

The Final Countdown: A Design for Helping Students Implement Business Strategies

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Capstone strategy courses are required in most business schools at undergraduate and graduate levels. The focus of some of these capstone courses is to increase understanding of a general manager's view of the firm, often by using an integrated approach such as strategic decision-making framework and/or case analysis. In such courses, students may be asked to integrate different corporate, business-level, and functional strategies to analyze various business issues. Business students often struggle with this comprehensive integration because the students may have focused their studies on only one or two managerial areas, limiting their knowledge to their desired discipline and/or current line/department of work. The purpose of this exercise is to leverage students' thinking skills—comprehension, synthesis, and evaluation—to improve students' overall understanding of functional responsibilities and functional implications when a company pursues a new strategy. Most importantly, we intend to increase student-material, student-student, student-teacher, and student-larger world around us interaction. The exercise is designed to be equally applicable to undergraduates, MBA students, and management trainees.

INTRODUCTION

Some business schools utilize a capstone strategy course that covers strategic decision-making framework, corporate strategies, business-level strategies, and functional strategies. By the time business students enroll in a capstone strategy class, they have taken most, if not all, of their core courses and have spent considerable time studying business. They have also been exposed to some strategic management concepts covered in core business classes. For example, organizational behavior classes give students an overview of organizational structure and introduction to management classes cover topics like the basics of constructing a firm's mission statements and SMART goals. Responsibilities of functional areas, however, are emphasized in each discipline's core classes. For example, human resource classes cover hiring and compensation whereas operations management classes cover topics such as continuous improvement and mass customization.

We have taught dozens of capstone strategy classes that use a strategic decision-making process. This process calls for evaluation of a firm's current situation as well as strategic alternatives. Scenario-based activities, including case analysis and strategic planning, can enhance the classroom environment and promote learning, understanding, interaction, engagement, and dialogue among students and instructors

(Kuh and Vesper, 1997; Pace, 1995; Pascarella and Terenzini, 1991, 2005). At the same time, these types of evaluations expose a knowledge gap; many students lack in-depth understanding of functional areas outside of their respective disciplines. In addition to having deeper understanding of content in their academic area, differences in things like students' cognitive styles and learning styles may contribute to their ability to process information. For example, different cognitive styles interact with both the structure and context of students' learning environments resulting in differences in performance (Hayes & Allinson, 1996; Messick, 1984; Riding & Cheema, 1991) and cognitive styles are connected to social interactions in the learning environment (Hayes & Allinson, 1996; Sternberg & Grigorenko, 1997).

In our scenario-based activities, we ask students to generate and evaluate strategic alternatives resulting in the fewest possible negative side effects. Marketing students may brilliantly list pros and cons of a strategic alternative from the perspective of the marketing manager but lack understanding of the IT or HR manager's functional role. Similarly, HR students may be able to eloquently expand on the role of HR but remain oblivious to the pros and cons from the perspective of operations and supply chain management. In fact, each of the functional areas should possess, and be able to develop, critical resources and capabilities that serve as competitive advantages for the company. For example, corporate resources in departments as diverse as marketing, finance, R&D, operations and logistics, human resource management, and information technology are all essential building blocks of the SWOT analysis and are often identified as an organization's key success factors. The importance of students experiencing decision-processes from functional areas outside the primary focus of their academic concentrations cannot be overstated. We designed this 60-minute experiential exercise to allow students to incorporate their pre-existing knowledge of business while actually experiencing the way top managers integrate multiple functional area responsibilities into a cohesive overall strategic decision-making process. But most importantly, we aim to increase *student-material*, *student-student*, *student-teacher*, and *student-larger world around us* interaction (Coates, 2007). Engaged students learn more, engaged students retain better, and engaged students can scaffold better (Trowler, 2010).

DETAILS OF THE EXERCISE

Learning Objectives

Bloom's (1956) Taxonomy has been used by educators for decades. The taxonomy provides a common language for both students and teachers to understand the purpose of the stated learning goals. In addition, the taxonomy helps teachers to plan and deliver instructions, to use valid assessments, and to align instructions, assessment, and learning goals (Anderson, L. W. & Krathwohl, D.R., et al., 2001). To that end, we have used Bloom's descriptors in our learning objectives.

By the end of the activity, students will be able to:

1. Describe responsibilities of functional areas (comprehension),
2. State assumptions associated with scenario-based analysis in the face of imperfect or insufficient information (comprehension & evaluation),
3. Explain how each functional area would be affected by different scenarios (synthesis),
4. As a group, defend collective decisions to accept/reject the proposed strategy based on the group's overall consensus (evaluation).

Conduct of the Exercise

Students come to class with prepared notecards, or similar study materials, summarizing the corporate strategies and business level strategies studied previously in the course, along with the responsibilities and tasks each functional area (e.g., marketing, operations, etc.) must employ to successfully implement these strategies. These topics may be identified from earlier class sessions so students can readily assemble notes for this exercise. Instructors can view example notecards in Appendix A and customize the notecards to reflect materials covered in their course. Alternatively, instructors can provide a list of topics and corresponding text page numbers from which students prepare their note cards. Primary topics of

study for this exercise include corporate level strategies, business level strategies, and the functional activities and tasks necessary for implementation of corporate and business level strategies.

Groups of 3-5 students act as the Top Management Team (TMT) of the company; each student assumes the role of director of one or two functional area. Students should assume a different functional role from their own academic concentration to experience decision-making from a diverse lens. The instructor distributes the scenario (the instructor chooses from one of the four scenarios in Appendix B) for each student to read along with the Scenario Worksheet (Appendix C) to take notes.

For approximately 30-minutes, groups discuss the scenario, implications, and implementation tasks for functional areas. Every student in the group provides pros, cons, tasks, and functional strategies from the perspective of their respective functional area. After considering all functional input, each TMT should decide if the company should or should not proceed with the corporate or business strategy discussed in the scenario. Debriefing follows the discussion and instructors can use the material provided in Appendix D to guide the debrief.

Initial Instructions to the Class

1. Form groups, preferably in which each student has different functional expertise. You are now the functional leaders (i.e. HR director, IT director, CFO, and so on) of a shoe manufacturing company, Pumidas.
2. The instructor assigns a functional area that is not your major field of study. For example, if you are a marketing major, you are not assigned the role of Marketing Director. You are responsible for that functional area.
3. Groups engage in a 30-minute discussion examining the scenario. Each functional manager debriefs their TMS explaining the pros, cons, tasks, and functional strategies from the perspective of your functional area. For example, if you are the Director of Marketing, you should be explaining your pricing and promotional strategies as well as tasks your department must undertake to go forward with the corporate or business strategy described in the scenario. As a group, decide if the company should or should not proceed with the corporate or business strategy described in the scenario.

Debriefing and Discussion

Keeping students sitting together in their focal groups during debriefing helps build camaraderie and cohesion among group members. Thus, group members should remain together during the debriefing. The instructor asks each of the functional area director in each team to state the pros, cons, tasks, and functional strategies considered for this scenario. For example, marketing directors are asked to discuss what are the pros and cons they considered as well as the important tasks and marketing strategies. Each functional area is covered in the same manner. The instructor should fill in the gaps, talk about assumptions, and point out that not all functional areas are involved to the same extent (Appendix D can be used during debriefing). When it comes to deciding if the business or corporate strategy should be implemented, each group take turns explaining their thought process or considerations, their final consensus, and rationale for accepting and/or rejecting the course of action outlined in the scenario.

Graduate classes, management training, and corporate training programs can incorporate higher order thinking skills (i.e. evaluation) by spending time researching industry information (e.g., Porter's Five Forces) and/or information about a geographic region ahead of time to develop realistic assumptions for the scenarios. Groups can be formed and scenarios can be distributed ahead of time. Class time would be spent on discussion and students would be asked to defend their assumptions during debriefing sessions. Multiple scenarios (from Appendix B) can be discussed; students can be assigned to new functional roles and a new scenario can be examined.

Preparation, Timing, and Adjustments for Smaller/Larger Classes

A key advantage of this exercise is that students assume the role of functional leader outside of their respective areas of expertise and/or academic discipline. Students are immersed in experiential learning,

creating the necessity to shift perspective and view the scenario through an entirely different lens. Students also benefit from the perspective of other student groups in the debriefing; thus, they are able to see other teams' assumptions and functional leader decisions, and learn from peer groups explaining and defending their respective decision processes. Working through guided group scenario exercises creates collaborative dynamics, forcing students to synthesize their knowledge and to achieve collective goals.

Student preparation for this exercise can occur simultaneously as required homework study worksheets outlining corporate level strategies, business level strategies, and functional tasks/activities required for implementation of these strategies. Instructor preparation includes determining which scenario or scenarios best fit the content taught in their class; setting up teams in advance, and explaining the exercise and answering questions students have prior to starting the exercise. Class time is devoted to the conduct of the exercise, discussion, and debrief. Thus, the exercise requires only moderate preparation. The time requirements for executing these activities depends upon the number of scenarios assessed and whether or not industry research is conducted ahead of time. The exercise can be concluded in shorter increments by using fewer scenarios. More time on task can be allocated by assessing additional scenarios or adding a second round of discussion for each scenario, wherein student groups discuss each other's conclusions. Table 1 provides an example of timing for the exercise using four scenarios (i.e., four single rounds of discussion).

TABLE 1
SUGGESTED TIMING FOR THE EXERCISE

Introduction	5 minutes
1-round of discussion	30 minutes
Debrief and discussion	25 minutes
Total time	60 minutes

The exercise is designed for a class size of 15-25; with optimal group sizes ranging between 3-5 students. Larger classes can be accommodated by making adjustments. For example, after creating student groups, teaching assistants can be used to segment larger classes into two or more sections and simultaneous exercises can be initiated. For only slightly larger class sizes, student groups may be larger to facilitate insight from additional functional areas, like customer service, legal, or purchasing. Adjustment in time may be necessary to accommodate larger groups. The exercise can be expended over two class periods or the instructor might pick only one scenario to discuss. Classes with fewer than 15 students can utilize smaller TMTs and students can assume roles of multiple area directors.

The exercise also allows the instructor to customize the academic focus by adding specific criteria to the discussion. For example, the instructor can focus on definitions of strategies, incorporate discussion of the value chain and related activities for a given strategic scenario, and/or integrate different material covered in the conduct of their courses. Instructors should adjust timing for contingent discussion topics.

Classes will differ in the makeup of majors or areas of academic concentration among students; the instructor might end up with an unequal number of students from each academic major/concentration in his/her class. Therefore, the instructor may have to fill in some of the gaps by guiding student discussion or assisting during the debriefing sessions (e.g. the instructor might assume the role of HR director during the discussion or debriefing).

CONCLUSION

Students gain a large portion of the knowledge for their respective major in something of a silo (e.g., finance majors take many upper-level courses in their discipline with other finance students). Moreover, they tend to perform internships or work in areas related to their respective field of study. Institutionalized norms may also limit students' ability to appreciate the importance of functional areas outside of their own.

Capstone strategy courses offer students the opportunity to assess various business situations, evaluate and recommend strategic alternatives, and discuss implementation at corporate, business, and functional levels of analysis. These courses present a perfect opportunity to expose students to experiential conditions that simulate functional leaders' decision processes during implementation phases of their strategic decision-making process. This exercise helps instructors create an environment where students are immersed in various functional decision processes, particularly outside of their area of expertise. Students learn to view business situations from their colleagues' perspectives and gain appreciation for each functional area of business by making decisions regarding implementation of strategies in other areas.

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APPENDICES

Appendix A: Example notecards a student might create or have before class discussion

Notecard 1/Side 1

Corporate Strategy: Forward Integration

Definition: taking over a function previously performed by downstream value chain partner (e.g., distributor)

Example: Auto manufacturer assumes ownership of dealerships (e.g., GM owns many of its dealerships)

Notecard 2/Side 1

Functional Area: Marketing (deals with 4Ps: Product, Place, Promotion, and Price)

Product development strategy: (market saturation, market penetration, new uses for products)

Market development strategy: (develop new products for new markets, develop new products for existing markets)

Brand extension

Pull versus push strategy

Distribution (distributors vs. mass merchandisers vs. direct sales to customers)

Skim pricing, penetration pricing, dynamic pricing

Appendix B: Possible Scenarios

For all scenarios:

Pumidas is a shoe company headquartered in Kennewick, Washington, U.S.A. All Pumidas athletic shoes are manufactured in factories offshore to leverage efficiencies in countries with strong comparative advantage in labor and manufacturing. These factories are located in Ukraine, Vietnam, and Northern Mexico. The firm enjoys a moderate domestic share of the higher-end athletic shoe market, and they engage in exporting as demand dictates.

Currently, the company is financed mostly with equity (about 60%) and 15% of its debt is in the form of short-term debt. Net working capital has been positive over the last five years. Managers want to achieve the following objectives: (1) stronger profit margins and ROE, (2) growth in all of their core markets with a focus on the Pumidas-branded shoes, (3) corporate social responsibility and citizenship by way of fair wages, responsible labor practices, and ecologically responsible production and use of limited resources, and (4) survival in a mature and highly competitive industry.

To date, the firm's center of gravity on their value chain remains focused on their ability to design high-quality athletic shoes and they engage in vertical alliances with value chain partners to produce products offshore. Product is distributed through value chain partners in traditional retail outlets. Pumidas focuses on differentiation and provides value through superior products in the athletic shoe market.

Note that each scenario below is independent. Evaluation of, and decisions for, any given scenario should not influence decisions about other scenarios. Your instructor may provide additional details for any scenario to incorporate areas of study from your class or add clarity/insight to a given managerial role.

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1. Pumidas is faced with a global market expansion opportunity. Russia has hosted both Summer and Winter Olympics and ranks second in Olympic medal count. Moreover, the FIFA World Cup increased the exposure of Pumidas and other athletic brands in the Russian market. Market size and steady increase in GDP and discretionary income make Russia an attractive market. Pumidas can expand its operations into this geographic region and gain new customers by opening two stores in Saint Petersburg, Russia.
The Europe, North Africa, and Middle East (ENAME) division currently oversees operations in 32 countries. Pumidas TMT decided to support Russian operations with existing managers in ENAME division. Over the last five years, the division has successfully entered the North African market. Managers are experienced in new-market entry and can draw on their previous experience.
The existing Ukraine production facility has reached capacity. Moreover, the current political tensions between Ukraine and Russia could interfere with the transport of goods and flow of capital between these two countries. The Vietnamese production facility has been operating for over 10 years with reliable suppliers and comparative advantages in geographic location, labor, and technological production. These advantages result in direct costs lower than that of Pumidas' other production facilities. Because of the strong military and energy ties between Vietnam and Russia, the political climate between these nations will likely remain positive for the foreseeable future.

Each of you, as area managers, should evaluate the scenario from the perspective of your functional area. What are the pros and cons of horizontally integrating by opening stores abroad? Should the firm pursue this corporate growth strategy of horizontal integration? What specific steps (tasks and strategies) would your functional area need to take if the company opened two stores in Saint Petersburg, Russia? Note your discussion, along with any assumptions made in evaluating the scenario, on the worksheet provided in Appendix C.

Assumptions:

- There are three other name-brand athletic footwear stores in Saint Petersburg, Russia.
- There are no limits on the remittance of profits by foreign entities.
- The exchange rate is volatile.
- Pumidas currently sponsors several Russian NHL players.
- The workforce in Saint Petersburg, Russia is highly educated.
- The Russian unemployment rate has been slightly above 5% for the last three years.
- The number of people who shop online has increased over the last three years. Due to the geographical location of the new stores, Pumidas will not encounter any issues regarding shipments of online orders.
- Porter's Five Forces industry analysis indicates that the athletic footwear industry is not very attractive for newcomers but moderately attractive for well-established companies. Several of the forces limit the profit making potential of the companies in this industry. Power of buyer is high because customers can choose from a number of alternative brands/models and products have very little differentiation. Well-established firms enjoy a cult-like following of their signature shoes. Rivalry is high since several large and small companies exist, industry growth rate is low, and diversity of existing companies is low. The power of suppliers is high due to number of suppliers and lack of alternative supplies. Again, most of the well-established brands either have long-term contracts with their suppliers or are in the process of purchasing suppliers to shore up their supply chains.

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2. Pumidas' cost of goods sold has been increasing over the last five years, driving down profits and negatively affecting return on equity and return on assets. Moreover, rubber suppliers have been consolidating, shifting both the balance of supplier power and the competitive landscape in the external environment. These competitive pressures have Pumidas exploring opportunities to shore up its supply chain through backward integration. Pumidas can purchase one of its rubber suppliers, APS Plastics International, which has two factories and supplies one other shoe manufacturer. Both APS facilities are located in Indonesia.

APS has been in business for 15 years, the last 10 of which have yielded the firm sizable profits. Training, technological advances, a strong safety record, and opportunity for advancement make APS an attractive workplace, and the firm enjoys low employee turnover. Even though bilateral economic relations between the U. S. and Indonesia are strong, protectionist laws and uneven application of the law are challenges to U. S. companies doing business in this region.

Since Pumidas has been conducting R&D in production with rubber and related raw materials, the company has the current capabilities to backward integrate and acquire both of the APS facilities. Taking over the functions performed by one of its suppliers can give Pumidas greater control over its supply chain and allow the company to engage in more in depth R&D activities. Advances in color durability, recycled materials, new computer applications, and custom production can strengthen Pumidas' current competencies in R&D and lead to a competitive advantage.

Each of you, as the area manager, should evaluate this acquisition from the perspective of your functional area. What are the pros and cons of purchasing the rubber supplier? Should Pumidas backward integrate and acquire the rubber manufacturer? What, specifically,

would your functional area need to do if the company acquired the rubber supplier? Note your discussion, along with any assumptions made in evaluating the scenario, on the provided worksheet (Appendix C).

Assumptions:

- Even though labor standards have been a concern in the rubber industry, APS has been operating with a strong safety record and has relatively low employee turnover.
- APS' contract with the other shoe manufacturers expires at the year's end and can be terminated without penalties.
- Aside from athletic shoe manufacturers, rubber suppliers also supply the plastic shoes, hiking, and winter-sports footwear industry sectors.
- APS does not engage in R&D; it uses the services of Shoe and Allied Trades Research Association.
- Porter's Five Forces industry analysis indicates that the rubber and plastic footwear industry is somewhat attractive and characterized by low power of substitutes and moderate power of buyers. Due to ongoing consolidation in the industry, the competition will revolve around price rather than quality. Even though sales of the athletic footwear is shrinking in the biggest market (USA), fashion and outdoor footwear sales are increasing. Moreover, R&D initiatives reveal additional uses for rubber, increasing the number of potential buyers.

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3. Pumidas faces increasing competition in domestic markets, with competitors like Nike expanding the use of expensive celebrity endorsements and ramping up both domestic and global marketing efforts. Pumidas' competitive landscape is also changing; rivalry is intensifying, the strength of both upstream and downstream value chain partnerships is diminishing, and the threat of customers switching to competitors' products is ever present. Pumidas managers are concerned that the company is exposed to higher levels of risk than many competitors because Pumidas competes primarily in their domestic market against large, entrenched incumbents in a highly competitive and mature industry segment. Pumidas' market research indicates that the sports and fitness clothing industry is growing, particularly in Asia. Growth in this market is consistent with the production of athletic shoes for competitors like Nike, where Vietnam, China, and Indonesia round out the top manufacturing nations for Pumidas. Company's TMT has expressed interest in entering Asian markets. The company can increase market share, raise profits, and diversify risk in a highly competitive industry by pursuing a corporate diversification strategy (i.e., entering the sports and fitness clothing industry sector). Pumidas can exploit existing distribution channels to sell the new products. On the other hand, Pumidas may find it difficult to leverage core competencies developed in their footwear companies (i.e., R&D, marketing, operations, supply chain, etc.) to a sports and fitness clothing firm or division. Pumidas TMT is considering the purchase of a factory in Indonesia, since their current factory in Vietnam is operating at capacity with no room for expansion in the foreseeable future. The Indonesian factory has experience producing for two of the industry's largest sportswear companies, Nike and Under Armour. The factory is operating with excess capacity and can immediately facilitate additional production.

Each of you, as an area manager, should evaluate the strategy from the perspective of your functional area. Discuss the pros and cons of the company moving into another industry sector; what are the implications of related diversification for your functional area and for the firm? Given the pros and cons and functional implications, should the company pursue related diversification? If yes, what specific tasks should you, as functional managers, engage in to successfully implement this strategy? Note your discussion, along with any

assumptions made in evaluating the scenario, on the provided worksheet (Appendix C).

Assumptions:

- Pumidas has borrowing capacity and cost of capital will be favorable.
- The apparel market is growing and the industry is still fragmented.
- Transaction costs for outsourcing exceed that of keeping production in-house.
- The factory under consideration for purchase is currently producing quality merchandise.
- The factory's current customers are satisfied with production (i.e., quality, meeting delivery deadlines, etc.).
- The factory's excess capacity is sufficient to meet Pumidas' current and immediate future production needs.
- Economies of scale and economies of scope will transfer to Pumidas if they assume ownership of a factory.
- Porter's Five Forces industry analysis indicates that the overall athletic footwear industry is somewhat attractive and characterized by intense rivalry with low to moderate power of substitutes and power of buyers. Threat of new entrants is low, with much of the power centralized on development of strong brands and scale in both production capacity and value chain partnerships. Supplier power is low due to the large number of global manufacturers, many centralized in Asian markets.
- The Porter's Five Forces analysis indicates that the sports and fitness apparel industry is very attractive with a highly fragmented sector characterized by strong and growing industry demand, and few barriers to entry. Products are differentiated on the basis of innovation and brand value. These critical factors allow firms to charge higher prices based on brand equity and consumer preferences and limit buyer defection to substitute products or competitive brands, with very little switching cost. Supplier power rests with larger, more reliable manufacturers from geographic regions with comparative advantage in labor and production capabilities, but there are many producers globally keeping downward pressure on overall costs of production.

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4. Parkour and Freerunning have grown in popularity. By 2006, Google search volume for Parkour surpassed some of the biggest action/extreme sports, including mountain biking and rock climbing. By May 2010, Google search volume for Parkour surpassed that for skateboarding, and the sport is valued on the Web at over a \$5 billion industry with 11+ million participants in the United States alone (Ford, 2014).

Pumidas has identified the target market for Parkour runners and Freerunners to resemble a mix of runners, skateboard enthusiasts, surfers, and gamers. This group of athletes tends to participate on three levels. First, a core group of highly competitive runners participate year-round and travel to sponsored events and competitions. Second, enthusiastic participants, generally living in warmer climates, are members of Parkour/Freerunner Federations and participate/compete in events year-round, or as weather permits in colder climates. Finally, those within the extremest sector constantly try to outperform each other in increasingly risky and complex technical maneuvers, posting their latest feats online for top bragging rights.

Pumida's research indicates that Parkour runners and Freerunners think Pumidas' products are too expensive and not well-tailored to the specific needs of the sport. Pumidas' managers are considering introducing a new brand to tap into this price-conscious, but potentially lucrative, Parkour/Freerunner market. This new brand will follow a focused cost-leadership strategy. Production, operational, and administrative efficiencies for this new brand are paramount, but Pumidas' existing factories face constraints. The factory in Vietnam is operating at capacity with no room for expansion, the factory in Ukraine is

located in the middle of a politically unstable region, and employees at the factory in northern Mexico have recently faced drug cartel violence, which has significantly slowed production and affected quality. Furthermore, transaction costs for resource inputs at the Mexico and Ukraine production facilities have risen over time and current value chain partners have been unsuccessful in managing these costs.

Each of you, as an area manager, should evaluate the scenario from the perspective of your functional area. What are pros and cons of adding a new line of shoes to appeal to cost-conscious Freerunner consumers? Should Pumidas approve this focused cost leadership strategy? If yes, what specific tasks should you, as functional area managers, complete to successfully implement this strategy? Note your discussion, along with any assumptions made in evaluating the scenario, on the provided worksheet (Appendix C).

Assumptions:

- Parkour running and Freerunning will continue to grow in popularity.
- Parkour running and Freerunning are generally less affected by economic recession than other sports.
- Pumidas can produce a shoe of sufficient quality at a price point the Parkour/Freerunner target market is willing to pay if costs of resource inputs are controlled.
- Porter's Five Forces industry analysis indicates that the overall athletic footwear industry is somewhat attractive and characterized by intense rivalry with low to moderate power of substitutes and power of buyers. Threat of new entrants is low, with much of the power centralized on development of strong brands and scale in both production capacity and value chain partnerships. Supplier power is low due to the large number of global manufacturers, many centralized in Asian markets.

Appendix C: Scenario Worksheet

Instructions: Groups will engage in a 30-minute discussion examining the implementation of the scenario. Circle the functional area for which you are responsible. Each functional manager should list the pros and cons from the perspective of their functional area for the scenario distributed. Information in the scenario is imperfect, incomplete, or insufficient, as is sometimes the case in real-life managerial decision-making; provide assumptions you might make. Managers should then list specific tasks and/or strategies required in order to successfully implement the corporate-level or business-level strategy outlined in the scenario. Finally, as the firm’s TMT, you must decide whether to accept or reject the corporate/ business strategy provided in the scenario. Provide the rationale for your TMT’s decision.

Functional Area:	Pros	Cons	Tasks/Strategies
Management			
Marketing			
Operations/Supply			
Finance			
HR			
R&D			
IT			
Assumptions:			
Decision to implement the strategy discussed in the scenario: Accept / Reject (Explain)			

Appendix D: Example solution for the lecturette used during the debriefing.

Note that the list of functional areas addressed below is not exhaustive. Instructors are encouraged to use this solution as a starting point/template for discussion of scenarios and customize accordingly for each scenario and their specific course content.

Scenario notes:	Pumidas’ has decided to engage in a corporate diversification strategy by purchasing a factory producing sports and fitness clothing. Assumptions underscoring Pumidas’ decision to purchase the factory in Indonesia are listed under the respective section below. Since Pumidas’ Vietnam factory is currently producing footwear at capacity with no room for expansion, the firm will purchase an existing production facility with excess capacity and experience in sports and fitness clothing manufacturing. This factory is currently manufacturing clothing lines for Under Armour and Nike. Benefits of purchasing this facility include entering a new industry with experience and scale that will drive production efficiencies. Moreover, the factory is producing for well-established companies, each with global brands. Drawbacks include having capacity committed to industry competitors; if Pumidas requires committed capacity, Pumidas will have to violate production contracts once they own the factory, potentially creating ill will among large and powerful competitors.
Finance	Primary assumptions for this functional area are that global financial markets, along with the company’s financial position, remain constant and there is sufficient borrowing capacity at both the firm-level and within capital markets at favorable costs of capital. Investing in a factory requires capital budgeting. The finance director must analyze and rank possible investments. Hurdle rates for each investment must be calculated and the best possible investment identified. Costs and benefits of debt vs. equity financing must be examined and the appropriate mix of debt-based and equity-based financing must be arranged. Finally, interest rates, exchange rates, and international banking arrangements must be evaluated and established to facilitate the conduct of business in Indonesia.
Management	The primary assumption associated with this functional discussion is that there is a fundamental difference between the production activities of footwear vs. sports and fitness clothing and that there are no restrictions on foreign ownership of domestic production facilities. Given this assumption, we recommend that the TMT conduct this operation as a separate division of Pumidas, sharing common supporting value chain activities. A cross-functional team will be formed to head up the project, formally reporting to the TMT of Pumidas on a bi-monthly basis to ensure successful acquisition of the firm. The Indonesian factory manager will come to the U.S. headquarters in Washington for a two-week cultural integration training program. The expat manager hired to oversee the plant in Indonesia will then begin working with Pumidas marketing, R&D, and the Indonesia plant manager to tool-up for production of the new clothing line.
Marketing	Primary assumptions associated with marketing are that adding a line of sports and fitness clothing will result in increased sales and new customers for Pumidas. Moreover, sports and fitness clothing will complement footwear currently produced by the firm. Finally, brand awareness associated with Pumidas will transfer to sports and fitness clothing. Pumidas’ market research shows that the sports and fitness clothing market is growing, with Asia driving the growth in this segment. Due to proximity of the Indonesian factory, Pumida should focus on first entering the largest Asian markets alongside its focal domestic market. Entry into the Asian markets will mark Pumidas’ first major entry into international markets, beyond exporting activities. Once the clothing line is launched, product development strategies, like

	<p>cross-selling with Pumidas footwear, will complement both branded clothing and athletic footwear. Marketing research focusing on product, place, promotion, and price for the apparel must be tailored to regional markets. Finally, apparel should be sold in Pumidas stores, as well as online, and athletic/sporting events could be used to introduce the product line, since brand awareness is not an issue.</p>
Operations/ Supply	<p>Primary assumptions include leveraging the comparative advantage Indonesia has in labor, textile production, and location (i.e., proximity to major fashion markets in Asia). Also, there is sufficient capacity to maintain existing production obligations and fulfill any new and future demand from Pumidas. Finally, transaction costs for outsourcing exceed that of keeping production in house. Once R&D and clothing designs are complete, production process configurations, such as mass-production, and continuous systems to produce several specialty products, should be established. Production capabilities developed while producing for competitors (i.e., Under Armour and Nike) have created economies of scale and economies of scope which should be exploited as much as possible to drive production efficiencies that will translate to cost savings. Quality production is assumed, given the factory's current customers. Working closely with the IT department to manage the firm's supply chain (from sourcing raw materials, to manufacturing products, to shipping and distributing the goods, to delivering them to the customers) will continue to drive efficiencies and costs to their most competitive point.</p>
HR	<p>Assumptions for HR are that Indonesia will not have any restrictions on expat managers working full time in their factories and that the region is politically stable. Apparel and footwear directors will be hired from successful industry competitors, with expertise in Asian markets. Appropriate job descriptions, compensation, and benefit packages for both factory and managerial candidates will be created. Training for managers will occur at the home office and Indonesian factory (2-weeks each), along with a regional sweep of the sales region with Pumidas TMT to meet with distributors and suppliers.</p> <p>Low-skilled line employees will be hired from the surrounding community and training programs will be put in place to ensure quality production. Team mentoring will be used to continuously upgrade skills and identify workers for promotions to foster a sense of community among line employees. Job rotation and cross-training techniques will be employed to keep employees from burning out and maintaining a well-trained workforce. The company will maintain an ombudsperson office to work with employees to address grievances, increase satisfaction, and address union relations. Medium-skilled and highly-skilled educated workers will be hired to fill positions as shift leaders, designers, and middle managers.</p>
R&D	<p>Assumptions for R&D include the factory having access to innovative technologies and necessary infrastructure to utilize current and future technological innovations. Moreover, being a follower in technological development will not limit access to future technological advances. To implement this strategy, the R&D director must work closely with the operations manager to integrate production automation to continue to push the value creation frontier toward maximum cost efficiency. Continuous product innovation requires adequate inputs. Thus, R&D managers must work closely with purchasing and operations managers to maintain JIT resource allocation to drive resource sufficiency. This new line of business would initially enter the market as a technological follower.</p>

IT	Assumptions for IT include sufficient infrastructure at the factory site for all IT needs. The new factory must be equipped with data collection and management tools to facilitate the flow of information among value chain partners. Inventory tracking, from the supplier throughout the production and distribution processes, is vital. In addition, orders, shipments, SOPs, and customer communications must be maintained and continuously updated. The factory will require a sophisticated IT department and IT professionals should be recruited from the Universities with advanced IT degrees. The IT manager will work closely with HR department to ensure job descriptions, recruitment materials, and compensation/benefit packages are appropriate.
Accept/Reject this solution WHY?	If hurdle rates are favorable, this strategy should be accepted. Assuming the market is fragmented and still growing, brand recognition should help Pumidas generate customer demand and a firm well-positioned to grow in a favorable competitive landscape can generate strong returns. All functional areas of the business will be affected by the strategy, but marketing and operations/supply will be most affected.