

Genesco Business Review

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S. H. O. E.

“Sierra Hiking Outfitters Enterprises”

The 8th annual ICR X-Change Conference in Naples Florida was buzzing with excitement this year. Genesco had just been identified by Forbes Magazine as one of the Best Big Companies in America. Hal Pennington, Genesco’s fabled CEO had been invited to present the key-note address this year. The audience was awe-struck as Hal reviewed the metamorphosis Genesco had experienced over the past few years. What a journey! And this past year was the best yet. Record sales revenues and record profits! What a testament to transformation. The investment community paid particular attention to Hal’s comments about what to expect going forward. In short, the future looks pretty bright for Genesco.

One of the other speakers in attendance was Jack Thomas, president and founder of Sierra Hiking Outfitters. Jack had dropped out of college in 1990 to work full time as a mountain hiking guide in Bishop, California. Hiking and mountain climbing was really in its infancy back then, but popularity was growing steadily. A common problem many customers shared with Jack was finding the right footwear for hiking and moderated mountain climbing. Jack listened intently to the customers, and came up with a design for a new multi-purpose boot that would prove to be the industry benchmark in just a few years. It was a great success story.

Just when Jack thought he was set for life, the world began to shrink, and globalization threw out a huge challenge to the single-purpose shoe enterprise. He could probably tough it out for a few more years, but he soon realized his company needed to be part of a much larger firm with a global presence. Jack seized the opportunity to converse with Hal after the conference in Naples.

“Great presentation, Hal!” Jack extended his hand in congratulatory fashion after the conference ended. “The whole industry is very impressed with what you guys have done with Genesco. What’s next?” Hal was very gracious to Jack and said “Genesco will continue to look for opportunities to develop its presence globally by focusing on our

strategic vision to **“Support initiatives and organizations that strive to improve the overall quality of life in the communities in which we work and live”**.

After a few more minutes of pleasant exchange, Jack finally popped the question. “Would Genesco have any interest in acquiring our firm? It could be a great compliment to your Rawles Lace-To-Toe Boot line. With your envious networks, the sky could be the limit for this niche product.” Hal was curious about why Jack would want to sell in the first place. Jack reiterated the global challenges facing his small enterprise, and saw a better opportunity by leveraging up with a larger organization. After several more minutes of discussion, Hal said he would get back to Jack in a few weeks.

When Hal returned to Nashville, he sat down with Jim Gulmi, Genesco’s talented CFO, and shared the offer Jack had made the week before in Naples. Jim called Jack and said Genesco would be interested in taking the dialog to the next level of due diligence. After several weeks of negotiations, Genesco and Sierra struck up a deal. Genesco was now the new owners of Sierra Hiking Outfitters.

Jim, and the leadership team, decided to keep Sierra as an autonomous entity for a while before rolling it up into the Genesco family. This would give us a chance to iron out all of the bugs and make the necessary adjustments. The next important issue was to select a management team that could bring Sierra to the next level. But, just who should be on this team?

Angela Dunn was called in for direction. She identified a team within Genesco that could really do an outstanding job with running this enterprise. This team will be given the responsibility for building this business and turning it into the successful enterprise that good stewardship required.

Hal, Jim, Angela and our executive leadership team have done their part. Now, it’s your turn. **You** are one of those hand-selected leaders that will develop and execute the strategies that will guide this enterprise to success. How often haven’t you heard someone say “Well if I were in charge, I would _ _ _”? Well, you are now in charge. You will have an opportunity to develop some ideas and convert them into strategies at the conclusion of this story.

S. H. O. E.

The company is located in Bishop, California, on the Western edge of the Sierra Nevada Mountain Range. The work force is very stable and extremely dependable. This is a non-union shop, there are no labor issues, and turn-over is virtually non-existent. There are 30 production workers, about 10 per shift, operating three shifts, for five days a week. The community is not favorably disposed to running on Saturday, and certainly not on Sunday.

The product is a very rugged combination hiking and climbing boot. There is only one model, and comes in all the appropriate sizes. Ironically, the product has become very popular in recent years with college students who have chosen to wear the boots for everyday footwear.

The market has been exclusively domestic. The company has a small dealer network primarily in mountain areas, and several specialty retailers located in college towns. This segment of the market is growing and could present significant opportunities going forward. There is also a growing on-line portion of the business. In short, the distribution of this product has been quite traditional. There is no significant seasonal variation in sales – demand is consistent all year long.

A typical quarterly production and sales level is around 24,000 units. This breaks down to: about 8,000 units per month; 2,000 units per week; 400 units a day; 133 units per eight hour shift; 16 units per hour. Because of the rigid quality standards, this is a slow process.

The wholesale net price “out-the-door” has been averaging around \$40 per unit. Your management team can increase, decrease or maintain the current wholesale price per unit, depending on the strategy you develop. Further information will be provided at the workshop itself.

The Market

The market potential for hiking – climbing boots seems to be nearly limitless. There are approximately 12 million students attending colleges across America. While they will not all want the Sierra Boot, the popularity is gaining. Coupled with the target market of hikers and climbers, the total market is estimated at 1 million units per year. The current sales and production level for S. H. O. E. is 100,000 units annually. This represents only

a 10% market share for S. H. O. E. The potential is huge! Information on your competitors in this industry will be provided at the workshop itself.

Financial Data

The most recent quarterly financials indicate annualized sales of just under 100,000 units; \$3.6 million in sales volume; operating profit of \$480,000; net profit after tax of \$240,000. S. H. O. E. is currently paying out around 12% in stockholder dividends or approximately \$28,000 and retaining the balance of the earnings, approximately \$212,000 for equity financing of future operations and growth.

Inventory turnover is currently just over one week, or about 45 times per year. Plant capacity utilization is nearly 100%. Production cost per unit is running around \$23. We are selling our product for around \$40 each to our customers.

The balance sheet is very solid. With just over \$1 million of total assets, debt is only \$300,000 or 30%, while total equity is \$786,000 or 70%. Most firms operate with just the opposite ratio of 70% debt to 30% equity. Even the most conservative banking guidelines call for a 50/50 ratio. In short, S. H. O. E. is in great shape financially, but could certainly generate far more sales and profitability.

Refer to exhibit 1 for a more detailed quarterly financial statement. Even though this is just one quarter, the annualized statement will be very consistent. In other words, there is relatively little seasonal variation in sales volume from one quarter to the next.

This concludes the pre-workshop introduction. Considerably more information will be provided at the onset of the workshop. Additional explanation will occur throughout the learning experience.

ASSIGNMENT

(Consider the following in order to discuss with your fellow leadership team members.)

1. Develop a strategy for S. H. O. E. that will improve its success over the next three years. You will be held accountable for the following corporate goals:

- Grow revenues consistent with Genesco expectations
- Grow profitability to a level consistent with Genesco performance standards
- Developing our employees; Human Performance
- Developing our community relations
- Rewarding our shareholders
- Live our Values

Develop several assumptions in preparing this strategy, including:

- Economic conditions
- Competition
- Political environment
- Product substitutes
- Other??

2. Establish several tactics that you would recommend implementing in the daily operation of S. H. O. E. that will enable it to successfully accomplish this strategy.
3. Develop a statement of corporate values that are required to lay the foundation for this strategy. You may adopt the Genesco values if you wish.
4. Condense your strategy, tactics, and values into a mission, vision, and values statement.

NOTE: Use the blank forms (exhibit 2 & 3) provided for this assignment.

Exhibit 1
Quarter "0" Financials (000's)

INCOME AND EXPENSE ANALYSIS

Sales	23,062 units @ \$40	\$ 922
Expenses:		
Cost of Goods Sold		542
Production Engineering		10
Inventory Expense		2
Marketing		90
Research & Development		10
Market Research		5
Other Expenses		0
Interest Expense		12
Overhead / Fixed		100
Depreciation		<u>31</u>
Total Expense		<u>802</u>
Profit Before Tax		120
Income Tax		<u>60</u>
Net Profit After Tax		60
Dividends Paid		<u>7</u>
Retained Earnings		53

BALANCE SHEET

Cash	\$ 40
Inventory	46
Plant & Equipment	1,000
Other Assets	<u>0</u>
Total Assets	\$ 1,086
Loans Payable	300
Other Liabilities	0
Common Stock	700
Retained Earnings	<u>86</u>
Total Equities	\$ 1,086

CASH FLOW ANALYSIS

Inflow:		Outflow:	
Sales	\$ 922	Expenses – Depreciation	\$ 771
Bank Loan	0	Taxes & Dividends	67
Stock Sold	0	Goods Into / From Inventory	46
		Bank Loan Repayment	0
		Plant Addition	<u>31</u>
Total Cash Inflow	<u>\$ 922</u>	Total Cash Outflow	<u>\$ 915</u>
Net Cash Flow	\$ 7		

OTHER INFORMATION

Production Cost Per Unit	\$ 23.52	Current Price of Common Stock	\$ 108
Plant Capacity Next Quarter	25,000	Total Shares of Stock Issued	7,000
Ending Inventory in Units	1,938	Total Shares Authorized	12,000
Business Index This Quarter	1.00	Business Index Next Quarter	1.01
Market Research:			

Prices: \$40, \$40, \$40
Average Marketing Budget: \$90,000
Average R & D Budget: \$10,000
Average Engineering Budget: \$10,000

Exhibit 2

Strategy and Tactics

Strategy:

Tactics:

Exhibit 3

Mission, Vision, and Values

Mission:

Vision:

Values: