely missed by many if it were to close. However, he realized that whether he kept the business or tried to sell it, he had to return the Drive-Inn to profitability. He knew that the value of a business was in large part a function of its ability to generate a positive cash flow and Belle’s had not been profitable for the past two years.

Exhibit 1: Income Statements for Prior Three Years

	Year 1	Year 2	Year 3
Revenues			
Net Sales	$250,650.00	$255,500.00	$261,450.00
Cost of Goods Sold	105,250.00	107,800.00	117,650.00
Gross Profit	$145,400.00	$147,700.00	$143,800.00
Expenses:			
Accounting/Legal	1,460.00	1,500.00	1,500.00
Advertising	2,400.00	2,400.00	2,400.00
Bank Charges	1,200.00	1,200.00	1,200.00
Depreciation	500.00	500.00	500.00
Insurance	2,700.00	2,750.00	2,750.00
Licenses	250.00	250.00	250.00
Payroll Taxes	7,075.00	7,500.00	8,010.00
Repairs/Maintenance	1,000.00	800.00	1,000.00
Salaries (shift managers)	50,000.00	52,500.00	57,750.00
Supplies	1,800.00	1,900.00	2,000.00
Wages (hourly workers)	72,900.00	76,550.00	80,350.00
Telephone	432.00	432.00	454.00
Utilities	3,000.00	3,180.00	3,370.00
Total Expenses	$141,717.00	$151,462.00	$161,734.00
Profit Before Taxes:	$3,683.00	$(3,762.00)	$(17,934.00)
Taxes	920.75	------	------
Net Income:	$2,762.25	$(3,762.00)	$ (17,934.00)

BRIAN T. MILLER ELECTRIC INC.

INTRODUCTION

Charlotte Miller ate her lunch as she continued answering the phone to respond to Miller Electric's customers. The growth in demand for service was forcing the Millers to schedule work appointments eight to ten days in advance whereas in the past two to three days was sufficient. Recently, both Charlotte and her husband Brian, the co-owners of Brian T. Miller Electric, had considered hiring additional employees. However, they were concerned that if demand slowed they would have to fire their new employees, which was against their belief in fostering loyalty with their staff. The growth in competition and the demand for their services had presented Miller Electric with a number of issues they had to address in order for them to continue to grow.

SERVICES AND PRODUCTS OFFERED

Miller Electric was started as a sole proprietorship in Nacogdoches (pronounced Nack-a-doe-chez), Texas, in 1983 by Brian and Charlotte Miller, and incorporated in 1993. The firm provided electrical contracting services for commercial, residential, and industrial customers. Commercial customers provided about 60% of their business, followed by residential (35%), and industrial (5%). Much of their work involved designing commercial lighting systems; repairing lighting systems, ceiling fans, and restaurant equipment; wiring, rewiring, and repairing electrical circuits in homes; and initial installation or replacement of breaker boxes and distribution panels. Their primary commercial customers were restaurants and apartment complexes. Their secondary market was residential remodeling and other routine residential repair services. Occasionally, Brian would work as a sub-contractor in residential or commercial construction, but it was not an important part of their current business. Miller Electric was also one of the few contractors in town that would accept underground work -- tracing line breaks and other outages. Brian was an exceptional troubleshooter and diagnostician, and was prepared to respond to emergencies on a twenty-four hour basis, a small but highly profitable segment of his business.

Charlotte Miller was pleased that when Nacogdoches apartment owners experienced problems, they called Brian first. She often told the story of the night Brian was called out at 2 a.m. to detect and service an underground break in the utility lines servicing one of the student apartment complexes near the local university. She was proud of how quickly Brian was able to diagnose the problem and get it fixed. As she pointed out, apartment complexes in general, and especially those occupied by students, are very service-sensitive.

Miller Electric defined their product as a service product with emphasis on "quality work, fair value, and a warrantee." Miller Electric was the only shop among its competitors that would warranty its work. As Charlotte Miller said, "Service is the bread and butter. Contract jobs are the gravy."

PERSONNEL

Miller Electric employed five people, including the Millers. Charlotte Miller was secretary and treasurer of the company; she functioned as a with routine office duties four days a week. Brian Miller was president of the company. He was a Master Electrician, worked primarily in the field, and was responsible for all job bids and quotations. Brett, a journeyman electrician, assisted Brian. Brett was paid eleven dollars an hour based on his skills and experience. Miller Electric also had a helper who was apprenticed three-quarter-time Office Manager and did the majority of the bookkeeping. A part-time secretary

to become an electrician. He was paid seven dollars an hour for his services. The helper assisted either Brain or Brett depending on job demand. In times of high demand Brian would also hire a college student on an hourly basis for additional support.

Miller Electric operated two trucks, which enabled both electricians to perform service calls at the same time.

After one year, full-time employees were eligible for the benefits package offered by Miller Electric. This package included five paid holidays and five paid sick days. Sick days did not accrue from one year to the next. Employees also received five days of paid vacation. The entire package offered up to fifteen days of paid leave annually. Recently, Miller Electric had begun to offer health insurance to their employees. Also, they liked to pay Christmas bonuses when it had been a good year.

The labor market for electricians was changing. Smaller cities such as Nacogdoches had changed building codes recently in response to code changes in the last legislative session, and now required that certified journeyman electricians who had passed the Southern Building Code certification test perform work done within the city limits. This restricted considerably the pool of certified electricians available in the Nacogdoches market. Fortunately, individuals such as Brian who were already Master Electricians were 'grandfathered' under the new codes, but journeyman were not. So few of the journeymen electricians had been able to pass the certification exam that the deadline for compliance had been extended until the end of 2006, but it would not be extended again. While uncertified electricians could continue to work in the county, they would not be permitted to work within the city limits. In response to this change, Miller Electric had talked with its competitors about co-sponsoring a training program to prepare apprentices to pass the journeyman certification examination. They were not very responsive. To meet its need for workers, Miller Electric had explored the strategy of developing all of their electricians internally, hiring apprentices and preparing them to pass the certification exam. However, this was a lengthy process, so seeking help through temporary agencies was now being considered. The prevailing wage for journeymen electricians was $12-14 per hour plus substantial agency fees.

The change in code requirements also meant that the standards for new home construction and home resale had been raised. In the near future, Charlotte Miller intended to examine the code changes in greater detail to see if there were marketing opportunities available in the residential after-market for upgrading wiring, installing breakers, or other code-driven improvements.

LOCATION

The majority of the work done by Miller Electric was done within the city limits in north and west Nacogdoches, and out in the county. Nacogdoches is located approximately 120 miles northeast of Houston and is the home of Stephen F. Austin State University. Recently, Nacogdoches had seen an increase in population and business activity. This was especially true for residential construction and commercial growth in the restaurant sector.

Miller Electric was located on a major highway in Nacogdoches where their highly visible outdoor sign was easily seen from the roadway. This location was secured through a long-term lease.

COMPETITION

In the geographic market that Miller sought to serve, there were two major, established competitors; Wood's Electric, of equal size to Miller, and McCaffety's, the dominant firm in the area.

McCaffety's was much larger than Miller Electric and, in low-demand periods, followed a low-bid strategy in order to keep McCaffety's personnel busy and cover overhead. McCaffety's had also been able to underbid because of lower supplier prices due to volume buying. The primary market for McCaffety's was commercial and residential construction, although they did some retail work in lighting and display areas.

Wood's Electric did primarily new residential construction, a market in which Brian Miller had not been able to make a profit. While Miller Electric would occasionally do some sub-contractor work for residential builders, it did not have sufficient staff to successfully bid for major new residential construction projects.

Miller Electric competed against many other individual electricians that worked from their homes or trucks, often part-time while they built their businesses. Many of these individuals worked as sub-contractors for large construction firms. Brian understood how these guys operated; he started his business that way and knew how hard it could be.

In addition to the established local competition, Miller Electric also faced threats from companies outside the immediate geographic area. When local-area demand was low for these outside firms they began looking for work in Nacogdoches, putting additional competitive pressure on Miller Electric.

According to their customers, Miller Electric "owned" the service market. They had a strong reputation for being highly responsive to emergency service and repair requests, both for commercial accounts and the residential after-market. Charlotte Miller estimated that 70-80% of the commercial service market was theirs. Fully 50% of all of their work was service work. Their employees were clean-cut, uniformed, and courteous. They emphasized building good relationships with their customers, which was one of Brian Miller's strengths. They also offered "true" 24-hour service, with an answering service, not just a recording machine. While other electrical contractors could beat Miller Electric on price alone, no one could beat them for service. Historically, their service response time for non-emergencies was three days. Due to work load demands, in the last year this had eroded to five days, and they were now experiencing scheduling difficulties that were moving the response time out as much as eight to ten days.

Through trial and error, Brian Miller had become very skilled in preparing bids and quotations. However, Miller Electric had occasionally lost potential work because Brian's schedule prohibited him from quoting a job on a timely basis. For this reason Miller Electric was considering whether they should hire someone to prepare estimates and job quotations.

PUBLIC IMAGE

Miller Electric was especially proud of its public image. Customers had commented positively on the clean uniforms worn by their electricians, a professional practice not engaged in by their competitors. The city manager and many citizens saw them as a firm dedicated to community service. For example, last holiday season they contributed a day of labor to help wire the Trail of Lights in which the downtown shopping area was decorated every year during Christmas. They had also done work for the volunteer fire department in a small rural community just outside of Nacogdoches. Continually they did work for the Nacogdoches Christian Academy and many of the churches in town, often at cost. In the past they had even helped out the elderly or those that were in financial need and had no means of payment. Miller Electric had established its exceptional public image through community service as well as charitable donations. In 2004, they contributed $2,045 to charitable causes.

CUSTOMER RELATIONS

Positive customer relations were important to the owner/managers of Miller Electric. It was not unusual for them to receive letters from past customers thanking them for their pleasant manner and a job well done. It helped that Miller Electric had an established office with personnel available nine hours a day to handle customers. Many of their competitors worked from their homes and cars. This meant that many of Miller's potential customers had to deal with answering machines and periods of unavailability when trying to contact competitors. Miller believed that customers preferred dealing with real people and not machines.

MANAGEMENT AND PLANNING

As office manager, Charlotte Miller believed having an established office enabled the electricians to concentrate on getting the jobs done without directing time to routine communication with customers, setting appointments, and managing the daily tasks of the business. Charlotte was a highly energetic, positive individual who interacted easily with others and projected enthusiasm and concern for their problems. While Charlotte devoted her attention to customers, her three-quarter-time assistant served as receptionist, performed routine clerical functions, ran errands, and did pricing and scheduling. Recently, they had begun training Charlotte's daughter to serve as receptionist. The office functioned informally, typical of many small contracting businesses. The focus was on taking care of customers and getting the work done.

Miller Electric had two computers that they used for record keeping and scheduling appointments. Recently they set up an account with a local Internet provider and created a home page for promotional purposes, a $150 expense which Brian felt was quite unnecessary and about which he became quite upset with Charlotte. Charlotte almost "went to the house" over this, becoming increasingly frustrated and annoyed with Brian's need for control and unwillingness to delegate even the most inconsequential business decisions. ("Going to the house" is a Texas expression roughly interpreted as "If you don't like the way I do it, you can do it yourself. I am out of here!") Regrettably, Brian's need for control was a continuing issue between them, and one that Charlotte believed was severely restricting the ability of the business to grow.

While Brian and Charlotte Miller wanted to grow the business, Brian was slow to hire additional personnel because he needed to have a tight span of control. Brian was something of a perfectionist, and took great pride in the quality of service provided to customers. He did not like delegating responsibilities to others because he was afraid it would not get done, or not be done to the level of quality he demanded.

Planning was done intuitively through occasional conversations Brian and Charlotte Miller had about the business. As Charlotte said, "What we have done we have done instinctively. We had no plan."

FINANCE AND ACCOUNTING

Financially, Miller Electric had experienced reasonable growth in the past two years. For 2004, revenues grew sixteen percent, from $209,798 to $243,365. For 2003, revenue grew 9%. Notably, Miller Electric had seen the most growth in their net income, reporting $4,442 net revenues in 2002 $11,190 in 2003, and $11,903 in 2004, growth rates of 152% and 64% for 2003 and 2004, respectively. Gross Profit Margin for 2002 was 43.56%, 2003 was 53.39%, and 2004 was 50.89%. A small accounting firm, using data provided by Charlotte, prepared the accounting statements annually.

Miller Electric had no long-term liabilities. All of its trucks and equipment were paid for. This was in conformance with Brian and Charlotte's beliefs of conservative fiscal management, a belief that was in part religiously based. While they were aware that working capital lines of credit and business equipment loans were readily available in today's economy, they were reluctant to extend themselves in fear of a business downturn.

A 2004decision to begin accepting receivables was a major step forward in their business. According to Charlotte Miller, it allowed them to move to a larger client base, those needing service but who were not prepared to pay cash upon completion.

Charlotte Miller constantly tried to better organize Miller Electric's bookkeeping and accounting methods, control costs and better track expenditures. She even had plans to experiment with job costing methods with the larger contract jobs. She also aspired to establish standard costing sheets for the most-used items and those with volatile prices, such as copper wire. These sheets would assist her greatly in verifying quotations and preparing bids. However, she was having difficulty moving forward on this due to Brian's procrastination, presumably due to his heavy work schedule.

MARKETING

Miller Electric was weak in marketing efforts. This was especially evident in their advertising expenditures. In 2004, Miller spent $4,184 on advertising, 1.7% of 2004 total revenue, compared to 1.9% for 2003. Their primary means of advertising was through the Yellow Pages. Periodically they placed ads in the local paper. Miller Electric also participated in the semi-annual business edition of the local paper, promoting local business. Along with their major outdoor sign and the new web page, this was the extent of Miller Electric's promotional efforts. According to Charlotte Miller, they really did not have a very good idea about why each of their customer groups bought from them, and they did not really know if their promotional activities were working.

FUTURE

Charlotte Miller was quite clear about the immediate issues that faced their business. As she stated, they were: "1) Decide what our goals are. Do we stay the same or get bigger? 2) The day will come when we lose our reputation for service and start losing business. 3) Administratively, we have to work better as a team. Brian has to delegate more to me and stop being such a 'control freak'. 4) Changes in technology, especially voice/data communications, will require significantly different skills from electricians."

Brian and Charlotte Miller had discussed the future, theirs as well as the future of the business, but the discussions were not on-going or focused. They did recognize, however, that such planning was important, as the growth and prosperity of the business was the Millers' primary retirement plan. One of their long-term goals was to diversify and add other services to their firm. They hoped to offer a "one-stop shop" advantage, especially for commercial customers. They envisioned something of an alliance, or consortium, of skilled trades providers such as carpenters, plumbers, roofers, etc., who would own small shops adjacent to Miller Electric built on land owned by Brian and Charlotte. For a percentage of the revenues, Miller Electric would provide office and business services, billing, manage accounts, and perhaps bid jobs in common. Charlotte, however, was adamant when she said, "I won't even consider this until we deal with Brian's control issue!"

In the immediate future Miller Electric hoped to add plumbing and the repair of air conditioners and electrical motors to their present service. As they talked about these options, however, they faced the reality of Brian's already demanding work schedule, the competition they faced, and the uncertainty of the future, and wondered how it would ever be possible. They wondered what strategies Miller Electric should follow to remain competitive and grow their business.

Brian T. Miller Electric, Inc.
Income Statement
For the Twelve Months Ending December 31, 20—

	2004	2003	2002
Revenues			
Income Revenues	$241,439.79	$205,925.96	$189,834.91
Expense Reimbursement	$1,414.10	$2,332.28	$2,368.49
Interest Income	$220.63	$241.68	$97.63
Misc. Revenue	$88.14	$553.07	$0.00
Finance Charge Revenue	$202.46	$194.73	$220.09
Total Revenues	$243,365.12	$209.797.72	$192,521.12
Cost of Sales			
Labor & Wages	$36,473.83	$41,018.35	$38,406.37
Material Expense	$80,448.80	$44,595.28	$60,047.24
Material Expense-Contract Jobs	$1,523.49	$8,814.93	$4,801.07
Subcontract Labor Expense	$442.00	$2,266.53	$5,031.31
Contract Labor	$628.25	$1,084.75	$370.00
Total Cost of Sales	$119,516.37	$97,779.84	$108,655.99
Gross Profit	$123,848.70	$112,017.88	$83,865.13
Expenses			
Auto Expenses	$9425.31	$9816.59	$9657.99
Ins.-Office Contents	$8415.89	$7434.41	$7503.72
Accounting	$767.50	$969.00	$821.50
Maintenance & Repairs	$671.62	$1,980.33	$10.83
Office Supplies	$2,239.11	$4,432.27	$3,183.67
Other Office Expenses	$2,422.17	$0.00	$0.00
Advertising & Promotion	$4,184.12	$4,051.07	$3,228.15
Bank Charges	$616.94	$166.08	$19.30
Interest	$222.66	$351.55	$487.87
Permit Expenses	$710.00	$946.00	$1,336.00
Postage & Promotion	$872.54	$727.68	$680.67
Bad Debt	$727.12	$0.00	$0.00
Depreciation Expense	$7,062.12	$7,011.41	$2,237.00
Rent Equipment	$1,120.24	$415.34	$495.92
Rent Office	$18,000.00	$18,000.00	$18,000.00
Telephone	$5,223.79	$5,877.35	$5,146.69
Utilities	$1,688.50	$1,464.46	$1,566.36
Training & Education	$584.00	($15.00)	$0.00
Dues & Subscriptions	$932.00	$594.00	$598.00
Travel Expenses	$1970.45	$1853.22	$1680.19
Donations-Charitable	$2,045.50	$2,588.00	$1,260.00
Wages Expense	$29631.64	$16,400.00	$12,000.00
Payroll Expenses	$7449.13	$11178.97	$5558.04
Other Taxes	$235.35	$150.21	$359.39
Cash Over/Short	$1.97	($1.20)	$6.89
Employee Medical Expense	$0.00	$650.11	$325.12
Flowers	$300.39	$412.95	$167.79
Construction Exp: M.E. Building	$478.17	$0.00	$0.00
Uniforms	$1,337.81	$1,404.70	$1,570.88
Misc. Expenses	$70.00	$100.00	$97.05
Licenses & Fees	$135.00	$50.00	$60.00
Supplies	$0.00	$0.00	$0.00
Small Tools	$986.00	$839.44	$757.36
Gifts	$554.49	$333.75	$114.02
Late Fees	$79.14	$87.77	$27.23
Shop Expenses	$164.75	$551.20	$465.49
Property Tax	$440.04	$0.00	$0.00
Outside Services	$180.00	$0.00	$0.00
Total Expense	$111,945.34	$100,827.66	$79,423.11
Net Income	$11,903.49	$11,190.22	$4,442.20

Brian T. Miller Electric, Inc.
Balance Sheet
12/31/2004

ASSETS			LIABILITIES AND CAPITAL		
Current Assets			Current Liabilities		
Regular Checking Account	$1,753.64		Ins. Pay-Truck	$281.08	
Cash-Savings Account	$7,368.43		Ins. Pay-WorkCom	$2,865.06	
Petty Cash	$16.05		Sales Tax Pay	$506.72	
Employee Loans	$13.00		Fed W/h Tax Pay	$507.29	
Deposits	$146.45		Payroll Tax Liab	$1,047.32	
Prepaid Ins.-Liability	$325.30		SUTA Payable	$15.45	
Prepaid Ins.-Auto	$1,004.36		FUTA Payable	$44.13	
Prepaid Ins.-Workmans Comp.	$3,287.50				
			Total Current Liabilities		$5,267.05
Total Current Assets		$13,914.73			
			Long Term Liabilities		$0.00
Property and Equipment					
Furniture & Fixtures	$5,513.41		Total Long Term Liabilities		$5,267.05
Machinery & Equipment	$27,860.67				
Building	$17,033.17		Capital		
Accum Deprec - Furn & Fixture	($31,641.61)		Capital Stock	$1,000.00	
			Retained Earnings	$10,063.71	
Total Property and Equipment		$18,765.64	Dividends Paid	($2,000.00)	
			Net Income	$18,965.61	
Other Assets					
Short term Loans	$616.00		Total Capital		$28,029.32
Total other Assets		$616.00			
Total Assets		$33,296.37	Total Liabilities & Cap		$33,296.37

Brian T. Miller Electric, Inc.
Balance Sheet

12/31/2003

ASSETS				LIABILITIES AND CAPITAL	
Assets			Liabilities		
Regular Checking Account	($3,431.64)		Notes Payable Wrkm Comp	$2,184.96	
Cash-Savings Account	$11,388.83		FICA Payable	$120.10	
Petty Cash	$5.07		Medicare Payable	$25.08	
Employee Loans	$0.00		Fed W/H Tax Pay	$199.00	
Deposits	$146.45		Employee Deduct Payable	$0.00	
Prepaid Ins. Office Cont	$58.30		Loans from stockholders	$637.41	
Prepaid Ins.-Liability	$206.50				
Prepaid Ins.-Auto	$994.21		Total Liabilities	$3,166.55	
Prepaid Ins.-Workmans Comp.	$2,764.16				
Current Assets		$12,131.88			
Furniture & Fixtures	$5,513.41		Equity		
Machinery & Equipment	$27,842.67		Capital Stock	$1,000.00	
Accumulated Depreciation	($31,641.61)		Dividends Paid	($9,619.79)	
Long Term Assets		$1,714.47	Retained Earnings	$8,109.37	
			Profit/Loss	$11,190.22	
			Total Equity	$10,679.80	
Total Assets		$13,846.35	Total Liabilities and Equity		$13,846.35

Brian T. Miller Electric, Inc.
Balance Sheet
12/31/2002

ASSETS				LIABILITIES AND CAPITAL	
Assets			Liabilities		
Regular Checking Account	$8,147.15		Accounts Payable	$143.94	
Cash-Savings Account	$906.23		Notes Payable Trucks	$1,880.97	
Petty Cash	$75.23		Notes Payable Wkm Comp	$2,663.89	
Employee Loans	$47.45		Notes Payable Trk-Insure	$343.12	
Deposits	$71.45		FICA Payable	$354.38	
Prepaid Ins. Office Cont	$58.30		Medicare Payable	$82.86	
Prepaid Ins.-Liability	$165.30		Federal W/H Payable	$555.50	
Prepaid Ins.-Auto	$919.00		Sales Tax Payable	672.22	
Prepaid Ins.-Workmans Comp.	$3,095.00				
Prepaid Interest	$112.26		Total Liabilities	$6,696.88	
Current Assets		$13,597.37			
Furniture & Fixtures	$5,513.41				
Machinery & Equipment	$29,993.67		Equity		
Accumulated Depreciation	($33,065.91)		Capital Stock	$1,000.00	
Long Term Assets		$2,441.17			
			Dividends Paid	($1,900.00)	
Total Assets		$16,038.54	Retained Earnings	$5,799.46	
			Profit/Loss	$4,442.20	
			Total Equity	$9,341.66	
			Total Liabilities and Equity		$16,038.54

VERY VERA, INC.

Robert L. Smalley, Donald P. Howard, Nabil A. Ibrahim
Augusta State University

INTRODUCTION

Very Vera, Inc.'s beginnings are similar to those of a storybook. It all begins with a girl and her grandmother. Vera Stewart used to take a trip each summer by train from Macon, Georgia to Atlanta to visit her grandmother, Vera Wingfield. During her visits she learned to bake cakes and other goodies using recipes her grandmother had spent a lifetime perfecting. Years later Vera found herself looking for a means for steady cash flow to her seasonal catering business and decided that she could share those treasured recipes she had learned from her grandmother. Very Vera was a natural extension of her catering business, which was already doing quite well. According to Vera Stewart, "Very Vera is reminiscent of an era when homemakers took pride in their homemade confections and shared them with new neighbors or sent them as an expression of sympathy." Vera also stated, "Everyone is so busy today, and I don't want to lose some of the traditions we all grew up with, and giving homemade gifts is a wonderful way to brighten up someone's day."

Vera began with her grandmother's old-fashioned, whipping cream pound cake and named a cake after each one of her siblings. The next step was finding a way to ship these homemade goodies to customers in a way that would make the customers feel the goodies had just come out of the oven. After several trial and error shipments the current secure method for delivering cakes around the world was perfected. The Very Vera philosophy is based on a winning attitude and passion for perfection.

Very Vera has worked hard to develop a reputation for high-quality products and services at reasonable prices; however, the company is faced with several challenges. Perhaps one of the most difficult issues facing Vera Stewart is the development of strategic planning, management depth, and operating budgets. Although she realizes the importance of these areas for the long-term survival of the company, she stated that the time spent managing day-to-day operations has prevented her from addressing them.

Many local customers think Very Vera is doing well; however, they are not aware of the low capitalization and high notes payable in the company. The company incurred net losses for years 2003 and 2004, so Vera Stewart is seeking ways to maintain steady cash flows and profitability. She is convinced that her retail format remains viable but is at a loss as to how to go forward. She believes one growth avenue is to develop additional corporate accounts. Also one of her employees suggested offering specific gifts for various personal or business occasions, such as “thinking of you,” “thank you,” or “congratulations.”

It is clear to Vera that she is facing many challenges and several critical decisions must be made if her business is to survive. She has requested suggestions from those who read this case study. She would especially appreciate recommendations for prioritizing the many challenges, since she wants to make the business profitable as well as expand it.

BACKGROUND

Vera Stewart established Vera & Company in September of 1984. She is the sole stockholder of the corporation. She had relocated to Augusta from Cartersville, Georgia and was anxious to reestablish the catering business she had operated on a small scale there. In order to introduce her baking to her new community, she started with brightly painted baskets filled with goodies that changed from month to month. After obtaining several catering jobs and ultimately winning the bid to cater the grand opening of the Sacred Heart Cultural Center, Vera moved her home-based business into her first commercial location in the Augusta Business Center. This site was home for four years, growing there from 1,000 to 2,000 square feet of space.

In September of 1993, a long-time dream of having a business specializing in homemade baked goods built around some of her grandmother's recipes, Very Vera was founded as a subsidiary of Vera & Company. This mail-order service provided the corporation with a constant business flow and allowed the company to reach a national market. The original mailing list of approximately 500 addresses consisted of local and out-of-state customers who visit Augusta during the Masters golf tournament. The four major golf tournaments each year are the United States Open, the British Open, the PGA Championship, and the Masters. The Masters, held in Augusta, Georgia, is the only one that takes place in the same city each year. It attracts many visitors from throughout the world and has a major economic impact on the Augusta area's economy. Estimates of that impact range from $100 million to $200 million each year. Today, according to Amanda Martin, the mail order manager, "We are running labels to mail 28,500 of the 2006 catalogues and the special holiday catalogues."

In January of 1997, the business was moved to Piccadilly Square into a 2550 square foot facility with separate office space. In August of 2000, Vera acquired 1200 square feet from a vacated space next to the current building, which increased the floor space to 3750 square feet. In September of 2002, Vera & Company relocated to a new 6,000 square foot building, custom designed for their specific needs. With this physical growth came internal growth as well. In September of 2003, Vera & Company changed the company's name to Very Vera, introduced a new logo, and renamed each division to reflect its mission: Very Vera Gourmet To Go, Very Vera Catering, and Very Vera Homemade Confections. They also renovated the front of the building to provide attractive retail space for the "Gourmet To Go" and the "Homemade Confections" businesses. The "Catering" business usually is conducted at locations selected by customers.

In October 2004, the company celebrated its first year in business with a full menu of Gourmet To Go items by adding four of the casseroles to the company's mail order catalogue. For the month of December 2004, Very Vera experimented with a potential location in Aiken, South Carolina by having an employee set up a holiday shop in the Wine Cellar store. Casseroles and cakes were delivered from the Augusta location to be sold in Aiken. The results were very positive and Vera Stewart is thinking of opening a second permanent location. In 2004, the company participated in Junior League Holiday Markets in Macon, Georgia and Columbia, South Carolina. Both were so successful that Vera plans to participate in other holiday markets in the future.

Vera Stewart is proud of a number of special accomplishments and recognitions she has received. Some of those accomplishments and recognitions from 1988 through 2004 are shown below in the "Special Accomplishments" section.

MISSION STATEMENT

Vera states that her philosophy is based on a winning attitude and a passion for perfection. She is proud that her mission statement fully supports this philosophy.

The company's mission statement is "To provide our customers with first class, professional service through the Catering, Homemade Confections, and Gourmet To Go divisions while guaranteeing that the quality of our products and the standard of our presentation will exceed expectations."

SPECIAL ACCOMPLISHMENTS

Since Vera Stewart began business in 1984, she has had many accomplishments and recognitions. Some of those accomplishments and recognitions are shown below.

1988: Chosen as one of 40 “Up & Comers” by Augusta Magazine and was featured on the cover of the May/June issue

1993: Received the second-place vote for “Best Caterer” by Augusta Magazine readers

1995: Panel of judges awarded third place at Chef’s Auction at a March of Dimes benefit.
Editorial about Very Vera written in the November issue of Southern Living magazine highlighting Vera’s entrepreneurship

1996: An article on Very Vera in the April/May issue of NationsBank Business96 magazine titled “Recipe for Success”
Panel of judges awarded first place at Chef’s Auction at a March of Dimes benefit
Voted “Best Caterer” by the readers of Augusta Magazine

1997: Editorial in the April issue of Taste of Home magazine
Named as “Small Business Person of the Year” by the Augusta Chamber of Commerce

1998: Promotional material for Vera & Company and Very Vera win the Augusta Advertising Association’s “Gold Addy”
Voted “Best Caterer” by the readers of Augusta Magazine
An article in Computer Shopper magazine
The company featured in the Lands End’s Winter Catalog
Very Vera featured in an article in The New York Times naming it as one of 24 top new mail order companies

1999: In September, published and mailed first issue of Food for Thought, a quarterly newsletter to Very Vera’s customers

2000: “Addy” award received for Website and an Honorable Mention for 2000 Very Vera catalog at the Annual Addy Awards of the Augusta Advertising Federation
Editorial in American Home Styles & Gardening magazine
Editorials in magazines In Style and Gourmet and The New York Times newspaper

2001: Featured on ABCNews.com, Hotdots.com, Entrepreneur, and Celebrated Living magazine

2002: Featured on Good Morning America, CNN Holiday Shopping Special, and in a USA newspaper article

2003: Featured on the NBC Today Show as a great Mother’s Day gift idea
Editorials in Traditional Home and Southern Living magazines

2004: Editorials in magazines In Style and Southern Lady
Featured on the NBC Today Show with Katie Couric for gift giving ideas
Featured in Cottage Living, Better Homes and Gardens, and Parade magazines

STRATEGY AND ORGANIZATION

Vera Stewart emphasizes the importance of efficiency in all areas so that she is able to pass the savings on to her customers. In addition, she wants to establish the reputation of having a very unique product. This can be achieved through the brand image and quality of the product. By doing this, the company is able to charge a premium for its product. As a result, Very Vera is able to earn gross profit that is above average for the catering business; however, the operating expenses have increased more rapidly than the gross profit due to renting and equipping a larger building and adding employees to prepare for growth. Lastly, the company has moved from a local to a national market. Vera Stewart stated, “Very Vera was Federal Express’ largest customer in Augusta for the months of November and December and the third largest customer for the year.”

The company has continued to grow at a healthy rate in order to increase sales while still providing the quality products and services that its customers expect. To meet those demands, Very Vera has expanded into three branches of the business in order to provide a larger number of products and services. However, she argues, “Unlike other companies, I made sure that we did not grow too quickly. Many successful companies try to grow faster than the rate at which the employees can handle the business.”

Vera Stewart already has an organizational chart in place for positions that do not currently exist as she is planning for the future growth of the business. Future plans include the mail order business growing and becoming a separate division that would continue to ship products made by the Gourmet To Go and Homemade Confections divisions. Her goal for 2008 is to have a Vice President of Catering, a Vice President of Mail Orders, Vice President of Finance and Human Resources, Vice President of Franchise Acquisitions, and a Vice President of Sales and Marketing. She contends that “I could have already put people into these positions in order for my company to grow at a faster rate, but I realize that they would need more training and experience and I have not found the right people for some of these positions yet.” Very Vera has 15 full-time employees and two regular part-time employees. Each year the catering division uses approximately 200 part-time employees during the week of the Masters golf tournament.

Vera Stewart believes that, by having one central location where business is conducted, there will be few deviations from the company’s policies. Also, this creates greater efficiency since all company employees are located in one building where they are able to easily communicate with each other. In addition, it enables her to oversee and participate in the day-to-day operations of the business first hand. This helps minimize communication errors among employees and provides quick resolutions to problems as they arise. Having one central location also provides greater coordination among the three business segments. Perhaps the greatest advantage is that each segment of the company is constantly in contact with the other two segments. By centralizing the business, employees are able to keep the "big picture" in mind at all times instead of focusing solely on their particular units and disregarding the overall company mission.

FOCUS ON EFFICIENCY

Vera Stewart feels that one of the company's greatest strengths is the way it efficiently utilizes its resources. For example, during the summer months Georgia Power triples the cost of electricity between the hours of 2:00 p.m. and 7:00 p.m. The company adjusts to the price hikes by operating the bakery from 7:00 a.m. to 3:00 p.m. to keep costs down. A second way that Very Vera is able to manage resources is through the use of selective advertising. Over the years, Vera Stewart has learned that heavy advertising does not necessarily lead to increased sales. She has limited the company's advertising to one radio station and does not use any television, magazine, or newspaper coverage. The company mainly relies on "word of mouth" advertising and repeat business as its main source of advertising. Finally, the company manages resources efficiently by purchasing supplies in bulk and building good working relationships with suppliers.

PRODUCTS

Vera Stewart is proud of the company's diverse line of products and services. It originally began as a catering business, which is still the core business of the company today. The Catering division includes the cake baking part of the business. However, as the local Augusta economy began to slow in the early 90s, Vera Stewart began searching for new ways to grow and increase sales. Today the company consists of three distinct branches, each of which contributes to the overall success of Very Vera.

The Catering business specializes in cakes and provides food and services to banquets, weddings, and other special events. Next, the Gourmet To Go segment of the business was launched in October 2002 and offers one casserole product per day for local sales. A year later a menu of several casseroles and other products was offered daily. In October 2004, four of these casseroles were added to the mail order product list. The Gourmet To Go division now provides local customers with casseroles, entrees, quiches, soups, salads, snack items, dinners, and desserts. This part of the business has increased sales dramatically by providing an additional line of products and services for customers who may be looking for other products besides cakes. Gourmet To Go has been a big success and is now an integral part of the business. Third is the Homemade Confections segment of the business. It specializes in providing a wide assortment of sweets, such as pound cakes, the layer cake of the month, pecan sandies, and cheese straws that compliment the other two business segments. The most important part of the entire business is mail orders. If this part of the business is not functioning effectively, it will have a domino effect on all other business segments. Both the Gourmet To Go and Homemade Confections divisions ship products via Federal Express throughout the year.

With this vast array of additional products that was added in recent years, sales have begun to increase exponentially for those divisions. The addition of new products has in a sense created new markets for the company to tap into. However, in recent years, the Catering division sales suffered due to the economic slowdown which reduced corporate entertaining during Masters week.

THE LOCAL MARKET

According to Vera Stewart, the Augusta market generates approximately 80% of the company's current sales. Vera is convinced the company's growth will come primarily from regional and national sales. Indeed, she states that her top five states in sales are Georgia, South Carolina, Texas, New York, and Florida. Very Vera delivers all over the country taking orders through telephone, fax machine, the Internet, and mail orders. This national distribution of products has led to recognition in Southern Living and In Style magazines, the Lands End catalogue, and the New York Times newspaper.

The Internet has enabled customers to have "access to the company's products and services on a 24/7 basis." The website averages more than 35,000 hits per month. Customers are able to look at items, read about the items, and place their order through the use of the Internet. There is a guest book on the website where a user may request to be added to the mailing list or leave a message. The company requests users to answer the question, "How did you find us?" According to Vera the approximate percentages of the answers they receive are 50% through Internet Search; 20% from a friend; and 30% from either receiving a product as a gift or reading about the company in their brochure (catalogue), Southern Living, Gourmet, In Style, or New York Times.

Very Vera's different divisions have different competitors. For the Catering division, Vera stated Poppyseed's, Roux and Pullman Hall were primary competitors. All three of them have liquor licenses. Poppyseed's luncheon business provides exposure for their catering business. Vera stated Poppyseed's and Roux both do a good job, but Very Vera is as good as the competitors for small jobs and better than the competitors for large events. Vera feels the jobs they lose to Pullman Hall are usually due to direct contacts and lower pricing. Vera's advantages include 18 years of experience; significant props, silver and display pieces; and liability and workers compensation insurance coverages.

According to Vera, one of the largest local bakeries, Smoak's Bakery, is not a big competitor even though they offer catering services and baked goods, such as cakes, muffins, cookies, etc. For years, Smoak's Bakery was on top for cakes in the local market, but the owner Dan Smoak retired. She stated her biggest competitor for the cake business in Georgia is Piece of Cake in Atlanta located 150 miles from Augusta. She states major interstate competitors are Miss Grace, Penn State and Rowenna's. Vera stated her local strengths were "Our cakes are made from scratch with no mixes, pre-mixed ingredients or bulk eggs. We use all natural ingredients with no preservatives. We are available for pickup, provide free delivery within 10 miles, or will ship via Federal Express if more than 10 miles." Vera stated the strength for the cakes that are shipped was the packaging. "Our cakes arrive intact, beautifully packaged and very reminiscent of 'Granny's Best' once the package is opened. She is not aware of any other company that ships successfully the three-layer iced cakes. The pound cakes weigh seven pounds after preparation for shipment, and the competitions' cakes weigh much less."

The Gourmet To Go division is only two years old. Even though sales have grown rapidly, the division has national competitors such as Cheryl and Co. who specializes in gourmet meals to go and has established relationships with clients many of whom are Fortune 500 companies.

CUSTOMER AND COMMUNITY RELATIONS

Vera Stewart is proud of "my company's total commitment to 100% satisfaction of all customers." She realizes the importance of customer loyalty and makes every effort to build life-long business relations with customers. She welcomes feedback from all customers and is always striving for ways to improve existing products and services. Recently, a local corporation ordered several large cakes for a business reception for distribution to guests. The cakes were supposed to be "large" size, but instead all the cakes that were delivered were "small." When informed of the error, Vera immediately wrote a letter of apology to the company president. In addition, she sent every guest a free voucher to redeem, at their convenience, for a large cake of their choice. She and her employees are proud that their company was able to turn a potential disaster into a successful conclusion.

Vera Stewart and her employees have created a reputation of high quality products by Very Vera throughout the Augusta area mostly through word of mouth. Under the Confections of the Month page of the website, readers are invited to join the Bakers Dozen Club. By purchasing one cake per month from either the regular collection of cakes or the cake of the month group, a Bakers Dozen Club member receives a 13th cake free, a 10% discount on the 12 cakes purchased, and a 10% discount on future orders.

Through many of her actions, Vera Stewart has demonstrated her strong commitment to charitable organizations in the community. She has made financial contributions to the American Cancer Society; donated time to the American Heart Association, including serving as chairperson of an annual fund raising event in 2001; and underwritten galas for the Augusta Arts Council, Augusta Ballet and Historical Augusta. For at least 10 years, the company has participated in the "Taste of the Harvest," an annual catering fund raising event for the Golden Harvest Food Bank. These activities have helped build ties with local and national organizations and led to increased exposure and a favorable impression for the company.

PERSONNEL POLICIES

These policies cover a number of areas, such as respecting the rights of each employee, and cover various issues such as harassment, change of status, social activities, employee parking, company vehicles, personal communication devices, and equal employment opportunity. In addition, Very Vera has an open door policy which emphasizes that each employee can freely express any concerns to management at any time. The company is also firmly committed to a policy of equal employment opportunity for all applicants and employees. Discrimination, remarks, jokes, or statements of disrespect of any kind are not tolerated. Employees are expected to notify management if a customer sexually harasses or disrespects an employee. Social activities (such as picnics, parties, dinners, etc.) that are held by the company are to be attended by employees on a strictly voluntary basis.

EMPLOYEE BENEFITS

Very Vera offers group insurance coverage to new employees, both part time and full time, but the employee must pay 100% of the cost. After three years of employment, full-time employees can elect individual insurance coverage to be paid by the company. Dependent coverage may be obtained, but the employee is responsible for the additional premium in excess of the employee rate. Unlike many of its competitors, Very Vera offers its employees the opportunity to purchase supplemental insurance that covers accident, dental, cancer, and disability.

For all full-time employees with over one-year service, Very Vera contributes 2 percent of their gross monthly salary into an individual retirement account mutual fund. The employees are able to match that amount or contribute more (not to exceed a total of $6,000) by automatic draft from their pay check. Employees can purchase food at cost from the company.

In 2000, Very Vera started a company scholarship program to encourage their young employees to further their education. The $500 to $1,000 scholarships are awarded based on commitment to the company and expression of business ethic and are paid directly to the college or university. From 2000 through 2005, 10 students have received a total of $8,500 in scholarships.

OPERATING POLICIES AND PROCEDURES

Each employee receives a copy of the Very Vera Employee Handbook. The twenty-page handbook has the mission statement on the cover, a welcome message from Vera, and the organizational chart (Exhibit 1). Other sections of the handbook include the history of the firm, the importance of teamwork, company policies with a page stressing safety and sanitation, and information on the company's scholarship program.

Most of the operating policies pertain to personnel issues. They cover numerous areas such as hours of operation, time clock procedures, overtime, sick leave, unpaid vacation time or off days, unpaid leave of absence, termination, conduct, disciplinary procedures, telephone calls, telephone answering procedures, smoking, schedules and meetings, payroll, pay rates, uniform policy, and dress code. There is no standardized pay scale and each new employee has a performance review after thirty days, six months, one year, and annually thereafter.

The handbook states, "Appropriate telephone conduct should be in place at all times." To clarify the policy, administrator DeDe Wilson stated, "All employees must always be polite and friendly to customers. Appropriate conduct should be in place at all times whether dealing with a customer in person, on the phone, or via email."

The three division managers order their own raw materials separately from a list of suppliers approved by Vera. However, they coordinate their orders for materials used by more than one division. Vera is very pleased with the excellent relationships the company has with its suppliers. Indeed, she states, "One of our largest suppliers furnishes a refrigerated truck for use of the catering division when we have a lot of business during the week of the Masters in April."

Raw materials and finished goods are normally stored on the company's premises. However, according to Shelley Weinlein, sales and marketing coordinator, "the demand for cakes in November and December necessitates preparing some of the products in advance and storing them off-site."

FINANCIAL POSITION

The financial statements are shown in Exhibits 2 and 3. As a result of the growth in sales in both the Catering and Homemade Confections divisions, Vera increased the company's space by 47% from 2550 square feet to 3750 square feet in August 2000. In September 2002, Very Vera moved into a custom designed 6,000 square foot building. Vera is proud of the 60% increase in sales and 112% growth in gross profit from 2000 though 2004; however, she realizes the even faster increase in operating expenses (157%) have turned profits into losses.

The increases in payroll and other employee expenses are due to an increase in the number and quality of full-time managers and customer contact personnel to allow even more growth. The increases in advertising and promotions have produced tremendous growth in the Gourmet To Go division, since it started in October 2002. The Catering and Homemade Confections divisions have been affected by the slow economy. There was a significant decrease in the catering business from 2003 to 2004 with sales for Masters week decreasing by more than $100,000.

The equipment purchased for the new building in 2002, along with a new van purchased in 2003, have increased depreciation. The rent expense increased due to moving into the new building in September 2002. When the Catering division procures the space for an event as part of their services, rent expense is incurred. The increase in owned and leased assets has increased the insurance expense. The primary increases in other operating expenses have been in computer services, especially the website creation and maintenance, utilities, telephone, maintenance and repairs of the vehicles, and office supplies.

The growth in the business in recent years is also reflected on the Balance Sheet. Fixed assets, including the equipment for the new building, totaling $147,450 were added in 2002. In 2003, new fixed assets totaled $47,531, including a new van. Accounts payable have grown more than accounts receivable as Vera has negotiated longer terms with suppliers for the two peak seasons of the year. Vera is not happy with the increase in notes payable incurred due to the losses in years 2003 and 2004. She is thankful for the low interest rates. Like many company executives, she expects the economy to improve in 2005 with the business returning to profitability.

AREAS OF CONCERN

One of Vera Stewart's major concerns is the lack of managerial depth in the organization. Although experienced personnel are managing each of the three segments of business, the departure of any of the three managers would be a severe hindrance to the every day operations of the business. For example, two of her staff members have been with the company for over ten years. Their responsibilities are not easily duplicated or replaced. They bring years of valuable experience to the company. She realizes that the departure of any key member of the company could adversely affect employee morale and productivity. In addition, when she is not present, no one can step in and make the important business decisions with the same insight and intuition as she can. She would like to delegate authority to her key managers so that some decisions can be made without her presence and input.

Financial concerns include higher operating expenses due to the move into the larger building while the Homemade Confections sales have not increased since 2002 resulting in net losses in 2003 and 2004. The losses have created a deficit, which has been funded by an increase in long-term notes payable, resulting in higher interest expense. The relatively very low interest rates in recent years have prevented the interest expense from being higher.

Another area of concern is the location of the new building. Although it is situated off of one of Augusta's major thoroughfares where numerous restaurants are located (Washington Road) and less than one-eighth of a mile from an interstate highway (I-20), Vera Stewart realizes that it is not visible to those driving down the road. Therefore, the primary local customers will remain the loyal and repeat customers and those who hear Vera's live radio ads as they are driving home. However, had she selected a location directly on Washington Road, those who were unaware of Very Vera would be able to see it and perhaps stop in and make a purchase.

Vera Stewart has recognized her need to obtain a liquor license. Liquor is a high profit item. Profits are being lost since the company cannot sell liquor with food at parties, weddings, and corporate events. This poses a threat to her catering business. Many customers want the catering company to provide food and beverages and not go through different companies to handle the event. By not owning a liquor license, it may deter some customers from utilizing Very Vera's catering services. According to local ordinances, a liquor license is granted to caterers only if they have a facility in which to serve food. Vera is considering removing a wall to provide room for tables and chairs to have a luncheon business. Very Vera would then qualify for a license to sell liquor, beer and wine.

Delivery of orders to homes or offices within a ten-minute drive from the store is free of charge. All others are charged a $10.00 delivery fee or must pay for shipping and handling by Federal Express. Vera Stewart is aware that this greatly limits the company's local business. Customers who live twenty minutes away from the store have to pay the extra shipping and handling fee as if they lived two hours away. One employee suggested to Vera Stewart that the company could implement some kind of minimum purchase price for orders over ten minutes away in order to compensate for the cost of the increased travel time.

THE FUTURE

Many opportunities are within close reach of Very Vera. The success of the company could lead to franchising opportunities that may contribute to national growth and recognition. The states in which Very Vera has the most sales outside of Georgia are South Carolina, Florida, Texas and New York. Very Vera has been featured and praised by a number of local, regional, and national publications. She sees that the opportunity for growth lies outside the southeast. Placing national ads and constantly updating the website will create name brand awareness leading to an increase in sales.

Vera Stewart is convinced that it is important to obtain additional corporate accounts. These accounts will increase awareness through many divisions of the company from catering company events to corporate gifts. Below the Bakers Dozen Club section of the Confections of the Month page of the website is a heading, "SAVE BIG 10% discount." Very Vera offers a 10% discount to corporate or other clients who order 50 cakes or more. The cakes may be shipped to individual locations, but it is stated there are "BIG SAVINGS!!" for shipping multiple products to one location. For an additional $5 charge, 24 plates, napkins, and forks will be included with any cake. She is considering adding a page to the website for corporate and other large orders to make it easier to find the discounts offered to these customers. Also, she plans to provide a link from the current Order, Cakes, and Holiday Gifts website pages to the new corporate and other large orders page. The new page would offer all items that are available for gifts and provide details of the savings.

Recently, a customer suggested adding a low sugar menu designed for diabetic customers and a low fat menu for health conscious customers. Vera responded, “Low sugar does not work for the type cake we are selling. We do offer low sugar commercial products in our retail store.” Vera told the customer they were working on a “Body for Life” series of foods for the Gourmet To Go division. Also one of her employees suggested offering specific gifts for various personal or business occasions, such as “thinking of you,” “thank you,” or “congratulations.”

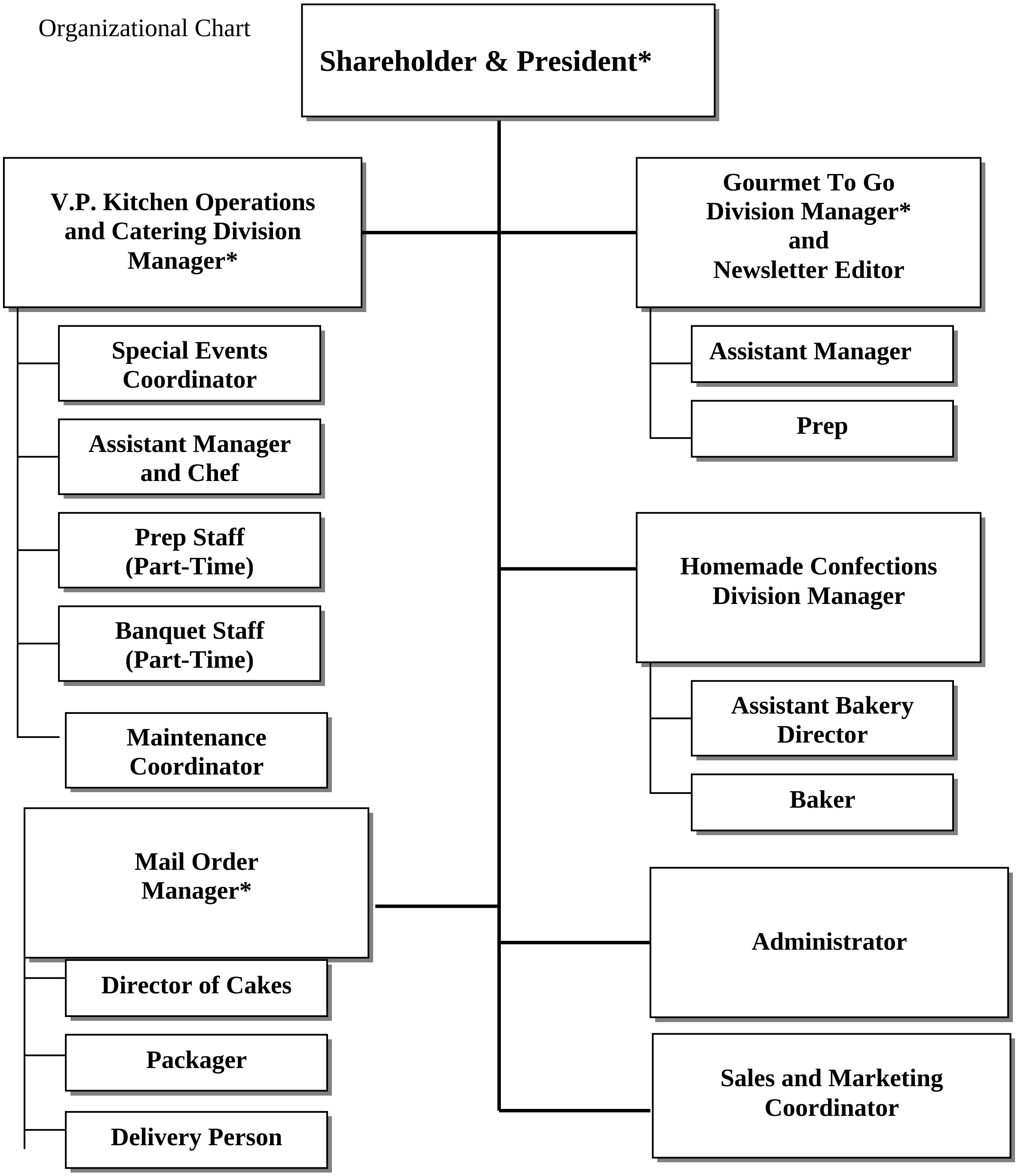
An additional matter concerns the need to correct the low capitalization and high notes payable in the company. In reviewing the financial statements, Vera’s accountant has told her the net losses for years 2003 and 2004 illustrate that she needs steady cash flows. She started the Homemade Confections business in 1993 and the Gourmet To Go business in 2002 as attempts to provide steady cash flows, but she remains frustrated.

Perhaps one of the most difficult issues facing Vera Stewart is the development of strategic planning, management depth, and operating budgets. Although she realizes the importance of these areas for the long-term survival of the company, she stated that the time spent managing day-to-day operations has prevented her from addressing them.

In conclusion, it is clear to Vera that she is facing many challenges and several critical decisions must be made. Franchising, expansion, continued advertising outside of the local area, corporate accounts, the website, a menu that appeals to health-conscious persons, operating budgets, strategic management, and management depth are crucial issues that demand her time and attention. She is considering hiring a general manager who would be qualified to address these issues. Alternatively, she is wondering whether she should concentrate on these issues, while the general manager would take over her other duties. Vera is not sure which is the better alternative but she realizes that she must make a decision without delay. The future of her company will depend, to a great extent, on how she resolves this dilemma.

Exhibit 1

Organizational Chart



***Member of Management Team**

Exhibit 2

Very Vera Comparative Income Statements
For the Years Ended December 31,

	2000	2001	2002	2003	2004
Sales by division:					
Catering	631,017	629,091	893,263	1,099,078	913,452
Homemade Confections	299,897	370,360	416,985	383,524	414,396
Gourmet To Go	0	0	10,965	62,382	161,552
Total Sales	930,914	999,451	1,321,213	1,544,984	1,489,400
Cost of Goods Sold	654,420	720,423	929,749	1,117,024	902,073
Gross Profit	276,494	279,028	391,464	427,960	587,327
Operating Expenses:					
Payroll and Other Employee Expenses	108,528	116,850	133,149	171,725	291,692
Advertising and Promotions	33,994	34,726	57,424	88,422	99,306
Depreciation	5,362	7,355	47,759	44,016	38,336
Rent	13,377	17,962	27,334	38,243	44,404
Insurance	15,466	16,690	25,196	25,347	38,624
Other	65,449	70,419	84,948	129,991	109,959
Total Operating Expenses	242,176	264,002	375,810	497,744	622,321
Operating Income (Loss)	34,318	15,026	15,654	(69,784)	(34,994)
Interest Expense	2,731	575	6,242	19,385	20,602
Net Income (Loss)	31,587	14,451	9,412	(89,169)	(55,596)

Exhibit 3

Very Vera Comparative Balance Sheets
As of December 31,

	2000	2001	2002	2003	2004
Assets					
Cash	2,694	1,821	25,070	41,541	45,625
Accounts Receivable	23,398	24,944	44,616	46,752	21,245
Inventory	4,722	5,292	5,220	9,862	50,739
Total Current Assets	30,814	32,057	74,906	98,155	117,609
Fixed Assets (net)	36,166	38,776	138,467	141,982	104,154
Total Assets	66,980	70,833	213,373	240,137	221,763
Liabilities and Equity					
Accounts Payable	18,186	20,268	16,747	69,617	55,429
Accrued Expenses	10,860	11,324	9,270	6,055	6,821
Total Current Liabilities	29,046	31,592	26,017	75,672	62,250
Long-term Notes Payable	13,144	0	138,703	204,981	255,625
Total Liabilities	42,190	31,592	164,720	280,653	317,875
Equity					
Capital Stock	7,264	7,264	7,264	7,264	7,264
Retained Earnings (Deficit)	17,526	31,977	41,389	(47,780)	(103,376)
Total Equity (Deficit)	24,790	39,241	48,653	(40,516)	(96,112)
Total Liabilities and Equity	66,980	70,833	213,373	240,137	221,763

Specialty Facilities Company, Inc., General Contractors

John Pesl, MBA, Cessna Aircraft Company
Joseph Kavanaugh, Paul Reed, Sam Houston State University

INTRODUCTION

As Jerry Wilson sat in his trailer office that warm June Tuesday morning, he pondered all that he had been through since starting the company. Boy, the lessons he had learned. And now, after all of it, he had to figure out what the next move should be. What would he do? He had to decide on something. After all, he was still too young to retire.

THE BEGINNINGS

Jerry Wilson formed Specialty Facilities, a commercial construction management and general contracting corporation, in 1994. The company's main focus was to deliver superior construction services to building owners and operators located in and around the Dallas/Ft. Worth area. A few of these services included: construction cost estimation, budgeting, regulatory investigation, subcontractor management, value engineering, quality control, scheduling, change order management, and certificates of occupancy. To accomplish these tasks the company relied heavily on the experience of both its employees and the subcontractors that performed the actual construction and other services. The company was operated for several years with Jerry being the only employee. In 1997 Jerry's brother, Bill Wilson, joined the company. In the beginning, the company proved to be a very profitable venture for Jerry and Bill.

Since its inception, one of Specialty Facilities' largest customers had been American Airlines. The airline operated a very large number of flights out of the Dallas/Ft. Worth International Airport (DFW), and also had a large maintenance base at Love Field in Dallas. Specialty Facilities performed the majority of its work for American at these two Dallas/Ft. Worth area airports. Some of their projects included: planning and providing building permits for American's new hanger facilities; bringing Love Field's maintenance facilities up to current City of Dallas occupancy codes; and renovating the interior of the major American Airlines terminal at DFW.

Jerry Wilson was introduced to American's Corporate Real Estate Department by one of the architects that the airline had been doing business with for several years. The architect suggested that Jerry start attending some of the pre-construction meetings being held for the expansion of the airline's baggage handling system. After attending several meetings and making numerous suggestions and criticisms of the project, Specialty Facilities was chosen as the contractor of choice when it came time to perform the work. After completion of the project, Specialty Facilities was asked to bid on numerous other projects for American and thus began a five-year relationship with the company.

Airport Improvement Bonds funded the majority of projects handled by Specialty Facilities at the airport. After the bonds were approved, American's Corporate Real Estate Department managed the spending of funds on all projects related to the airline's operation. The use of bond funds was tightly regulated, and both internal and external audits were performed on a regular basis. American entered into contracts with pre-approved general contractors including Specialty Facilities to manage these projects and perform the work. At the height of their involvement with the airline almost ninety percent of the company's revenues came from American's projects. Bonds funded the majority of this work.

One of the projects funded by the Airport Improvement Bonds was the expansion of the American Airlines terminal parking garage. Part of this work included the expansion of American's baggage handling system, which was located on the first floor of the new garage. The system was designed to receive a passenger's bags from the ticket lobby and sort them so that they could be delivered to the appropriate aircraft. The main contract to expand the system was given to the Jarvis B. Webb Co., who installed all of the basic equipment needed to make the system work. However, the initial contract with Webb did not include numerous items that would be needed during the normal operation of the system. These included an employee break room, restrooms, impact protection from baggage carts, cable trays for computer terminals, air conditioning, expansion of the main control room, lighting, and work stations. During the construction phase of this project American realized their mistake and began giving the majority of this extra work to Specialty Facilities Co. All of the work was bond funded and apparently tax exempt, so Specialty Facilities began construction with only verbal contracts and a sales tax exemption between them and American. When the work was completed it totaled close to two million dollars.

The first sign of trouble between Specialty Facilities and American came during the installation of the baggage handling system's air conditioning units. These units were to be placed on top of the parking garage and required a five hundred-ton crane to set them in place. The only location for the crane to set up was in the middle of the main road which served as the primary entrance to the American terminal at the airport. After getting a late start and setting only one air conditioning unit in place, Jerry decided to call it a night and remove the crane from the street. It wasn't until nine o'clock in the morning that the crane was finally able to move out of traffic. By this time it was too late; the damage had already been done. The crane had restricted traffic to the entire terminal and delayed American's flights system wide. When all of the free tickets and hotel rooms were calculated, the delayed flights cost American millions of dollars. After numerous meetings with management representatives of both American and the Dallas/Ft. Worth airport, Specialty Facilities was fired from the project. However, they were still allowed to perform other projects for the airline.

American turned to D.E. Harvey Builders, who were then constructing the hanger facilities, to complete the installation of the air conditioning units. Several weeks after the project was completed the crane rental company invoiced both Specialty Facilities and D.E. Harvey for the full amount of the crane rentals, which amounted to over twenty thousand dollars. Both companies in turn automatically invoiced American for the same amount. Before Jerry could catch the error American's internal audit department had discovered the invoice and thus began a three-year audit of Specialty Facilities for improper invoicing. The auditor's main focus was the fact that there was no defined scope of work for Specialty Facilities' part of the project and there was no contract for such a large sum of money. These were two very big mistakes as the money for the projects was funded by tax dollars.

Specialty Facilities also made similar mistakes when it came to invoicing American on other bond-funded projects. The problems were usually due to the fact that the airline paid its invoices very slowly and Specialty Facilities did not have a very automated accounting system. In one instance Specialty Facilities had sent in an invoice for forty-two thousand dollars. After several months of not being paid, one of the company's subcontractors sent Specialty Facilities a second invoice. Jerry's secretary did not notice that the invoice was a duplicate copy and thus billed American for the second time. American again stopped payment on the invoice and turned it over to their auditors.

CURRENT SITUATION

During the construction of parts of the baggage system, American's auditing department again began to notice some discrepancies on invoices submitted by Specialty Facilities and thus refused to pay the company for its services. It appeared to the auditors that Specialty Facilities was trying to double bill for some of the work being performed for the airline. The department then proceeded to perform a full audit on the company's business practices and refused to allow them to bid on certain bond-funded contracts with American.

After several years of battling to regain the company's reputation and receive payment on the invoices, American finally paid the company. Specialty Facilities accomplished this after they encouraged their subcontractors to place property liens on the American terminal. Since the cities of Dallas and Ft. Worth owned the property, the liens were only meant to encourage the involvement of city officials. The strategy worked. American paid all subcontractors, including Specialty Facilities, for the work that was performed on the terminal. This helped the company regain some of its subcontractors, but it had basically lost American as a customer. American's audit was never really completed. The auditors simply lost interest and moved on to other issues. Specialty Facilities did, however, continue to perform small projects for American on a limited basis. In connection with the American audit, the company also underwent an audit by the State of Texas for nonpayment of State sales taxes. Apparently, American believed the work that was performed by Specialty Facilities was tax-exempt when it was not. Fortunately, Specialty Facilities had all of the tax waivers issued by American and was easily cleared of all wrongdoing. The State held American responsible for the tax liability.

As a consequence of these events, the company lost American Airlines as its major, almost sole, customer. Further, the two major audits consumed the majority of Jerry's time for the better part of six months as he sought to reconstruct records from his poor accounting and records system. Because of the demands of the audit situations, Jerry had devoted little energy to the development of new business.

With the American debacle behind them, now the company had to decide whether to close its doors or develop a new strategy such as residential construction or subcontracting.

DESCRIPTION OF THE COMPANY

One of the main functions of the company was to contract with the various subcontractors needed to perform construction projects, and then act as the single point of contact for building owners and architects. The services that Specialty Facilities provided basically carried a customer through the pre-design stages of a project all the way to project completion and closeout. The company's mission statement read as follows:

A leader in construction services, Specialty Facilities Company delivers excellent construction management and general contracting services to our customers. Our approach offers a wide range of services from the earliest planning stages of a project to its completion.

Its annual objectives for 2003 were: 1) reduce corporate expenses by 10%, 2) Increase market share by 15%, and 3) increase revenues by 25%.

INDUSTRY

The construction industry in Dallas/Ft. Worth had grown at an extremely fast rate over the last five years. Many companies were proceeding with capital improvements that had been on hold during the 1990's. However, the economic outlook for the industry did not look very promising for the year 2004. The following data (Source: Greater Dallas/Ft. Worth Partnership) showed the overall trends in the Dallas/Ft. Worth area's construction industry. The data indicated strong building in 2002 and 2003, but no growth in the year 2004.

"*In 2002, the Cities of Dallas/Ft. Worth issued building permits valued at $3,573,362,445, up 47.5% from 2001. Nonresidential contracts rose 49.4% to $2,541,996,000; residential contracts increased 52.6% to $3,135,390,000.*" *(<u>Dallas/Ft. Worth Facts 2003</u>, the Greater Dallas/Ft. Worth Partnership*)

Construction employment, which defied expectations by growing some 3 percent this year, should slow sharply. In '02, a backlog of sold-but-unbuilt homes persisted through the third quarter, and apartment construction remained strong despite growing evidence of a glut. Next year begins without a single-family backlog, with a well-publicized oversupply of apartments that should hold multi-family construction to a mere fraction of the '02 volume, [and] we're also likely to see a slowdown in commercial construction. If construction manages to eke out any job growth in '03, it's likely to be on the basis of public-sector work. (Greater Dallas/Ft. Worth Partnership)

The reports failed to indicate the increasing trend toward both commercial and residential remodeling in the Dallas/Ft. Worth area. Along with this, facility maintenance services were another growing area closely related to the construction industry. Also, due to legislation and the increased cost of insurance, safety was becoming an extremely important part of the overall industry. The majority of customers refused to do business with contractors that were lacking a well-implemented safety program.

MANAGEMENT

Jerry Wilson had been both the owner and operator of Specialty Facilities Company Inc., since it was founded in 1994. Jerry had over thirty-five years of experience in the construction industry and had owned his own business for the past 20 years. Jerry made both the financial and operational decisions for the company and provided oversight for each project personally.

FINANCE AND ACCOUNTING

Specialty Facilities experienced a very sharp decline in operating revenues after the loss of American as a client. The company's revenues went from a high of $1.99 million in 2002 to a low of $462,077 in 2003 [see Exhibits 1 and 2 for financial statements]. However, the company survived due to the very low amount of debt that it had maintained throughout its many years of operation. Jerry accomplished this by using the subcontractors to finance the initial cost of projects. The company employed the services of a local bookkeeper to track its operating and tax expenses. The majority of job tracking and invoicing was done without the aid of a computer system. Specialty Facilities had an excellent credit rating and was continually approached by banks seeking to lend the company money. While the company had sought to strengthen its current operating procedures to prevent any future problems in the areas of accounting and invoicing, these procedures could have benefited from further procedural improvements and future automation.

Also, while 2002 was a bad year for revenues, Jerry was able to dramatically reduce costs even more, and turned around the firm financially. The major cost reductions came from reduced payments to sub-contractors [due to the decline in work sold] and the absence of bonus payments to management, which had been very significant costs in 2000 and 2001. In fact, the payment of excessive bonuses in these two previous years was the reason why the firm had been unprofitable.

PRODUCT MARKETING

Specialty Facilities provided construction management, general contracting, and consulting services to various building owners and architects that were undertaking commercial construction projects. Once hired, the company provided its clients with a single point of contact for all concerns and problems related to a project. The company's main focus was to hire and manage subcontractors in support of large construction projects. This service was extremely valuable in the construction industry due to the large number of subcontractors and consultants that were needed to complete a project.

In addition to this, the company also offered a wide range of other construction type services. For example, during capital budgeting, the company provided clients with cost estimates of projects that may be carried out in the next few years. Once a project had been approved, Specialty Facilities worked very closely with both the customer and architects to ensure that the project met the customer's expectations. One of the company's most important tasks during construction was to ensure that the project was on time and under budget. Proper scheduling and the value engineering of any items that might reduce cost could usually accomplish this.

After a project was completed the company could perform the entire close out process and ready the new facility for its occupants. After completion, a client might also use Specialty Facilities to inspect the work of all other contractors involved before the final payment was issued. For existing facilities, the company could provide clients with both the contractors and project management skills needed to bring a building up to the City's current code requirements. Overall, Specialty Facilities provided services that assisted its clients from conception to the completion of their projects.

PRICE

The method of pricing used by Specialty Facilities included determining what construction trades were needed to complete a project, and then taking competitive bids from local subcontractors in order to compile a total cost for the project. Once a price was determined the company attached a standard thirty percent mark-up to the complete project to cover the cost of its services. The bidding process was very competitive, due to the fact that the majority of subcontractors bidding on the work would make multiple bids to all of the general contractors that were being considered for a project.

Sub-contractors were normally not compensated for their work until the building owner or their representative had paid Specialty Facilities. This allowed the company to operate without incurring large amounts of debt during the construction phase of the project. The company's bids usually fell within mid- to high-level price ranges for most projects. These prices were mainly due to the company's focus on high profit margins and its dedication to quality and service.

PLACE

The company utilized a construction trailer located adjacent to American's hanger facilities for administrative and office space. Both the trailer and land were leased from American's Properties and Facilities Department on a monthly basis. From this location the company could access almost any construction site on the north side of Dallas and the Midpoint areas in a matter of minutes. However, the location was not visible from any major roadway and could only be seen by airport traffic. The following quotation gave a brief description of the Midpoint area, which was located west of the company's location.

"The Midpoint commercial core is the hub of business activity in the entire north Dallas/Ft. Worth region. The geographic economic base is much broader than Midpoint, however. Extensive business activity is spread throughout most of the North Dallas/Ft. Worth-Midpoint area. Dallas/Fort Worth International Airport, most of the north beltway corridor, and the Interstate 35 corridor, are part of this business activity network."

Local commercial development first occurred along Interstate 35, east of the Midpoint area. The 1976 opening of Midpoint Regional Mall provided the North Dallas/Fort Worth area with its initial commercial focus. Before long, numerous large office buildings were being built locally.

Based upon this new commercial activity, and upon demand from Dallas/Fort Worth International Airport, large hotel complexes were constructed by some of the major lodging business companies. The region also became popular as a good location for light industrial businesses. (North Dallas/Ft. Worth Midpoint Chamber of Commerce)"

After many years of neglect the Midpoint area was undergoing some revitalization and these changes offered Specialty Facilities opportunities for future expansion. Several apartment complexes and local businesses had recently been renovated and the area was beginning to see more business and consumer traffic. Many large employers, several of who had located their operations in the North Dallas/Ft. Worth area surrounding Specialty Facilities' headquarters, would need support for future facilities renovations.

PROMOTION

The company's promotion efforts were mainly centered on "word of mouth" advertising. The company attended many pre-construction and pre-bid meetings in order to meet the various owners and architects located in and around Dallas/Ft. Worth and the Midpoint area. Jerry

Wilson also visited local companies and the Chambers of Commerce in an effort to meet prospective clients and to discuss the services that Specialty Facilities provided. The company mainly based its promotional efforts on the quality and size of projects it had completed for customers. Recently, Mr. Wilson had redesigned the company's brochure and resume of major project accomplishments to emphasize the company's services and project accomplishments.

However, the firm did no research or marketing development work on seeking to identify new arenas for its services, or to evaluate emerging opportunities that might be productive for the firm to pursue.

STAFFING

Due to the consulting and management type services that the company provided, Specialty Facilities could operate with a very small number of employees. In 2001 the company had its largest staff consisting of four employees, two project managers including Jerry Wilson, one project superintendent, and one administrative assistant. After the loss of American as a customer, the company had reduced its staff to its present level, which included only two project managers (including Jerry Wilson).

Employees were paid an annual salary and received bonuses based on the profitability of the company. While 2003 was a good revenue year, no bonuses had been paid that year due to its poor profitability, and the company was struggling to meet its payroll. Besides a small pension plan the company did not provide its employees with any other benefits.

COMPETITORS

Specialty Facilities had numerous competitors that focused on the same type of projects. Most of these competitors were small- to medium-sized construction companies that operated on the North side of Dallas/Ft. Worth. The majority of work done by these companies was under subcontract with other firms. A few of these companies had employees that could complete small projects without having to contract with other firms. This allowed them to capture quick and easy projects without being bogged down by the contracting process.

Specialty Facilities also faced competition from engineers and architects who provided some of the same project management services that the company did. These consultants had a real advantage in the area of project management due to their superior knowledge of the project and their close relationship with the customer. These advantages usually made consultants that offered these services the number one choice of many building owners.

Firms that competed with the company directly included some of the following:

Sparks Construction— Small, family-owned construction company that specialized in small construction projects and equipment repair. Sparks had one manager and four field workers.

.

Camden Construction --- Specialized in warehouse construction and build-outs along with small renovation projects. Camden Construction employed one owner/manager, one secretary, one superintendent, and seven field workers.

Mesa Southwest Construction---Specialized in all types of commercial construction projects from office renovations to complete facilities. Mesa Southwest employed over one hundred personnel in two divisions. One division handled contracts over five hundred thousand dollars and the other handled projects under that amount. Mesa focused mainly on general contracting rather than doing the work themselves.

Texas Contract Construction--- Family-owned and operated general contracting firm that specialized in construction and renovation projects up to two million dollars. The company employed approximately fifty employees and performed smaller projects with their own in-house staff.

Several of Specialty Facilities' competitors had strong financial resources that enabled them to bid projects with very low margins when necessary to attain the job

FUTURE CONSIDERATIONS

The future of Specialty Facilities did not look very promising. The company had failed to increase its customer base and had not received any substantial projects in some time. The company needed to make the tough decision to either close its doors or develop a new strategy for its survival. Jerry had been considering several options; one option was residential construction and subcontracting where Jerry thought that he might catch the major boom in residential construction taking place in North Dallas. He could either enter this market as a general contractor with his own firm, or he could hook up with one of the major builders and take over responsibility for managing the development of a sub-division. The advantage of the latter, of course, was that it wouldn't require much capital on his part. The downside would be that he would be working for someone else, and he wouldn't see the kinds of profits he could earn if he were taking all of the risk.

Another possibility was to create an alliance with one or more of the major commercial suppliers such as home improvement stores like Lowe's or Home Depot. These operations, and major equipment manufacturers, were in need of contractors to perform product installations and build-outs, and were seeking reliable partners for such work. However, Jerry thought that, for the moment, he would like to stay with general contracting and project management as his primary business.

Jerry and Bill had also looked into constructing several warehouses around their current location and then leasing them out to local small businesses for storage and office space. Small business demand for such space was increasing. By utilizing their construction contacts the company could keep the construction cost low and thus offer competitive leases. Management costs would be low and a major added benefit would be the continuing stream of passive cash flow which could support the overhead of the construction business.

Another option the company evaluated was adding facility maintenance services to its current list of activities. This would include a small staff of individuals that could perform general maintenance tasks for the company's current customers, facilities managers of new buildings going up in North Dallas, and perhaps, they might also capture some of the residential home maintenance market. Financially, Jerry could make this work fairly well as long as he was able to maintain the 'independent contractor' status of his sub-contractors, thereby avoiding a lot of overhead cost for insurance, worker's compensation, vehicles, etc.

Jerry ruminated about his choices. Should he stay with general contracting, shift over to project management with a residential builder, try and develop other commercial business, build and lease warehouses – it was hard to get enthused about any of the options. He had to do something, but what should he do? How could he use the assets of his company, his experience, his reputation in the industry, and his relationships with sub-contractors to find his next big opportunity?

Exhibit 1
Specialty Facilities Co.

Income Statement

	2000	2001	2002	2003
Construction Income	539,900	1,719,377	1,996,028	461,827
Discounts				90
Interest Income		889		160
Trailer Sales		(408)		
Total Income	539,900	1,719,859	1,996,028	462,077
Cost of Goods Sold:				
Materials and Supplies	133,980	244,914	263,492	10,506
Sub-Contract labor	223,277	1,198,419	1,294,888	213,368
Licenses & Permits	1,247	6,423	209	347
Equipment rental	994	24,442	21,172	3,801
Delivery			2,402	423
Management Fee			79,025	29,250
Total Cost of Construction	359,498	1,474,198	1,582,163	257,694
Gross Profit	**180,402**	**245,660**	**334,840**	**204,382**
Expenses:				
Legal and Accounting	1,835	2,500	6,250	4,625
Advertising	2,072	4,747	2,899	399
Amortization/Depreciation	2,580	28,166	18,166	
Auto and Truck Expense	5,699	8,002	8,024	11,703
Bank Charges	159	196	8	26
Dues and Subscriptions	203	594	280	187
Insurance	6,022	14,769	38,309	11,203
Interest	221	1,761	9,131	1,371
Meals and Entertainment	3,554	4,643	5,581	8,913
Miscellaneous	373	1,477	1,410	141
Office Expense	3,793	10,127	8,130	4,072
Officer Salary	44,400	138,400	173,600	27,200
Parking and Tolls	608	666	877	792
Pension Plan	5,514	20,760	26,000	10,000
Rents	11,400	18	104	50
Taxes	6,735	9,354	10,123	2,772
Telephone	12,892	17,184	14,022	13,583
Travel	2,179	602		1,671
Computer Expense		284	1,747	1,119
Contributions		335	400	425
Gifts and Promotion		949	285	107
Maintenance and Repairs			4,377	3,891
Salaries			24,325	7,040
Secretarial Service		9,745	4,716	874
Small Tools		2,455	2,148	364
Total Expenses	111,239	277,734	360,812	112,528
Income from Operations	**70,163**	**(32,072)**	**(26,072)**	**91,854**
Interest Income	320		130	
Discounts Earned			131	
Net Income	**$70,393**	**$(32,072)**	**$(25,811)**	**$91,854**

Exhibit 2
Specialty Facilities Co.

Balance Sheet

Assets	2001	2002	2003
Current Assets			
Checking/Savings	21,003	36,275	
Chase Bank			28,006
Langham Creek Nat'l Bank			19,047
Total Current Assets	21,003	36,275	47,053
Fixed Assets			
Equipment	15,500	21,529	19,400
Furniture and Equipment	10,396	13,217	12,946
Vehicle	56,055	56,055	56,055
Accumulated depreciation	(40,504)	(59,145)	(56,439)
Total Fixed Assets	41,447	31,656	31,962
Other Assets	60		
Total Assets	62,509	67,931	79,015
Current Liabilities			
Charge Accounts	5,137	(733)	492
Accounts Payable	20,760	40,000	11,205
Notes Payable	65,000	85,547	11,148
Total Current Liabilities	90,897	124,814	22,845
Long Term Liabilities			
First Educators	28,118		
Total Long Term Liabilities	28,118		
Total Liabilities	119,015	124,814	22,845
Capital			
Common Stock	1,000	1,000	1,000
Distributable Profits	23,156	(32,072)	
Profit Distributions	(48,589)		(41,128)
Net Income	(32,072)	(25,811)	91,854
Opening Bal Equity			4,444
Total Equity	(56,506)	(56,883)	56,170
Total Liabilities and Equity	$62,509	$67,931	$79,015

THE FAMILY Y

Jeffrey R. Miller, Augusta State University
Robert L. Smalley, Augusta State University
Nabil A. Ibrahim, Augusta State University

INTRODUCTION

The Family Y's two executives, Jerry Dixon and Gail Fields, sat forlornly in January 2001 discussing the Metropolitan (Metro) Board's meeting that had just ended. They wondered why the Board was so slow to act. Three years earlier, Mr. Dixon and Ms. Fields had orchestrated a merger between the local Young Men's Christian Association (YMCA) and the Young Women's Christian Association (YWCA). They felt that after this merger, the new entity would be poised for growth and expansion. Operationally, the Family Y was doing well, and as a result of a growth in membership, it is "busting at the seams." The solution for these two executives was clear. The Family Y should move quickly and decisively into nearby growing and prosperous Columbia County. In fact, two years earlier, a consulting company conducted a thorough study for the Family Y, and concluded that the not-for-profit should go into Columbia County immediately. The Metro Board consists of many business leaders. Mr. Dixon and Ms. Fields reasoned that if the Family Y was a business managed or owned by one of these board members, a presence in Columbia County would have already been established.

The Family Y's executives and Board both agree, however, that some strategic decision needs to be made soon. The current facilities are neither cost effective nor adequate to handle the Y's membership and programs. However, there are other options available for this not-for-profit organization. The action taken will affect both the community and the Family Y for decades. Before examining the options available, the Family Y's historical background, mission, facilities, programs and memberships, internal and external environments, and finances are briefly discussed in the next few sections. Finally, the future strategy options that the Board is considering are presented.

HISTORICAL BACKGROUND

During the Industrial Revolution, thousands of young men poured into London. Their working and living conditions were harsh. The average workday was 10 to 14 hours, six days a week. These men slept in crowded rooms, often above the place they worked. On the seventh day, some men attended religious services, but most would visit places, such as taverns and brothels, where they might feel welcomed and forget about their plight. George Williams, a sales clerk at a London clothing store, wanted a safe place for them to go, a place that would nourish them both physically and spiritually. He and eleven like-minded men organized the first YMCA on June 6, 1844. The idea quickly caught on and by 1851, 24 YMCA's existed in Great Britain. In January of 1858, a YMCA was established in Augusta, Georgia. This YMCA has continued operations in Augusta except for a few years after the Civil War during the Reconstruction Era.

In September 1997, the YMCA of Augusta merged with the YWCA of the Central Savannah River Area (CSRA). The YWCA was established in 1908, in Augusta, Georgia, which is part of the CSRA. The YWCA also has it roots in England, and its mission was to help young woman. At the time of the merger, Gail Fields was the Chief Executive Officer (CEO) of the YWCA, and Jerry Dixon was the CEO of the YMCA. These two executives and the newly formed Metro Board, which was made up of six board members from each organization, decided on the Family Y name because it reflected the mission of the two organizations without showing preference to either the YMCA or the YWCA. The Board originally intended to maintain affiliation with both organizations. However, it is interesting to note that the national YWCA's bylaws and constitution forbid the presence of men on a YWCA board of directors. Therefore, the merger of the two organizations forced a split with the national YWCA in January of 1998.

A few months after the January 2001 board meeting, Mr. Dixon resigned. He was later named the CEO of a YMCA in Florence, South Carolina. As a result of a national search, Dan McConnell took over as the new CEO in March 2002. Mr. McConnell brought with him many years of YMCA leadership experience, having been involved in the opening of six YMCAs over the previous five years. Ms. Fields remained with the Family Y and was named Chief Operating Officer.

MISSION STATEMENT

The YMCA's mission is "to put Christian principles into practice through programs that build healthy spirit, mind and body for all." The Family Y has created its own mission statement beyond those of the YMCA. It states that: "The mission of the Family Y is to serve individuals and families in the CSRA through programs designed to build healthy spirit, mind and body, reflecting the values of the Judeo-Christian tradition while maintaining respect for all people." The boards of directors and management believe that the organization's mission and its public image as a family health and fitness center are strong incentives that serve to attract families with children to join the facility.

FACILITIES

As a result of the YMCA/YWCA merger, the Family Y's two main facilities, the Wilson Center and the Wheeler Branch are located just several hundred yards apart. The Wilson Center, marked by a red circle [3570 Wheeler Road], and the Wheeler Center [W] are shown in Figure 1. The two facilities are separated by an office complex. The Family Y also has three other facilities: the Southside Branch, the Marshall Branch, and Camp Lakeside (a day campsite) on Thurmond Lake. The approximate locations of the Southside Branch [S] and the Marshall Branch [M] are also shown in Figure 1. Augusta is the center of the CSRA, which has a population of 450,000 and includes eighteen counties located in Georgia and South Carolina. Augusta, which is located on the west bank of the Savannah River, is the second largest metropolitan area in Georgia; its population center is moving westward into Columbia County.

Figure 1 – Map of Augusta Area

Wheeler Center Entrance

Wilson Center Entrance

The Wilson Center is the flagship of the Family Y's activities. It has a full-sized indoor gymnasium, which is used for both basketball and volleyball competition. The Wellness Center is equipped with a full set of Cybex fitness machines, free weights, Stairmaster machines, three types of exercise bicycles, and treadmills. Aerobics, Tae Kwon Do, and Pilates classes are also offered at this facility. In addition, a hot tub, sauna, steam room, and showers are available at the Wilson Center. The Kids' Gym offers supervised activities for members' children, and the nursery offers care for small children while their parents exercise. The outdoor, full-sized pool is in use from May through early September. There is also an outdoor children's pool. Several athletic fields are used for soccer, baseball, and t-ball. A quarter-mile track, which is open to the public, has security lights for early-morning and late-evening users. High-intensity lights are directed onto the playing field in the center of the track.

The Wheeler Branch has a large indoor pool, which allows for swimming all year, a large gymnastics area, and an aerobics room. Programs conducted from the Wheeler Branch include gymnastics, water exercise classes, Tae Kwon Do, and starter-level swim teams. Jazzercise rents the Wheeler Branch's aerobics room to hold their exercise classes. The gymnastics center may also be rented for birthday parties.

The Marshall Branch, established in 2003 as a storefront, is located in a strip center in Columbia County. The limited workout area has Cybex machines, free weights, an aerobics room, and cardiovascular exercise equipment. Programs conducted from this branch include camps, in-line hockey, and lacrosse. The Family Y does not own any land at this facility, so these activities are held off premises.

The Southside Branch has an outdoor pool, but no exercise facilities. However, much of the Family Y's school tutoring is held through this facility. This program is called Prime Time, and it offers both before and after school help to students. Southside also has athletic fields in which t-ball and youth flag football programs are conducted.

Camp Lakeside has a picturesque setting and is used for camps all throughout the year. It is located on Lake Thurmond, just a few miles from Augusta. There is one large building with a kitchen area on the campsite and several small cabins. The cabins are in need of repair and are not currently being used.

PROGRAMS AND MEMBERSHIP

Programs account for the largest percentage (57%) of revenue for the Family Y Membership is next and accounts for 34% of its revenue. The following pie chart illustrates the sources of revenue for 2003.

Chart 1 - Sources of Revenue

Programs

The Family Y takes pride in the variety of services that it is able to offer to both children and adults. It seeks to provide beneficial and enjoyable activities for people of all ages, athletic abilities, and income levels. Some of the services and activities include gymnastics, basketball, in-line hockey, soccer, flag football, Tae Kwon Do, swimming, water exercise, volleyball, aerobics, weight lifting, and additional special activities for senior citizens.

The children's sports programs are immensely popular with the children of the community and perhaps provide the greatest opportunities for growth and expansion. They not only benefit the children, but they enhance the YMCA's contact with parents, teachers, coaches, and friends. In addition to helping it accomplish its mission, such exposure can generate more donations, volunteers, and members.

In addition to youth sports, the Family Y provides other programs for children. During 2003, for example, more than 6,000 children participated in all-day summer and school holiday camps. Six summer camps are offered during the summer at the Family Y. Most of these camps are held at Camp Lakeside, but the Marshall Branch also holds summer camps. Christmas camps and Masters' Week camps are also offered. The low fees make them affordable for many families. In addition, scholarships are available for up to 95% of the cost to needy families. These camps also give the Family Y public exposure and provide a free and effective form of advertising. No other organization in the CSRA offers as many camps.

The Family Y also offers Prime Time, which is a before- and after-school program. Approximately 1,200 children participated in Prime Time during 2003. The Family Y also operates an all-day care program for preschoolers. In 2003, 64 children participated in this program.

Membership

Membership has grown at a good pace in the last few years. In fact, membership revenues increased by 14% in 2003, and 7% in 2002. Most of the Family Y's business comes from word of mouth. The advertising budget is less than 2% of revenues. Members are not required to sign monthly or yearly contracts. Instead, members are allowed to cancel membership at anytime should they become dissatisfied with their service or for any other reason.

Over 10,500 men, women, and children are members at the Family Y. Three types of memberships are offered. Metro Memberships allow members to use any of the Family Y facilities, Branch Memberships allow members to use a particular branch only, and scholarship members are financially assisted members. Reduced membership fees are given to seniors, college students, teens, and children.

The YMCA's Charter states that membership should not be based on ability to pay, which means that needy families are not turned away.

Thus, an important service to the community is the Family Y's financial obligation to award "scholarships" to needy families. These "scholarships" give families reduced or free memberships. The organization strives to serve all people of all ages regardless of their financial status. It never turns away anyone who cannot afford to participate in its activities. In addition, the Family Y does not have a cap on the amount of scholarship expenses. A total of $740,726 of program scholarships was awarded during 2003.

THE INTERNAL ENVIRONMENT

The Family Y believes that its organizational culture enables it to provide quality service to the CSRA community. The loyalty and organizational commitment of its employees make it possible to create a family-friendly environment and to accomplish its mission of "service." Employees are encouraged to contribute ideas that support the organization's mission. The Family Y's friendly atmosphere and services are essential in retaining its members and providing multiple programs "to build strong kids, strong families, and strong communities."

Overall Structure

The Family Y's chief decision-making board is the Metro Board that represents the entire Family Y. There are also four other boards representing the other facilities, except the Wheeler Center. The chairman and vice-chairman of each of the other four boards are members of the Metro Board. Members serve for a three-year period, with service staggered over three years to mitigate the effect of personnel changes. Board members do not receive any compensation for their services. Each board meets monthly to help make decisions on budget allocations and new spending, to work on fund-raising projects and campaigns, and to support the organization's mission by donating their time, talent, and money. In addition, each board examines the progress of its programs, reviews expenditures versus the budget, and discusses committee activities and issues that affect the membership at large. Any Family Y member may attend a board meeting.

The twenty-two full-time employees' responsibilities include developing and directing the various programs, as well as managing memberships, accounting/finance, and the Wellness Center. The Wellness Center, located inside the Wilson Center building, includes a wide variety of strength and conditioning equipment. The organization is fortunate to have a motivated staff that is committed to its mission. In addition, it has a feedback system for member questions. All questions and comments are posted, along with the answer, on a bulletin board for everyone to see. An additional follow-up from a staff member is offered to those who request it.

During the year, approximately 300 part-time employees work as lifeguards, camp counselors, after school tutors, fitness trainers, front desk personnel, Kids' Gym helpers, and nursery workers. The Kids' Gym consists of video games, a pool table, a hockey game table, a Moon Bounce, and space where children can play games.

There is a solid core of volunteers who assist the regular staff with youth sports. The Family Y depends heavily on volunteer coaches for their youth sports. There are approximately 100 volunteer coaches at any one time. Few, if any, area organizations are as active in youth sports as the Family Y, and the soccer program is acknowledged to be the best available. In 2003, youth sports had 4,585 participants in soccer, baseball, basketball, t-ball, in-line hockey, lacrosse, flag football, gymnastics, and homeschool physical education.

Concerns

Significant challenges face the Family Y. Among the principal concerns are:

Facilities **-** Currently, many of the facilities are too small. As a result of the growth in membership and participation, the Family Y is running out of space to accommodate all the traffic and program activities at peak times. However, space is available for expansion, although it may be at the expense of some outdoor athletic programs. The buildings and grounds have an unfinished look in some areas. Space is also needed to provide an adequate number of activities (including gyms, soccer fields, and baseball fields) for participants. The level of participation and number of members is simply beginning to grow at a faster rate than the required funding. As with any not-for-profit organization, additional revenue sources are needed to maintain stability and provide for future growth.

Marketing - The Family Y has a large group of potential new members in the more than 1,000 persons who are involved in the various programs (such as soccer, camps, and t-ball), but are not presently members. In past years, one of Family Y's most pronounced problems has been exposure. Many area residents still are not aware of all the programs it offers. Currently, annual advertising costs are slightly under $100,000, which is about 2% of its annual revenues. These efforts consist of direct mail postcards, flyers, and newsletters. In addition, the Family Y tries to receive as many free mentions in local print media as possible to promote its programs. However, unlike its competitors, the Family Y does not advertise in the Yellow Pages. Also, frequent radio advertisements inform the public of the other clubs' services and special pricing packages.

Programs - As evident from its long-term existence, the Family Y has a strong history of community involvement and has been successful in providing programs and services to its members for many years. Its name recognition and positive image within the CSRA community, as well as on the national level, continue to be instrumental in its achievements and success. The Family Y offers stability and consistency in its offerings, which many parents seek for themselves and especially for their children. However, it is important to note that the real cost of each of the of the Family Y's program offerings is not known. Thus, a study could be undertaken to address several questions such as:

- Does the membership fee structure equitably bill members for the services they use?
- Should there be an additional charge for parents with small children to cover the cost of the nursery?
- For each program, how do costs compare with income?
- How do the charges compare with those of competitors?

Control and Security - To obtain entrance to the facilities, members scan their Family Y card as they pass by the front desk. However, individuals, who are not members in good standing, may sometimes use the facilities. For example, they may get access to the Family Y through the back door to the gym. Guests sign a sheet and pay a guest fee; however, photo identification is not required. Cars in the parking lot are occasionally vandalized, and members' personal belongings are sometimes stolen in the locker rooms.

Parking - At the Wilson Center there are approximately 100 paved and 100 unpaved parking spaces. However, parking is sometimes difficult during peak hours. The Wheeler Center has similar parking problems when youth sports are in full swing. The Southside Branch, Camp Lakeside, and the Marshall Branch have adequate parking.

Reputation - The Family Y has a religious affiliation (namely Christianity) yet does not espouse any particular denomination and is open to people of all faiths. Management is concerned about its public image, and its mission to build strong families. A good name is essential for the Family Y to fulfill its mission. A risk management procedure, adopted several years ago, involves conducting a background check on each prospective employee and volunteer. However, this screening process has the unintended consequence of complicating the volunteer effort.

Contributions - Contributions are essential for most not-for-profits, including the Family Y, to carry out their mission. Contributions account for only 9% of the Family Y's revenue. This percentage is less than half the national average for YMCAs.

THE EXTERNAL ENVIRONMENT

The YMCA's competition consists of a number of for-profit and not-for-profit organizations. The principal ones are:

Omni Health & Fitness – A fitness center that has two locations in the Augusta area. One of their facilities is located within a mile from the Wheeler and Wilson facilities. The Omni's have excellent exercise equipment and operating hours. Their facilities do not have a pool, basketball court, or Kids' Gym.

Health Central – A family fitness center located in downtown Augusta and owned by University Hospital. It offers a wide range of programs, facilities and activities to its members. Health Central has a basketball court, indoor pool, aerobics classes, and a fitness center.

Church Programs - Fitness centers and athletic programs, which are built and operated by area churches, reduce the number of those who participate in the Family Y's programs. Some churches have built and others are building gymnasiums and work out facilities. These large churches offer aerobics and fitness classes to their members and sponsor programs, such as youth basketball. They offer services and facilities to members at no charge or for a minimal fee.

Cory Everson's Aerobics & Fitness for Women - A women's fitness center.

Powerhouse Gym – A co-ed fitness center, offering primarily weight training and aerobics.

County Recreational Centers – Counties in the area organize and offer principally team sports (football, baseball, basketball, and soccer), summertime programs, and swimming.

The Wilson and Marshall facilities' locations, both west of downtown Augusta, place them far enough away from perhaps their major competitor, Health Central, to allow them to serve a separate market. The Wilson Center provides virtually every service that is offered by their competitors.

The Family Y has a strong opportunity to form partnerships with local hospitals, churches, and businesses to promote health conscious initiatives. The Family Y could either establish programs and facilities with these establishments or offer discount memberships to employees of these institutions. In either situation, the Family Y needs to continue to have a dominant presence in the local market. By bringing its services closer to the user, more people are likely to participate.

Although the Family Y has a unique mission statement based on Christian principles and a family atmosphere, other facilities and organizations compete against the Family Y in similar markets. For example, the local recreation departments provide baseball, basketball, and soccer programs that may capture part of the Family Y's target market. The similarity between the programs offered by the Family Y and the recreation department gives parents and children a decision to make. Health and fitness facilities, such as the Omni and Powerhouse Gym, target a separate segment of individuals.

In addition to these immediate pressures, the Family Y also faces an important long-term threat. With increasingly high health care costs, hospitals are now beginning to turn their attention from curing the sick towards maintaining the healthy. Hospitals are placing more attention and resources on the wellness aspect of health care in hopes of deterring illness. University Hospital, owner of Health Central, states that it is "one of America's first hospital-based wellness and fitness centers." The threat of other hospitals responding in a similar fashion could prove detrimental to the Family Y in the long run.

Churches are also beginning to expand into new areas by constructing Family Life Centers. These new Family Life Centers can provide many of the same activities and services that the Family Y currently offers. Most of the Family Life Centers have basketball courts, exercise rooms, tracks, and additional space that can be used for numerous types of activities.

FINANCES

A financial analysis is important not only for profit-motivated businesses, but also for not-for-profit organizations such as the Family Y. Although it does not operate to generate a profit to shareholders, it strives to earn enough money to meet its current financial obligations and provide for future obligations, services, and expansion. As with other organizations, it is critical for the Family Y to be financially sound to ensure its continued existence and ability to provide valuable services to the CSRA community. In addition, its growth strategy increases the need for the Family Y to be in a favorable financial position. Potential bondholders and lending institutions will want to have confidence in the current and future financial position of the Family Y.

A nonprofit organization is required to present three basic financial statements: (1) Statement of Financial Position, (2) Statement of Activities, and (3) Statement of Cash Flows. In addition, voluntary health and welfare organizations are required to include a Statement of Functional Expenses. The Financial Accounting Standards Board also recommends that other nonprofit organizations present this fourth statement. Exhibits 1-4 show these statements for the Family Y for calendar years 2000-2003.

At their monthly meetings, board members are given an income statement with actual and budgeted amounts for the month and year-to-date. The treasurer presents the financial information and answers questions from the other board members. A major concern occurs when certain actual amounts vary significantly from budgeted figures.

A separate financial report stating the income and expenses for each major activity is not provided. However, such information would assist Mr. McConnell in determining the value of a particular activity. This report would also assist the program managers in controlling expenses.

An immediate problem is how to continue to serve customers/members while meeting all the financial obligations. The Family Y must continually look for new sources of funds. With increasing amounts of scholarships being awarded to low-income individuals, it needs to seek additional financial support in order to capture the revenue lost by offering discounted program fees and memberships. At the present time, it has not set a cap on the amount of scholarships available to be awarded. If the scholarship demands continue to grow at the current level, the board of directors may need to either reduce the amount given to each individual or look for additional revenue outlets.

Contributions are a very important source of funds. The national YMCA suggests that an appropriate balance of income should be: 80% from operations and 20% from contributions. In 2003, about 91% of the Family Y's income came from operations and only about 2.1% from contributions other than from the United Way, which provided another 5.5% of the Family Y's revenues. The fundraising information presented below shows an encouraging trend. The following is the amount of funds provided from a yearly sustaining campaign in recent years.

YEAR	**FUNDS RAISED**
2003	**$99,188**
2002	**$52,186**
2001	**$50,968**
2000	**$10,794**

Recent fund raising efforts have been more organized and utilized a larger number of volunteers. The 90% increase in contributions from 2002 to 2003 shows excellent improvement in this endeavor.

THE FUTURE

An important decision is under consideration at the Family Y. Its flagship facility, the Wilson Center, is not adequate to handle its growing membership base. In addition, the Wilson and Wheeler Centers are just several hundred yards apart, separated by an office complex. Significant overhead costs could be reduced if one of the two centers could be sold. Unlike a business enterprise, the main concern of a not-for-profit is not the bottom line. In considering the best course of action, it must make decisions in keeping with its mission statement. The Metro Board has discussed the following options.

Expansion into Columbia County

Columbia County is the fastest growing area of the CSRA. Under Mr. Dixon's leadership, an extensive professional study was made. It concluded that the opportunities were immense for families in Columbia County, and the Family Y should move quickly and aggressively in establishing a strong presence there. Despite Mr. Dixon's and Ms. Fields' encouragement several years ago to start a facility in Columbia County, the Board was reluctant to move quickly. However, the problems of overcrowding at the Wilson Center and the cost of operating two facilities so close together, at one of the busiest intersections of the CSRA, continue to increase.

Under the leadership of Mr. McConnell, the Board feels that action needs to be taken soon. By building a full-service facility in Columbia County, many members now visiting the Wilson Center would then go to the new facility. Thereby, easing the membership burden and making expansion of the Wilson Center unnecessary. Approximately 40 percent of the users of the Wilson Center reside in Columbia County. A full-service facility with soccer and baseball fields, gym, and fitness center would cost between $6 and $12 million. To finance an expansion, several options were discussed. Each option would also include a capital campaign to raise funds and borrowings.

Sell the Wheeler Center and use the proceeds to help pay for the expansion into Columbia County. The sale should bring in a little over $1 million.

Sell the Wilson Center and use the proceeds to help pay for the expansion. The Wilson Center, which also has the soccer and baseball fields, is located on one of the busiest intersections of the CSRA. The sale of this property would probably bring in close to $6 million. The Family Y would need to find other fields for youth sports, and the Wheeler Center could be expanded to add a fitness center.

Sell both the Wheeler Center and the Wilson Center and use the proceeds to help pay for the expansion. If the Family Y wanted to stay in the western part of Augusta, less expensive property could be found for building a facility with any remaining funds used for expansion into Columbia County.

Expanding the Wilson Center

Some Board members feel the best course of action is to expand the Wilson Center. This facility is about 30 years old and is too small to support its growth in membership. These Board members reasoned that to focus on Columbia County would be at the expense of Augusta. The YMCA has had a presence in the county for nearly 150 years and should continue to concentrate its efforts in Augusta. After revenues increase sufficiently, then expansion would be made into Columbia County. Financing would come from the sale of the Wheeler Center, a capital campaign, and borrowings. The expansion would cost about $6 million.

Improving the Southside Facility

The Southside Branch is located in an underprivileged area of the CSRA. No other significant competition appears in that area. There is an abundance of land, but the facility is lacking. It is 30 years old and does not have a fitness facility or a gym. Some Board members feel that since the Family Y is a not-for-profit organization, it should focus on the areas of the community that have the greatest need. In addition, it should be easier to raise funds through a capital campaign if donors knew that contributions were going to the Southside Branch. The improvement to the Southside facilities would be financed through a capital campaign, loans, and perhaps the sale of the Wheeler Center.

Other Future Concerns and Opportunities

The Family Y also seeks to develop alliances with other organizations such as hospitals. Although some area hospitals lack an in-house facility to provide exercise programs, they send out newsletters promoting various programs. For example, hospitals may send a newsletter informing expecting mothers about the advantages of water exercise during their pregnancy. The Family Y already offers such an exercise program year round at the indoor heated pool at the Wheeler Branch. Through partnership, both the Family Y and hospitals would benefit from attracting more expecting mothers.

The Family Y may explore the possibility of offering specialized Soccer/Basketball clinics. Perhaps specific aspects of each game could be emphasized at such clinics. If area coaches would be willing to volunteer, this could attract many children. Also, the use of membership trade-outs could be used to attract volunteers. Notice would then be given to the local high school coaches, and a small advertising campaign would be conducted to inform interested people. The clinic could be videotaped, and coaches could provide feedback on individual performance.

The Family Y needs to make people aware of the opportunities for volunteering. Recruiting volunteers is important for a nonprofit organization, which still needs to cover expenses, in order to continue the delivery of services. Donated services would help the Family Y to continue to provide services to people in the community. Perhaps reduced membership fees could be offered for an agreed-amount of work.

The Family Y is continuously looking for additional revenue resources to accomplish its mission and goals. The Family Y's fund raising efforts have improved, but not at a sufficient rate to cover the cost of its growing scholarship program. For example, $740,726 of scholarships was awarded in 2003, but less than $100,000 was raised to fund this program. The incremental cost for a membership scholarship is small for new staff does not have to be hired. However, scholarships for programs such as camps or day care have significant costs. In some cases, extra staff has to be hired or the scholarship recipient may take the place of a paying customer. Scholarships of up to 95% are given for programs. Therefore, a person can attend an all day camp for about $5 a week. Without additional contributions, the Family Y will have to face some tough decisions as it tries not to turn away people because of financial needs.

EXHIBIT 1

THE FAMILY Y, YMCA/YWCO OF THE CSRA, INC
Statements of Financial Position, December 31

ASSETS

	2003	2002	2001	2000
Current assets				
Cash and cash equivalents	$447,137	$704,609	$687,665	$623,141
Grant receivables	2,894	117,500	831	52,627
Other current assets	30,326	7,414	17,937	7,046
Total current assets	480,357	829,523	706,433	682,814
Property and equipment, net	2,745,156	2,576,570	2,491,177	2,608,131
Total assets	$3,225,513	$3,406,093	$3,197,610	$3,290,945

LIABILITIES AND NET ASSETS

	2003	2002	2001	2000
Current liabilities				
Accounts payable	$3,360	$69,775	$17,328	$56,434
Accrued payroll and withholdings	54,953	36,853	95,232	101,353
Deferred revenues		112,187	25,060	20,701
Line of credit		102,403		
Current portion of long-term debt	60,769	45,033	337,242	40,244
Total current liabilities	119,082	366,251	474,862	218,732
Long-term debt, less current portion	315,095	239,514	12,798	355,904
Total liabilities	434,177	605,765	487,660	574,636
Net assets				
Unrestricted	2,769,665	2,783,982	2,255,380	2,259,579
Temporarily restricted			434,000	434,000
Permanently restricted	21,671	16,346	20,570	22,730
Total net assets	2,791,336	2,800,328	2,709,950	2,716,309
Total liab. and net assets	$3,225,513	$3,406,093	$3,197,610	$3,290,945

EXHIBIT 2

THE FAMILY Y, YMCA/YWCO OF THE CSRA, INC
Statements of Activities, For Years Ended December 31

	2003	2002	2001	2000
UNRESTRICTED NET ASSETS				
Revenues and support				
Contributions	$99,188	$52,186	$50,968	$10,794
United Way allocations	262,582	263,982	262,368	275,848
Program fees	2,685,968	2,070,532	1,939,846	2,051,863
Membership dues	1,638,516	1,433,640	1,339,867	1,107,696
Investment income			17,692	28,881
Special events revenue				14,900
Grants	30,467	50,152	57,555	30,568
Rents	11,301	11,078	10,780	12,423
Miscellaneous	17,350	28,116	20,393	29,756
Net assets released from restrictions		434,000		2,900
Total unrestricted revenues and support	4,745,372	4,343,686	3,699,469	3,565,629
Expenses				
Program services	3,888,540	3,029,691	2,899,722	2,849,385
Management, general and fund-raising	871,149	785,393	803,946	745,181
Total expenses	4,759,689	3,815,084	3,703,668	3,594,566
Increase (decrease) in unrestricted net assets	(14,317)	528,602	(4,199)	(28,937)
TEMPORARILY RESTRICTED NET ASSETS				
Contributions				434,000
Net assets released from restrictions		(434,000)		2,900
Inc. (dec.) in temporarily restricted net assets		(434,000)		431,100
PERMANENTLY RESTRICTED NET ASSETS				
Investment earnings (loss) on restricted assets	5,325	(4,224)	(2,160)	(827)
Inc. (dec.) in permanently restricted net assets	5,325	(4,224)	(2,160)	(827)
Total increase (decrease) in net assets	(8,992)	90,378	(6,359)	401,336
Net assets at beginning of year	2,800,328	2,709,950	2,716,309	2,314,973
Net assets at end of year	$2,791,336	$2,800,328	$2,709,950	$2,716,309

EXHIBIT 3

THE FAMILY Y, YMCA/YWCO OF THE CSRA, INC.
Statements of Cash Flows, For Years Ended December 31

	2003	2002	2001	2000
Cash flows from operating activities				
Changes in net assets	$(8,992)	$90,378	$(6,359)	$401,336
Adjustments to reconcile change in net assets to net cash provided by operating activities:				
Depreciation	210,778	196,073	177,183	164,945
Decrease (increase) in grants receivable	114,606	(116,669)	51,796	(12,991)
Decrease (increase) in other current assets	(22,912)	10,523	(10,891)	-
Increase (decrease) in deferred revenues	(112,187)	87,127	4,359	(12,193)
Increase (decrease) in accounts payable and accrued liabilities	(48,315)	(5,932)	(45,227)	57,781
Net cash provided by operating activities	132,978	261,500	170,861	598,878
Cash flows from investing activities				
Purchase of property and equipment	(379,364)	(281,466)	(60,228)	(585,798)
Net cash (used in) investing activities	(379,364)	(281,466)	(60,228)	(585,798)
Cash flows from financing activities				
Increase (decrease) in borrowings	(11,086)	36,910	(46,109)	(33,971)
Net cash provided by financing activities	(11,086)	36,910	(46,109)	(33,971)
Net increase (decrease) in cash and cash equivalents	(257,472)	16,944	64,524	(20,891)
Cash and cash equivalents, beginning	704,609	687,665	623,141	644,032
Cash and cash equivalents, ending	$447,137	$704,609	$687,665	$623,141

EXHIBIT 4

THE FAMILY Y, YMCA/YWCO OF THE CSRA, INC.
Statements of Functional Expenses
For Year Ended December 31, 2003 (with comparative totals for 2002, 2001, and 2000)

	2003			TOTAL EXPENSES		
	Program Services	Mgt. and General	Total	2002	2001	2000
Salaries	$ 1,791,282	$ 447,820	$ 2,239,102	$ 1,992,507	$ 1,988,922	$ 1,955,155
Payroll Taxes	133,388	33,347	166,735	157,318	152,961	146,420
Employee Benefits	114,551	28,638	143,189	129,042	133,896	109,129
Total Comp. Exp.	2,039,221	509,805	2,549,026	2,278,867	2,275,779	2,210,704
Prof. Services	81,689	20,422	102,111	133,618	184,680	183,758
Occupancy	149,238	37,310	186,548	167,891	201,663	147,699
Interest	20,834	5,208	26,042	27,852	25,796	27,917
Supplies	299,720	15,775	315,495	281,317	284,260	323,285
Telephone	9,777	39,106	48,883	39,511	38,528	35,499
Postage	1,733	15,593	17,326	23,208	17,478	15,494
Scholarships	740,726	-	740,726	173,330	-	-
Insurance	90,251	45,126	135,377	99,822	78,862	72,381
Equip. Maintenance	105,494	26,374	131,868	131,261	43,199	52,205
Organization Dues	-	80,634	80,634	71,670	83,498	52,957
Vehicle Expenses	44,494	11,124	55,618	50,402	56,512	55,578
Travel	34,605	8,651	43,256	41,552	23,257	34,319
Advertising Exp.	83,114	4,374	87,488	75,717	41,206	57,324
Contributions	-	-	-	-	745	3,927
Other	-	-	-	-	150,538	127,053
Miscellaneous	19,022	9,491	28,513	22,993	20,484	29,521
Depreciation	168,622	42,156	210,778	196,073	177,183	164,945
Total functional expenses	$ 3,888,540	$ 871,149	$ 4,759,689	$ 3,815,084	$ 3,703,668	$ 3,594,566