Response to Case Narrative

Read carefully the following narrative that describes a hypothetical business scenario and answer the questions at the end based on your analysis of the situation. This exercise is intended to be a measure of your writing ability, analytical skills, and facility with numeric data, and does not presuppose knowledge of business topics beyond an ordinary (everyman's) understanding. It is intended to supplement our picture of you as a prospective student beyond the credentials that you have already submitted.

Tupelo's Dilemma[1]

Philip Tupelo was glad that he had accepted the invitation to speak to the members of the marketing club at his alma mater, The University of Scranton. His talk, delivered in the shiny new auditorium of the Arthur J. Kania School of Management, had gone rather well, he thought. After some initial apprehension—sweaty palms, butterflies in the stomach, and all that—he had felt at ease fielding questions from the large audience comprised mostly of business students along with a smattering of faculty. Loosening his tie, he was relaxed and looked forward to the dinner that was to follow.

At Cooper's Seafood Restaurant, the iconic landmark in downtown Scranton, Phil was escorted to his table along with Maria Wesolowski, president of the marketing club, and Dr. Andrew Smith, his former and favorite professor in the Kania School. On being seated, Phil glanced around at the other diners and was surprised to see Father Sheldon George at a nearby table. Fr. George had been Phil's former philosophy teacher and mentor, but had left for seminary in New Mexico in the middle of Phil's junior year. Phil hadn't seen Fr. George since that time, and he was delighted at this unexpected opportunity to meet up again. Fr. George had been planning on a quiet dinner by himself, but was more than happy to join the group. A waitress arrived to take orders and soon, with a steaming pot of lobster bisque on the table, the conversation became animated. Brimming with pride, Phil was eager to update the others about his new job in the Big City.

Phil's Story

Phil Tupelo graduated *magna cum laude* from the Kania School in 2006 with a major in marketing and a minor in philosophy, and was recruited by **ElectronicCity**, a "big-box" retail chain of 160 electronics and appliances stores scattered all over the East Coast and some Southern states. He had made a strong impression on **ElectronicCity** executives during a summer internship at the end of his junior year, and was being fast-tracked to a management position. As a part of the training process, he was to spend six months working as a floor

[1] The original version of this case was written by Dr. Satya Prasad Chattopadhyay. All characters, numerical figures, and statistics quoted are fictitious. **ElectronicCity** is a fictional company—any resemblance to any real entity is unintentional. (Version: 2.3)

salesperson at the company's flagship store in New York City. Phil began his work there on New Year's Day, 2007.

ElectronicCity is among just a handful of national chains selling similar branded products ranging from kitchen and household appliances to consumer electronics and computers. The focus of the merchandising strategy for the past year has been on high-end, flat-screen, high-definition television (HDTV) sets. There is intense competition for market share in the HDTV category among competing national chains resulting in very low margins across the board. In light of this situation, a decision was made by the vice president of marketing to market aggressively a *warranty extension contract* to all buyers of HDTVs. (As its name implies, such a contract extends product protection over and beyond the manufacturer's maximum coverage period.) Historically, warranty extensions have yielded high gross margins and have quickly become a major source of profitability for retail chains, and store managers are often under pressure to push them. At **ElectronicCity**, the bar for success in warranty sales was set high: an ambitious 75% of all HDTV units sold.

The HDTV brands carried by **ElectronicCity** were all from world-class electronics manufacturers. Given their track record, the marketing division has determined that these brands have an overall failure rate of about 4%. Moreover, most of these failures (approximately 95%) are due to minor setup or programming errors that could be resolved rather quickly (on average, 1.5 hours per incident) by technicians employed at the store. The average labor cost for store technicians, including all overheads, is \$100/hr. For more serious failures, third-party repair vendors are available on a contract basis. **ElectronicCity** estimates that such types of failures cost, on average, about \$800 per incident, including the cost of any replacement parts.

The company's sales records show a volume of \$710.7 million in revenues from sales of 320,000 HDTV units sold nationally in 2006. The price for a warranty extension is a flat rate of 8% of the sale price. Salespeople are trained to push the warranties at the point of completing a sale and earn a 10% commission on their respective monthly total of warranties sold. With each HDTV customer, salespeople are required to go through a scripted presentation that mentioned, at least three times, the complexity of electronic equipment, the high cost of repair, and the gap between manufacturers' warranty cover and expected service life of the appliance. Only at the conclusion of this aggressive pitch were they to offer the customer the warranty extension.

If a supervisor determined that the scripted sales pitch was not delivered in its entirety, or that the salesperson had not offered the warranty on an eligible sale, it would result in a recorded exception that would be written up as a demerit. Preliminary research showed that buyers who received the canned presentation at the point of sale were *five times more likely* to buy the extended warranty than those who were not exposed to it, and management was forceful in its implementation of this practice.

Phil was able to see the effectiveness of this strategy right away. He saw how easy it was to convince certain customers of the importance of buying warranty protection on what may well be one of the most expensive items in their homes. Only a month into the job, he received a check for \$360.40 as his incentive pay for selling warranty extensions during the period. He was impressed by the success of this marketing strategy which appeared to tie together concepts he had learned back in college: pricing and promotion from a marketing class, and probabilities and failure rates from a statistics class. Being an eager learner and wanting to understand retail customers better, he soon found himself playing a little game at every opportunity: He would try to guess ahead of time whether a customer was going to buy the extended warranty or not. Guess what! His marketing professor was right after all. He could understand his customers well enough to predict their decision. He was batting 0.80 within a week, and at times could accurately predict the customer's decision more than ten times in a row! He was proud of his ability to link his classroom knowledge to his professional environment.

Dinner Table Reactions

"Wow! That is so cool," Maria couldn't help thinking over and over. She secretly hoped that the day would not be too far off when she would be able to recount her own story of professional success in a similar setting. Phil just beamed.

"So, Phil, did you notice any pattern in the profile of the customers who bought the extended warranty?" Dr. Smith asked as he crumbled more crackers into soup. *"As a matter of fact, I did,"* replied Phil. *"It always seemed like the blue-collar types… single moms… older males in overalls, plaids… these are the ones that end up buying the warranty. Aged grandpas and grandmas… they were a sure bet too."*

Dr. Smith peered over his horn-rimmed glasses. *"What about the customers that could not be convinced? Who were they?"* Phil paused for a moment before replying. *"It was always the younger customers and professionals that declined."*

"Why do you think that is the case?" Dr. Smith persisted.

"I guess they are educated and savvy enough to figure out that the risk of needing costly repairs beyond the manufacturer's warranty was way too low to justify buying the extended warranty," answered Phil. *"Heck! I would never buy that extended warranty myself. Ever."* he added.

"Did any of this ever bother you?" Fr. George asked as he looked directly into Phil's eyes. The ruddy, jolly face with its twinkling green eyes and furrowed brow was the same as it always had been. Phil wondered why, suddenly, he began to feel just a little uncomfortable.

Questions. *Please keep your answers brief and addressed directly to the questions posed.*

Part I (Your responses may range from a few sentences to a paragraph for each question)

1. What type of competitive environment does **ElectronicCity** face? Why do you say so?

2. What can you say about the management style of the VP of Marketing in the case? Is it appropriate? Why, or why not?

3. Define any ethical issue that you perceive in this scenario.

4. Should Phil become more adept at predicting which of his customers will likely buy the warranty—say he goes from 80% accuracy to 90% accuracy—will this impact his incentive pay? Explain your answer.

5. How do the comments/reactions of each of these people shape Phil's thinking regarding his job?
   a. *Maria*
   b. *Dr. Smith*
   c. *Fr. George*

6. What will Phil do when he returns to work next week? Why do you think so?

Part II (You should show work to support your numeric answers)

1. What is the dollar amount of warranty extensions that Phil sold in January 2007?

2. Estimate the dollar amount of HDTV sales that he generated in the same month, assuming that he was able to sell warranty extensions in roughly 55% of eligible transactions?

3. Suppose that the number of HDTV sets sold in 2007 is projected to be 4% more than the number sold in 2006. How much profit can **ElectronicCity** expect per-store in 2007 from its warranty extension business? (Assume that the average selling price of an HDTV set in 2007 remains the same as in 2006.)