TOURO ACCOUNTING & BUSINESS JOURNAL

FALL 2014 EDITION

LANDER COLLEGE
OF ARTS AND SCIENCES
AT TOURO IN FLATBUSH

A Division of Touro College

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Inside This Issue…

Journal Introduction & Welcome Message

Dean Bressler
Undergraduate School of Business

This edition of the TAB Journal is especially auspicious because it reflects the expansion of the publication into two editions per year. This, in turn, was made possible by the enthusiastic reception with which these volumes have been received by students, faculty and the academic population at large.

The papers contained in this edition are the product of a strict refereed process. The purview of the topics covered is a mirror of the richness and diversity of the fields and subfields of Business studies. Student papers range from finance and economics to marketing, management, and strategy while being informed by accounting and auditing. Aside from reviews of literature and demonstration of statistical and computer skills, original insights, and perceptions are presented.

On behalf of Chairperson Dr. Michael Szenberg and the Business School leadership, I want to commend the faculty for stimulating our students to apply what they learned from class lectures and textbook assignments to develop their own ideas, applications and recommendations. Specifically special commendations should go to Professors Rovt, Teich, Tendler, and Bigel who have all encouraged their students to submit papers over the years.

Above all, we are indebted to Dr. Julita Haber for her painstaking review of every line of every paper and for the revisions she made. She was the final arbiter and judge of each manuscript. Finally, there are no words to adequately thank Esther Widroff, my Administrative Assistant, for coordinating every single detail of the editing process, creating the cover design, and for general and specific overseeing of all aspects of the journal.

This edition is also distinguished by faculty contributions of learned papers. The scholarly tone and range of topics of the papers authored by Professors Eliezer Goldberg and Kenneth Dreifus are representative of the in-depth analysis of our faculty and that the transmission of knowledge to their students goes well beyond the printed textbooks. We are grateful to them for inaugurating the new section “Faculty Contributions.”

Above all, this student journal is a reflection of dedication to learning, academic development and the striving to excellence. These will be rewarded by future academic recognition and successful careers. Students have demonstrated that they are able to conduct research and inquiry and extrapolate principles of business from course material and apple them to the real world.

We eagerly await their future work.

Best Student Paper

Presented by the TAB Editorial Staff

The TAB Editorial Board and Dean Bressler have evaluated all submissions according to the content depth, analysis, research, practical implication, paper organization, structure, format, style, and grammatical rigor.

Based on the overall ratings, the board decided to award Ezra Karakowsky for the manuscript titled “Planning for a Blackberry Turnaround Through Brand Repositioning”. Ezra will receive a certificate at graduation acknowledging this prestigious academic achievement.

We hope to nominate many more worthwhile manuscripts in the upcoming editions of TAB. All Touro College students are encouraged to follow this student’s footsteps by writing and conducting research to produce high quality papers for future submissions by their faculty. Congratulations again to Ezra!

The Effects of Brand Loyalty

Tamar Lipton

Quality, price, availability, and customer service all are factors that influence a consumer's choice when buying a product. Another major influence is brand loyalty, which is the tendency of consumers to continue buying the same brand of goods rather than competing brands. It is when consumers become committed specifically to a particular brand and make repeat purchases (Schiffman, Kanuk, & Wisenblit, 2010).

Brand loyalty consists of two components: attitude and behavior. A customer's attitude, the feelings of commitment to a brand, influences the frequency and consistency of buying a given brand. Additionally, it is the totality of the customer experience that shifts a satisfied customer into a loyal fan, and loyalty needs to be nurtured.

Real value creates trust which drives loyalty and devotion. Apple Inc., for example, had customer loyalty bordering on fanaticism (the goal of many companies). Apple did not have loyal customers just because of the white and shiny devices they offered, rather because these white and shiny devices became the symbol of what was trendy and chic. However, Apple failed to realize that with scale you lose exclusivity as everyone was able to get Apple products rather than an exclusive select few. Creating an unforgettable, personal connection with the customer is the key to brand loyalty today (Tay, 2013). Although not simple, it is critical to make every customer's experience personal and memorable.

Starbucks is another inspiring example of the power of brand loyalty. Starbucks' customers do not return only for coffee, they run back every day because of the experience they enjoy. The vital contributor to brand loyalty is the everlasting connection with the customer (Tay, 2013).

Jeannie Walters, a customer experience investigator, understands that the small moments with your customers can make or break a customer experience. She terms this idea "micro-interactions". Most corporations do not appreciate this piece of advice. They complain that they do not have the resources, the time or money, to pay attention to each individual need. Starbucks is successful because in their quest for customer satisfaction; they achieve these "micro-interactions" by creating and innovating new ways to reach each customer. They are industrious, and are constantly evolving. Despite their massive size, Starbucks patiently cares for customers. Customers return because of the way they were treated more than for the coffee they are consuming. Each customer feels special. Starbucks has about 18,000 stores worldwide, yet they are still able to create incredible "micro-interactions" with customers on a transactional basis (Tay, 2013).

Just last year, a man was having a crazy and exhausting summer. One particular day, prepping himself for a long week, he decided to upsize his Starbucks coffee to a "grande". Noticing his order the barista noted on his cup: "Hope your day gets better". And so an exchange began between the barista and the man via cup messages. Back and forth they went, and the man unconsciously became a die-hard fan of Starbucks. If Starbucks can do it, so can any other company or business (Tay, 2013). It all starts with the decision to intentionally reach out to customers, one at a time.

Loyalty stimulates commitment. In branding, this is manifest in a commitment to repurchase or the continuance of using a particular brand by repeatedly buying a product or service from a particular brand. American Marketing Association defines brand loyalty as "the situation in which a

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consumer generally buys the same manufacturer originated product or service repeatedly over time rather than buying from multiple suppliers within the same category" or "the degree to which a consumer consistently purchases the same brand within a product class" (Boundless, 2014).

Repurchase of a brand occurs when brand loyalty exists and when the customer is committed to the brand and has a high relative attitude towards it ("Importance of Brand Image and Brand Loyalty", 2014). For example, if Person A has brand loyalty for Company X, she will purchase Company X's products even if company Y's products are cheaper and are of higher quality. Loyal customers are confident in the company they are devoted to and do not scrutinize the product they are buying, because they trust the brand.

This paper will focus on the importance and the process of nurturing a loyal customer. In addition, it will illustrate how this art evolved and how it is developing.

Background Statement

The objective of acquiring brand loyalty among companies emerges when they realize that having the best product or customer service does not directly translate into the higher sales. Rather the total customer experience and keeping consistency will help them succeed (Arons, 2010).

Seventy years ago, it only required a good quality product to yield success in any business (Arons, 2010). In the 1950s, consumer packaged goods companies like Procter and Gamble, General Foods, and Unilever developed brand management when they noticed the quality level of their competitors' products improved and threatened their market dominance. The brand manager is responsible for giving a product an identity, distinguishing it from the competition. This requires an understanding of the target customer and product positioning (Arons).

In the following decade, brands like Tide, Kraft, and Lipton each excelled in marketing activities, which set the benchmark for brands today. They developed the idea, that "winning" was determined by understanding the consumer better than your competitors and most importantly, getting the total "brand mix" right. The brand mix is the packaging, promotion, and the advertising, all of which contribute to the desired perception of value. Using carefully worded positioning statements; the company could charge more for their products (Arons, 2010).

Today, we live in a world that offers a plethora of choices. Nevertheless, the early category leaders are often still the leading companies today benefitting from their foundational brands. These brands have survived because of marketing efforts focused on brand loyalty. While others failed, they augmented their original strength with loyalty branding (Arons, 2010).

The current market looks very different from just 20 years ago. While in recent decades marketing has helped brands expand their businesses, the present reality is shifting their perspective. The vast variety of product options has created a very competitive environment. Branded offerings are overwhelming, confusing to consumers, and causing a big headache for leaders of traditional brands. The average Western consumer is exposed to 3,000 brand messages a day. It is a lot more difficult for consumers and market leaders to sift through all the clutter (Arons, 2010).

In addition, the advent of technology has drastically altered the manner in which consumers determine which products they chose. Consumer Report, similar magazines, and websites have been educating consumers; therefore companies can no longer rely solely on their perceived marketing skills. They are now being forced to deliver real value. Customer feedback systems, such as Feefo, or recommendations sites, such as Yelp, pose a challenge to internal marketing campaigns. Today company's branding is shaped more by consumers than a company's own perception. This culture shifts a company's efforts more into product development and innovation rather than marketing. This paper will focus on this challenge and potential solutions to this shifting mindset.

Literature Review

The literature review includes three selected articles in support of the discussion on brand management.

Article 1

In addition to the Internet's powerful effect on communication data and information flows, it has the ability to influence product design and development. According to Smith and Rupp (2003) customer advantage and information transfer are the key benefits of the Internet revolution. A firm must continuously measure and improve the performance criteria of cost, quality, delivery, service, flexibility, and reliability of their products. These product features are generally determined during the design.

E-commerce should concern all information technology researchers, since to compete successfully in a global economy the product design stage should be influenced by the information learned from the Internet. Therefore the Internet should be considered vital for all businesses' manufacturing strategy, not only limited to those in the e-commerce environment. The study found that online consumer decision-making would play a major role in the direction of brick and mortar businesses. Marketers must understand online consumers in order to find ways to keep all customers, even those who do not use the Internet.

Article 2

Apart from the development of a quality product it is important to determine a system to motivate customers to buy it at an ideal price. A study analyzed the extent to which consumer anticipation of future promotions influences purchase behavior (Gonul & Srinivasan, 1996). The researchers developed a structural model of households who budget to minimize expenses over a limited period of time. The model included expectations of future promotions to enter the purchase decision. Some households chose to purchase a product because of a coupon currently offered even though they did not need the product, and others held out in anticipation of a greater discount at a future date. The objective was to examine how the average consumer calculates "the right price".

The study aimed to discover whether consumers take future discounted costs into account when making current purchase decisions. In their research, Gonul and Srinivasan (1996) were able to estimate consumer's expectations of future coupon availability and the impact on their current purchase decision. Consumer promotion is a key marketing tool. As promotion intensifies and it becomes more frequent, a loyal and rational customer may stock up on the promoted brands products for future consumption.

Over time, households may also form expectations about future availability of coupons and may adjust their purchase behavior. Firms must understand that if consumers anticipate coupons and adjust their purchase behavior accordingly, then couponing may be a costly promotional activity. By understanding the nature of the target market and their reaction to coupons, a firm should create and appropriate promotional plans. Gonul and Srinivasan (1996) learned that the key is to investigate and uncover the most advantageous promotional and coupon schedule for one's business. They propose an approach that sheds light on the potential of analytics when harnessed correctly.

Article 3

Whereas product quality and marketing are important, the value of a polished sales team is irrefutable. In their research, Chow and Holden (1997) examine the link between trust and loyalty. They studied how a buyer's trust in the salesperson affects trust in the company, and consequently loyalty; this is especially evident in personal selling where the salesperson represents the company to the buyer.

Trust in the salesperson is therefore an important precursor to trust in the company. Chow and Holden (1997) anticipated that trust in a salesperson should have an indirect effect on the trust in a company, which will in turn have a direct effect on buyer's loyalty. In conclusion of their study, Chow and Holden noted that trust is the necessary component that binds two parties together, moderates the risk, and indirectly guarantees future benefits.

Trust, a complex phenomenon, is composed of two parts: trust in the salesperson and trust in the company. Trust is based on the expectation that parties involved will honestly and reliably meet each other's needs. In a business-to-business relationship, buyers expect the reliability and quality of continued supply, and sellers expect loyal buying behavior in return. Therefore, each must be willing to invest in the development and continuation of the relationship and show loyalty in their individual strategies. With such, customer loyalty will lead to increased sales and referrals resulting in greater revenues and market share. "Loyal customers expect a good price, but they desire value most of all, rather than becoming an enemy, price then becomes a tool to filter out buyers who will bolt for a penny" (Chow & Holden, 1997). Over time the emotional value could create a shield against functional value.

While focusing on different aspects of product development, these studies illustrate the importance of continuous innovation. Smith and Rupp (2003) emphasized the need to learn customers' interests and adapt accordingly. They illustrated how the dynamic changing world of the Internet age possesses challenges as well as opportunities. Gonul and Srinivasan (1996) analyzed how a company can scrutinize their marketing policy to eke out better results. Chow and Holden (1997) outlined how the relationship the salesperson nurtures with the customer can produce a loyal advocate. They commonly emphasized the importance of subtleties in marketing.

Application and Analysis

As learned above, a brand is more than the company logo. It is everything a business entails from the mission statement to the organizational culture. Once a brand is established and consistently implemented by the entire company, recognition for the brand will likely grow. When a company's message is consistent consumers will likely get involved with the company and brand loyalty will flourish ("The Importance of Brand Image and Brand Loyalty", 2014).

The need for a trusted brand is magnified when there is a lack of knowledge. When consumers are presented with a scenario in which they lack the expertise to choose, they gravitate toward familiarity. However, with the advent of technology and the access to information there is less confusion and unknown. This creates a scenario where loyalty is demoted to the specifications and essence of the product. The label is not as important as the quality of the product. We see a reversal of the influence of brand marketing. This creates a challenge that begs for a solution.

Technology makes research available but also confusing. Google and Facebook have been trying to use their data to offer targeted marketing. While this may help a company's Internet presence, the actual product does not have to be improved. In today's digital age, social media is the considered the perfect place to establish great long-term relationships. Every company's dream is to have dedicated clients that share positive reviews with other potential consumers. Seemingly, social media provides the perfect platform to create these lasting relationships between customers and brands. Whether a company is big or small, social media is a powerful tool for creating brand loyalty. But is that enough? Are we utilizing the powerful capabilities of technology?

Instead, perhaps companies could pull data from technology to offer a more tangible real value. Smith and Rupp (2003) illustrated how we can use analytics tools on e-commerce to change the physical tangible world. Social media could be used as a listening platform and an ideal platform for interaction. Marketing managers can use the Internet for information gathering to create better products. They can create real quality products customized to their customers' needs. Gonul and Srinivasan (1996) showed us how technology can provide us with tools to create real value. Instead of using marketing to manipulate customers, we can use technology to really teach our customers to offer them real value, rather than the perceived value.

One positive outcome of developing a strong brand image is the growth of brand advocates and reliance on word-of-mouth referrals. Although brand advocates do not necessarily have as high of a lifetime value as brand loyal customers, they play an important role in recommending the brand to others; simply because they believe in the brand. Word-of-mouth is one of the strongest forms of marketing; the more loyal the customers are, the more likely they are to spread the word.

We can also use the information gathered to create more customized marketing campaigns. The emotional value of micro-interactions will inspire customers to stay loyal. Micro-interactions build trust. This shift will build loyal customers, who can be then the viral force of promotional efforts.

The idea of satisfied customers cannot be stressed enough; they ensure company's success. Companies, such as Nordstrom, succeed because their goal is customers' satisfaction that aims to beat any level of expectation (Nordstrom, 2014). John Nordstrom founded Nordstrom in 1901 as a shoe store. In 1958, Nordstrom had expanded to eight stores still selling only shoes. In its infancy, their expansion was based on customer service utilizing wide product offerings and size ranges. Today, Nordstrom works to deliver the best possible shopping experience, helping customers possess style, not just fashion.

Nordstrom, Inc. is a leading fashion specialty retailer, which offers compelling clothing, shoes, and accessories for men, women, and children. Since 1901, they have been committed to providing their customers with the best possible service and improving it every day. Nordstrom claims that this is what has taken them from their small Seattle shoe shop to the leading fashion specialty retailer they are today. They are proud to serve customers in 36 states with 117 full line stores, 151 Nordstrom Rack locations, and online presence. Nordstrom believes that fashion is a business of optimism, and in that spirit they continue to grow and evolve. They continuously tweak their business model to offer true customer satisfaction. They offer free shipping, free returns, and mobile shopping. Nordstrom has created an unbelievable mission statement, which defines their success as "Fashion changes, shopping changes. Our commitment to happy customers doesn't." (Nordstrom, 2014). Nordstrom works relentlessly to give customers the most compelling shopping experience possible.

As a company, Nordstrom has illustrated how micro-interactions are integral to nurturing loyal customers. They have not relied on the status quo but are constantly innovating to offer the best customer experience. While they have incorporated technology in their business model, they can definitely leverage new streams of data. They can use that data to design products, sales models, and most importantly focus on micro-interactions. Those touched customers will then drive their promotion campaigns.

The marketing mix should influence product design, help create that ultimate product, and determine be the new and improved selling point. Consistent customer satisfaction, which is contributed by consistent quality products at the right price, and bolstered customer service with micro-interactions will help create the total brand experience. This customer experience will ensure brand loyalty even in our technology-driven world. That emotional value will then supersede the wealth of knowledge provided by the Internet.

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The WNBA

Yossi Kashnow

The National Basketball Association (NBA) was founded in 1946, in order to showcase national basketball talent to an international audience. Though the NBA is an all-men basketball league with no women allowed to participate, in 1996, the NBA started a subsidiary league called the Women's National Basketball Association (WNBA). The WNBA is an all-female league with the same mission as the NBA; however it also has an equally important mission of helping out the equal rights movement by providing an equal opportunity for women to showcase their basketball talents. Unlike the all-female Legends Football League (previously known as the Lingerie Football League), which objectifies and sexualizes women as they play football in lingerie, the WNBA provides a fair and legitimate way for woman to showcase their skills without being objectified. Though the WNBA currently contains 12 professional basketball teams competing for the championship, according to the Wall Street Journal, the WNBA is going to have to close down in the near future.

When the WNBA started, David Stern had been the commissioner of the NBA and WNBA; however after he retired the WNBA lost its biggest supporter in a power position. In addition, there is simply not enough fan support to keep the league running. According to the Wall Street Journal, the season's attendance average was 7,457 per game, less than half of the 18,000 of what its counterpart, the NBA, averages. In three of the 12 team locations, the league failed to even draw 6,000 people per game. As the owners are struggling to find a reason to invest anything substantial into their teams, and the league is clearly suffering.

Background Statement

The main issue with the WNBA is its fierce competition for viewers with other basketball leagues, such as the NBA. However, the WNBA has somewhat alleviated this competition by scheduling their games primarily during the summer, during the NBA and college basketball offseason, when fans are starving to watch basketball again. But why is the WNBA still yearning for viewers? Out of the 12 teams, seven of them are located in states with at least one playoff qualifying NBA team for this year. Yet, fans do not often attend the games themselves. To bring in more fans to the games, the WNBA already tried relocating three teams out of the current 12 and dropping another six on the way.

The other cause for competition between the NBA and WNBA is perhaps that one cannot easily reschedule games. Unlike in the NBA, there are no crazy, jaw-dropping dunks in the WNBA. People obsess over watching the highlights from the NBA games, watching the alley-oops or the windmill dunks that players perform on everyday basis. Unfortunately, the WNBA does not have players of the same level of athletic ability that the NBA players possess.

Literature Review

Andre Richelieu acknowledges that sports are more than just what goes on outside, rather they integrate into people's lives as they debate about sports at a dinner table, job interviews, and even local events (Richelieu, 2013). He believes that keeping fans happy starts from high fan identification and marketing, which leads to deep fan loyalty. He also recommends that every sports team should have an enticing story. For example, in the movie Good Will Hunting, one of the characters replays the image of Carlton Fisk hitting the walk off homerun in the 12th inning of a World Series game. The character then goes on to recount how that was the first date with his wife. It was a big moment for him for that reason. Richelieu also argues that sports teams must keep their fans always interested; there should be history and entertainment in the stadium. They

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must make sure everybody leaves the game with vivid memories, whether it is seeing somebody's jersey number hanging from the rafters or watching an incredible half time dunk off a trampoline, all to make sure everyone has fun.

In addition, different logos really change the outlook of a company, and are worth a huge investment (Ahn, Suh, Lee, & Pedersen, 2012). They discuss how huge companies, such as Pepsi and Xerox, have spent millions of dollars revamping their logos. The NBA has also been known to change team names and/or locations. For example, in just the past couple years the New Jersey Nets relocated to Brooklyn and the New Orleans Hornets became the New Orleans Pelicans. This is a form of restructure and entices the fans to cheer for their 'new' team. As long as the fans like the changes to the jerseys, they are even more excited to cheer for their hometown teams. The WBNA, too, has to brand their sport (Kunkel, Hill, & Funk, 2013). It is not only important for fans to associate with a specific team, but also as the league as a whole. Involving fans with just one team exposes them to have an awareness of other teams in the league.

In terms of sports viewers and fans, there is a great disparity between the two genders. Mihaela Constantinescu discovered that 87% of men watch sporting events on TV, but only 62.7% of women watch these events in Romania Constantinescu, 2013). Furthermore, the percentage of non-championship games in Romania being watched is only 8.7, which most likely translates into the majority of watched games taking place in other European countries.

A study examining viewer trends, that interviewed 466 women and 107 men, found that a person's sex is not significant in the association with the WNBA (McCabe, 2008). However, those men with more egalitarian gender role attitudes did have a more positive affinity to women's basketball than those with traditional gender-role attitudes. The research notes that these finds are very interesting because the WNBA has a target audience of women, children, and families; however men are more interested in women's basketball than perhaps the WNBA marketers had anticipated.

A further study analyzed the impressions that males had of female sports fans (Galyon & Wann, 2012) and hypothesized that men would rate "feminine" women more desirable, whether they were sports fans or not. Notably, the study found that men found women the most desirable when they were feminine and also sports fans. It was considered positive for the women to be into sports from the men's perspective..

Women athletes have always been excluded from advertising sports given that they do not draw the same attention or hype that male athletes do. Only 3% of commercials use female athletes to represent their product or service; the rest are the more marketable males (Antil, Burton, & Robinson, 2012). The research shows that women more easily recognize celebrities, whereas men more easily recognize famous male athletes, and thus companies use these figures in their advertisements.

The WNBA clearly has a lot of work to do to restart their league and get it back afloat. Unfortunately, they will not have the same backing as the NBA, but through dedication they should be able to make it though. There are a variety of options that they have, but I would recommend focusing on both short term long term changes.

Management Plan

The first thing the WNBA must do is to find a way to get more fans involved in their major cities: Los Angeles and New York. These cities are the foundation for the league, as they are two of the biggest cities in the United States. Additionally, the league should adopt new fan-designed logos for each team and perhaps even offer a pair of season tickets to the winning artist of every team's logo. The WNBA should also try to get more commercial time, especially on the ESPN. If the majority of ESPN viewers (mostly men) were kept aware of the time and channels of WNBA games, perhaps they would watch or attend them.

In order to fix the issue regarding the lack of competitiveness among women compared to men, the league could consider changing the standards of the WNBA games, such as providing shorter hoops. For example, this would give defensive athletes the opportunity to step up their game and the offensive ones to make more impressive dunks. The change should help draw fans' attention when they watch highlights of the plays. Once these highlights are aired on all the sports stations, women athletes would likely start getting more recognition. They would also be able to be in more commercials, thus increasing the public attention to the WNBA.

The WNBA could also relocate more teams. For example, their Chicago based team has extremely low attendance. This is because there are many other sports venues available during the WNBA season. They have two baseball teams, which fans love attending, and the tickets are affordable. If a team relocates to a smaller sports city, then maybe it can find more fans with little alternatives to watch sports games and it can start selling more tickets. WNBA could also expand the league into Canada. Vancouver used to have a basketball team, which was then relocated to Memphis leaving Vancouver with no summer sports teams. Also, Montreal could be a good spot for another team. It would hopefully make more Canadians interested in the WNBA while building a strong fan base around the world. That is what one of the main supporters, David Stern, always insisted on. It is not worth expanding into Europe, at least not yet, because the viewer numbers are too low. They would not appreciate having a women's basketball league there. Even though it has been discovered that both men and women are interested in the WNBA, there are not even enough men watching sports in Europe to make it worth the investment.

The league needs to continue on to give an equal opportunity for women to show off their skills, the same way the men do. These female players train their entire lives to get to the professional level and they deserve to showcase their skills for the world to admire.

Justification

In terms of rebranding the WNBA, research has found that fans are much more likely to buy jerseys right after a team switches to a new logo than to buy a jersey with an old logo on it, as it was determined through polling fans of both the Utah Jazz and the Golden State Warriors (Ahn et al., 2012).

WNBA really has to keep advertising, whether it is a league initiative, a team initiative or even just an individual. Once their name is widely known, hopefully fans will buy into the league and enjoy everything they offer. The WNBA is a fun, enjoyable, family-friendly experience, where women are able to showcase their basketball skills in an equal opportunity and non-judgmental light.

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Mom and Pop Stores: Neighborhood Staples or Survival of the Fittest?

Aliza Weiss

"You say, 'It happened overnight.' But of course it didn't. Your pizza parlor, his shoe stand, her hat store: when they were here, we neglected them. For all you know, the place closed down moments after the last time you walked out the door."

-Colson Whitehead, *The* Colossus of New York

There will always be something comforting in the existence of "Mom and Pop" stores. According to an article on the H&R Block website, titled "Why Your Corner Mom and Pop Store Matters", that feeling of hominess and individual attention is why people support these businesses (Marguit, 2013). Nothing can really replace the personal touch that comes with the customer service, and of course, the underlying understanding that what comes from these age-old stores are quality products, usually hand-selected by the man with the warm smile behind the counter.

However, the question is whether or not these small stores can stay afloat, especially when stores such as Walmart and Target seem to be taking over and riding the waves. Although there have been times throughout history where neighborhood stores have been pulled under by the larger retailers, surprisingly due to a number of reasons, these small family-owned businesses are making a comeback and majestically holding their ground. After getting crushed by big-box stores during the 1980s and 1990s, Mom and Pop shops are enjoying something of a rebirth among U.S. consumers (Random, 2013).

One aspect of this renewed success pertains specifically to the attitude of the owners regarding their success and their reaction to the many pressures of being surrounded by larger competitors. For example, some small shop, who are experiencing heavy impact of the bigger retailers, are preparing for the deterioration of their business rather than trying to revive it. For example, Michael Downum, the owner of Chipola Book and Tea in Marianna, Florida dejectedly told a WCTV reporter that places like his "can't compete against the big boys, and if [they] try [they're] foolish" ("Mom and Pop Struggle to Survive", 2011). He marveled over how things are different from what they used to be and how the small old-time places just cannot keep up with the pace. Other owners dealing with similar predicaments however, do not feel the same way.

Many small businesses are doing their best to adapt to new culture and are claiming their space on the Internet marketplace (Ransom, 2013). Websites, like Etsy.com, give small stores a place to showcase their goods and encourage the revival of small store commerce. Though "days of being able to walk to the local butcher shop for your meat, the produce guy for veggies, and the bakery for a loaf of rye may be over forever, that relationship -- along with the kind of customized service prized by smaller shops -- is still available today" (Ransom). The online marketplace gives these small stores access to a much wider range of country-wide and sometimes even international consumers; beyond the sole dependence on neighborhood regulars and tourists.

Somewhat surprisingly, the large retail stores are noticing the progress and are sensing the competition. Even with their new presence online, the small stores come with small-scale costs, and their overhead expenditures are a lot less than those of the Big Box stores. Mom and Pop stores know their market and they pose a threat to the larger stores in their ability to provide certain benefits and advantages, such as same-day delivery.

With all of the new online presence, there still remain plenty of "brick and mortar" small stores that are not only surviving, but also thriving even in this fast-paced, instant gratification generation era. One of the more recent boosts to their success

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was the implication of “Small Business Saturday” which has been progressively spreading across the United States. In 2010, American Express established “Small Business Saturday”, which lies between “Black Friday” and “Cyber Monday” to encourage shoppers to pay a visit to their local community shops and spend their holiday money (Ayers, 2013). The initial goal in creating this special day for small stores was to give Mom and Pop shops a chance to recuperate after the economic recession and restore consumer interest in shopping locally. The impact of this concept has spread far and wide beyond that original concept with quite promising ramifications.

Research by the Federal Small Business Administration states that “nearly 70 million customers spent $5.5 billion nationwide last year [2012] at small, independent stores during the event” (Shapiro, 2013). While the success of this day has been measured and accounted for in numbers, its significance in the individual minds of storeowners goes beyond that. With these local shops, more community members get to keep their jobs and feel satisfied with their profits. A small business owner in Oswego, NY, said “Even though it is one day, there's a pour-over for weeks from that…For a community to really survive and do well, we need all the businesses to do well. So we really need to raise awareness of every business that's down here” (Shapiro, 2013). When people shop locally they are supporting the people in their neighborhoods, whom they know. The National Federation of Independent Businesses spokesperson, Jack Mozloom, called for supporting Mom and Pop stores, “They’re creating jobs within the community and boosting the Main Street businesses that are the heart and soul of everybody’s hometown” (Shapiro, 2013).

When it comes down to it, most people find a taste of personal attention and recognition refreshing after braving each day of this technology-driven society. Some people just find it comforting to know their business owners by name, while some shop locally for the convenience. Bloomberg Businessweek mentions, “You skip the drive to the mall or superstore, hence saving carbon emissions, and those fruit-stand peaches use about one-tenth the energy to produce than the ones shipped across the globe to the Wal-Mart” and to some people that just feels better (Katz & MacMillan, 2007). Whatever the reasons are behind keeping these stores alive, the fact is that unlike the Big Box retailers, Mom and Pop stores are just owned and run by locals, who welcome every smile, every dollar, and every new face that enters their store. At the end of the day, they count every penny and pray that tomorrow to do it all over again.

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Pricing Strategies

Roey Malul

The paper addresses the fundamentals of and reasoning behind pricing strategies. Every company, in effort to achieve its optimal profits, must analyze the marketplace to determine the product's true worth and what consumers are willing to pay for it. Similarly, companies need to consider how many units of the product will go on the market during the first month, second month, and so on in order to maintain a steady demand and keep prices at optimal levels. Included in price strategy are the concepts of price skimming, penetration pricing, and predatory pricing. I discuss what these strategies mean and how they help companies maintain the most effective price margins followed by review of three research studies.

Background Statement

Determining how and what to charge for a product can be the difference between success and failure of a company. The profitability of most non-for-profit industries depends solely on the revenues they acquire through the sale of products they provide. Businesses will simply not continue to operate if returns do not meet initial investments. Therefore, companies must find ways to determine what the marketplace is willing to pay for a company's product while maintaining a respectable profit margin.

Several factors must be examined as a company attempts to value its products on the market. Firstly, is the product abundant or scarce? If the product is commonly available and can be attained through many means of acquisition, it would be wise for the selling company to keep its prices low in order to entice sales. Conversely, if the item is one of rarity, a company can safely raise its price as consumers will be willing to pay a higher price due to the demand. The second aspect of pricing is calculating its profitability. If an item, for example, costs $130 to produce, manufacture, and distribute, a retailer will need to sell each unit at a price greater than $130 (all else equal) in order to cover absorption costs and make profit.

The next step in analyzing the price is how the company wants to position its product. Although the perception of a lower price increases demand, sometimes a higher price is what sells the product to the market. Apple technology is a prime example of the positioning concept. Although consumers can buy a computer at $800, they often choose to spend 20% more or higher for an Apple computer due to its name and reputation. Lastly, a company must study its competition in order to reach a selling price positioned enough to outsell the competitor or sustain a respectable position in the marketplace.

Studying the "in and outs" of pricing strategies is absolutely crucial to understand for setting prices of new products. This knowledge enables understanding of why certain companies succeed in aggressively competitive marketplaces and more importantly why others fail. Learning the flaws of failing companies can help others avoid the same marketing mistakes in quest to be successful.

Literature Review

The literature review includes three studies. The first study is authored by Rochford and Wotruba (2000). It examines the conditions under which new products are associated with higher prices in comparison to competing products already existing in the market. A few of these conditions include new products with improved and more advanced technology, new products being sold in larger markets which consumers are not familiar with, and totally new products with original innovation. Their paper draws on these categories to provide evidence that higher prices are typically assigned to products, which are generally more difficult to sell.

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Rochford and Wotruba (2000) emphasize that selecting products' initial price is a one-time opportunity for the firm. If a product's initial pricing tactic is flawed, it has the potential to, and most likely will, diminish the remaining life cycle of the product's profitability. Not only it can spoil the initial products' profitability, but it can also ruin the success of future products.

On the other hand, sellers have a strong advantage over buyers when introducing new products to the market. The reason for this is that the seller has the flexibility to price a new invention, ultimately setting the price bar for all similar future products. Therefore, companies must analyze the market thoroughly in order to understand and take advantage of consumers' willingness to pay for the product.

In this study, the discussion of how to price new products goes hand in hand with how "truly" the new product is. If the product is something that cannot be replaced by any similar item, and therefore it is one of a kind, sellers have the ability to take advantage of what is known as price skimming. Price skimming is "a pricing policy whereby a firm charges a high introductory price, often coupled with heavy promotion" (Lamb, Hair, & McDaniel, 2014, p. 330). Because consumers are entirely unaware to what the price "should be" or "could be," they are forced to accept the initial price with the perceived product's value.

Pricing strategies for new products similar to others already existing in the market, however, can be more challenging. Since these products can easily be replaced with others, possibly for cheaper ones, the new products must show a dramatic advantage over the others. In many cases, new products which fail to offer something significantly better will be priced similarly to those of competition. By doing so, consumers will then break down each item's features and style to base their purchase decision.

On the other hand, a company can strategically use the method of penetration pricing in order to "undercut" others' prices. Penetration pricing is "a pricing policy whereby a firm charges a relatively low price for a product initially as a way to reach the mass market" (Lamb et al., p. 331). Showing that the value of a new product is indeed higher than the value of its competing products, consumers will be enticed to consider buying the newer product. When a newly modified product is introduced to the market, which offers higher performance and better specifications than its competition, sellers will have the grounds to raise the price and maintain appropriate price margins.

Rochford and Wotruba (2000) propose a number of hypotheses. First, companies with the "new-to-the-world" items are more likely to exploit high prices with initial introduction to the market. Second, companies with modified products are more likely to value their merchandise at prices higher than their competitors, when modified products offer aggressive advantages. Third, products facing immense competition will have drastically lower prices than products that have little or no competition, indicating a negative relationship between price and competition.

Their fourth hypothesis refers to the uncertainties of consumers when buying products. Researchers have found that consumers are fearful of either low need uncertainty or high need uncertainty. In the case of low need uncertainty buyers are extremely sensitive to the price, because they do not really need the product. However, for the right price, why not? The high need uncertainty applies to those consumers who are in need of the product but are unsure about its purchase or its features. If consumers are willing to pay a higher price because of these uncertainties, then all that is needed to make the sale is a good salesperson. In both cases, the relationship between need uncertainty and transaction uncertainty, that is the trust in the seller, work hand-in-hand.

Based on prior studies, Rochford and Wotruba (2000) infer a positive correlation between low need uncertainty and transaction uncertainty for new products to support the hypothesis. They claim that as long as the sellers are educated in the products' performance, they can lower buyers' transaction uncertainty and raise their buying comfort. Research also shows that companies with sellers, who are trusted and have returning customers, are likely to save about five times more than companies spending on new salesmen and creating new customer connections. The fourth hypothesis, therefore, states that when sellers have little relationships with their customers, the sellers will be more inclined to raise the prices in order to help cover costs.

The fifth hypothesis incorporates buying center strategies. When presenting a new product to the market, the item is often presented in what is called a buying center. These centers can be costly and can lower the firms' profitability. Hence, Rochford and Wotruba's fifth hypothesis indicates that firms will raise the price of a new product when large buying centers are expected.

Hypothesis six considers a product selling cycle. Sellers often expect that consumers may take an extended amount of time to learn the usage and benefits of their merchandise. The products may also not be immediately trusted by the consumers due to their unfamiliarity. These types of products generally have longer selling cycles as it may take longer time for firms to sell them. As a result, Rochford and Wotruba hypothesize that new products with longer expected selling cycles will introduce products at higher prices in order to cover expenses.[1]

For their study, the selected research method, included a survey questionnaire sent out to 450 companies across the U.S., which introduced new products in the previous year. Out of the 450 organizations reached, Rochford and Wotruba were able to collect data from 112 companies. The participating firms ranged in size from companies making $5,000,000 to $250,000,000 a year. According to the findings, nearly 90% of new products made were merely modified or improved products of existing items while about 10% were "new-to-the-world" items.

Participants were instructed to use a seven point scale to measure how much more expensive their products were in comparison to their competition: 1 being much more expensive and 7 being much less expensive. They were also instructed to report on the number of competitors and the competing products, estimate the size of the buying center, and select either a "new-to-the-world" or a "modified" product category. Questions determining the products' competitive strengths and buyer-seller relationships were also included in the survey.

The results found significant support for most hypotheses. The first hypothesis was supported with the data showing that more than half of the "new-to-the-world" products were priced relatively high and more than three fourths of the modified products were priced below the competition. The second hypothesis was shown that products with strong competitive edge were initially priced higher than their competitors. No support was found only for hypothesis three. Both high priced and low priced products had equal number of competitors. The support for the fourth hypothesis found that the less familiar the salespeople were with the customers the higher the price was on the item; and vice versa. The data for the fifth hypothesis showed that the bigger the buying center the higher the price of the new items. The evidence for the sixth hypothesis showed that new products with longer product selling cycle had, in fact, higher the initial price.

In conclusion of the study, the length and difficulty of the selling process affects the price of a new product. The study demonstrated support for the following statements: (1) "New-to-the-world" products will generally be priced at a higher price because consumers have no way of defining how much the items "should" cost. (2) New products yielding strong competitive advantage will be priced higher relative to

[1] Seventh and eighth Hypotheses are excluded here as they are irrelevant to the discussion on new product pricing and profitability.

products already existing on the market. Competitive advantage gives consumers an incentive to buy a more advanced item for more money. (3) Firms in which salespeople have an ongoing relationship with buyers need not to price their new products at aggressive levels. Contrarily, sellers who do not have a relationship with buyers need to price items higher to address buyers' uncertainties. (4) The size of the buying center will affect the price of new items. (5) Items that are anticipated to have long selling cycles will need to be higher priced, because of the extended selling effort.

In the second study, Ingenbeck, Frambach, and Verhallen (2013) conducted research on value-informed and competition-informed pricing and addressed ramifications of low pricing for new products.

Ingenbeck et al. (2013) begin by quoting several sources, which claim that new products are frequently underpriced. They warn, however, that pricing products initially too high may also cause consumers to immediately deviate from the possibility of purchasing the items. Furthermore, if an item is originally set at a relatively low price, consumers may develop an opinion that it must not be a valuable product. It is therefore imperative to analyze pricing strategies to ensure maximum market performance and sustain firm's profitability.

The study first determines the relationship between the price strategy of a new product and its performance in the market. It then iterates three conditions in which these market performances may be affected. The three conditions consist of relative product advantage, relative product costs, and competitive intensity. Thirdly, it shows how its results are not only applicable to one type of a firm, but can be generalized to many industries. Companies can then use the findings from the study to better price products. Rather than simply using price skimming or price penetration strategies, the analysis shows the extent and duration of each strategy to be best utilized.

Before presenting the hypotheses Ingenbeck et al. (1997) state that pricing strategies are based on customer value, competition, and firm's costs. The researchers add that although these three components in theory should be factual, the reality is that they are all based on estimations. Lastly, the study was conducted under Monroe's Pricing Discretion Model, which assumes stable market conditions.

The first hypothesis focuses on value-informed pricing. This is the concept of what consumers are willing to pay to obtain a product. Therefore, the more managers study and understand what consumers are willing to buy and for how much, the more successful the product should be in the marketplace. The second hypothesis considers the competition-informed pricing theory. That is, when consumers are familiar with a type of product they automatically associate it with a certain price point. Therefore, when firms price their new products relatively low in comparison to their competition and simultaneously claim the products' competitive advantage, consumers will feel more comfortable and will likely purchase the new product. This strategy can ultimately give the new product a strong market performance.

To find support for the hypotheses, the researchers approached management departments of 329 companies to complete a survey questionnaire. 145 firms (44%) responded, comprising 81 manufacturing companies and 64 service providers. For the data analysis, the researchers used coefficient alpha, item-to-total correlations, and exploratory factor analysis. They used series of two-factor models to examine first the multiple pricing factors individually and then together.

The data showed support for the two hypotheses. First, there was a positive correlation between the knowledge of sellers about the price a consumer would be willing to pay for a product and the success of the product in the marketplace. Second, when a new product offers a significant advantage over other products, consumers are more likely to buy the more advanced product.

From the study, we may conclude that sellers who are knowledgeable and understand consumers' concerns are more likely to succeed in selling products that may even be overpriced. Although consumers may fear low quality a new product that is priced relatively low, they may "overlook" the low cost when the product offers a competitive advantage.

The third study was conducted by Bitran and Mondschein (1997), which examined the seasonal aspect of selling by a retail clothing store. It analyzed the effect of store promotions and the most advantageous prices for products at the end of their life cycle. Since inventories change dramatically from season to season, it is of a paramount importance to make sure that the older items get sold quickly. This can be accomplished by lowering prices to entice consumers, who do not frequently practice buying clothing at the end of a season. Lower prices, however, still need to maintain a respectable image for the product (i.e., low prices should not fall below a certain level).

According to Bitran and Mondschein (1997), there are several types of mark-down strategies clothing retailers often exercise. The first being a temporary mark-down when stores limit the time of a sales promotion (i.e., a holiday weekend or one day). The other types of sales are referred to as permanent mark-downs. In such instances, products are indefinitely marked down until they are sold.

The selected study focused on the flaws of permanent mark-downs and explored a particular method retail stores use in ensuring optimal profitability during the liquidation period. The mark-down method is pricing items at an initial price and after a predetermined date the price is reduced by a certain percent. This can happen multiple times. There are two sides to this method. On the negative side, stores are faced with the issue of undeterminable customer satisfaction. For instance, when a product is selling well at a full price and the preordained time of the sale comes around, the stores will be automatically reducing prices and making a fraction of what they could have been charging. The positive side of the systematic discounting, however, involves a money saving strategy for the company. Preordained sale discounts cut management and operating costs down dramatically. Managing teams do not need to spend time and effort on brainstorming strategies to implement effective price margins. We learn from this observation an interesting phenomenon that the net income at the end of the day can be equal in both instances.

Application and Analysis

Pricing strategy is arguably the most crucial perspective of marketing. Without knowing pricing sensitivity, companies can easily wind up out of business. In addition, when competing against other products on the market, sellers need to ensure that their offerings are better, faster, more compact, and/or more reliable.

In contrast, pricing strategies can be used in other ways, too. A recent blogging web site (Cohen, 2012) included a guest post by ebook seller Sacha Greif, who showed that charging people for his ebooks, instead of giving them away for free, actually brought him more recognition and ultimately profitability. Greif explains that charging for his ebooks did two things: "I was signaling that it was better than the content you can find for free, and I was also increasing the chance people would actually read the book…since they paid good money for it." In due course he successfully ended up selling 1,500 ebooks over a span of 48 hours.

Another point to be made is the practice of predatory pricing, which is "the practice of charging a very low price for a product with the intent of driving competitors out of business or out of a market" (Lamb et al., 2013, p. 334). However, most sellers that practice such businesses do not stop there. Once weak firms leave the market, the ultimate goal of remaining businesses can be to ram up their prices and leave no options for the consumers ("Predatory or Below-Cost Pricing", Federal Trade Commission).

Specific Organization

Assume a new invention is brought to the market. It is different than all others; it has different characteristics from previous inventions and no one has ever come close to ever building it before – a time machine. The sellers would have total power over its initial price. The machine could have a price tag of $30,000 or $30,000,000, and each price would seem appropriate in the consumers' eyes.

This is what happened when Apple introduced the very first iPhone in 2007. Apple iPhones have been one of the world's leading and most popular cell phone brands since their debut. With the original iPhone priced at $600, Apple was selling about 125 phones a minute in the first 36 hours. Apple was able to get away with such high prices due to their reputation and respected status in the electronic industry. Being one of the first consumers to own the original iPhone showed social status of wealth and power. Apple knew it and took advantage of it. Just two months later, Apple cut the iPhone price from $600 to $400 (Cravens & Piercy, 2013). Why would Apple do this? What benefit did it bring to the company, if they were already receiving a steady flow of high price margins? The truth of the matter is that although Apple was selling a considerable amount of iPhones, they were not meeting their planned quarterly goals. By lowering their initial price they were then able to sell more units and achieve their sales objectives.

Suggestions for Future Research

While conducting my research on price strategies I found that many academic journals made many hypotheses which seemingly did not have to do much one with the other. Trying to cover several topics gave less clarity to each hypothesis individually. I think it would be more progressive for researchers to stick to one topic; this way they can incorporate and analyze different aspects of one issue in more depth. Furthermore, I believe using specific industries in the research would have been more practical for businesses. Using broad generalizations about pricing across all industries creates doubts about the applicability of the findings to a specific industry, such as healthcare. Lastly, many of the journals I found conducted their studies under specific conditions and constraints. What I would suggest doing for future research is to replicate these studies and test them under different conditions. In conclusion, pricing research should entail more topic- and industry-specific studies.

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Starbucks

Noa Lubell

The symbol of the green twin-tailed mermaid, the Siren, is recognizable by many people all over the world. With it comes the association of the smell of coffee grains and the hustle and bustle of the abundant coffee shop. Starbucks coffee cups are seen being carried in most cities, by businessmen and teenagers alike. Being a great success, with more than 13,200 coffee shops in the U.S. alone, the renowned coffee company started from a single coffee house on 1st & Pike Street in Seattle, Washington. The great business created by Adam Schultz could not have succeeded without his brilliant determination and business strategies. Schultz wrote in his book, "When you get into a tight place and everything goes against you, till it seems as though you could not hang on a minute longer, never give up" (Steve, 2011).

Starbucks' great success is attributable to many factors. But most importantly, a business operates at its best with a cooperative and enthusiastic team. Creating a team eager to satisfy customers is a tricky job. It requires a boss or CEO in Schultz's case to possess certain important leading qualities. Schultz succeeded in motivating his team in a very unique way.

In the late 1980s and early 1990s, Schultz decided upon public offering to increase benefits for his part-time employees. At the time, this action could have very possibly seemed as a capitalist one. As we now know, having seen the outcome many years later, this was a brilliant move on Schultz's part. Schultz pointed out in his book that focusing on fixing and improving the relationship between employees and management was his number one priority. He also noted that providing benefits to an employee for a year alone costs half as much as training a new one (Mourdoukoutas, 2013). From a business aspect, this made sense. Baristas in a coffee shop are the ones who interact with customers. Making sure employees did not create a dull environment in the shop was, understandably, a top priority.

The coffeehouse had employed many brilliant marketing strategies, as well, to get the company to its current status as the leading coffeehouse in the U.S. Although Starbucks coffee tends to be more expensive than most coffeehouses, such as McDonald's and Dunkin' Donuts (i.e., its greatest competitors), Starbucks prides itself on the ability of being an "affordable luxury". The coffees and teas sold along with pastries and juices are upper-class quality. Starbucks puts a huge emphasis on product quality in creating the "perfect cup of coffee". Unlike Starbucks' competitors, Starbucks competes based "on comfort rather than convenience" (Mourdoukoutas, 2013).

This particular point can be seen very clearly as soon as one walks into a Starbucks coffee shop. The design of the coffee shop is meant to help customers feel welcome; it is to help them feel as though they are in a familiar place. It is designed as a place where people are brought together to connect. Starbucks tries to incorporate all the necessary elements to encourage the sought after environment (Larimore, 2014). The company has design teams all over the world with a mission to cater to the needs of customers and reflect the local characteristics of each individual neighborhood.

Furthermore, Starbucks Co. works hard to ensure that their coffee shops are regarded to as a "Third Place" (Larimore, 2014). A portion of the design that goes into the shops is meant to make customers feel like Starbucks is the perfect place to stop on the way to and from work. For Starbucks, creating a relaxing atmosphere where one can start or finish their day off is a top priority. Needless to say, customer satisfaction is an important aspect of every business, if not the most integral. Starbucks, however, puts an especially strong emphasis on customer

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satisfaction from everything that goes into a cup of coffee and the time customers enter the store.

Additionally, Starbucks' success can be attributed not only to its premier customer care and service, but also to its regard for the environment. The company uses the U.S. Green Building Council's LEED (Leadership in Energy and Environmental Design) certificate to promote water conservation. The program began in 2010 and is currently being used in Starbucks coffeehouses in 17 countries around the world. Starbucks is addressing the socio-cultural aspect of the business.

The Starbucks "app" has also proved to be a unique strategy in increasing sales. Instead of paying with cash or a credit card, the app offers customers a convenient way to pay in the store. Money can simply be added to a Starbucks card presented on the app, through which one can then receive points. After customers acquire a certain number of points they become eligible to receive rewards, i.e. a free cup of coffee or pastry. Such rewards give an incentive for customers to not only begin their experience with the Starbucks app, but also continue it.

These successful marketing strategies have allowed Schultz to expand his company from year to year and continuously create new Starbucks locations all over the world. Starbucks' brilliant marketing strategies are regarded in the business world as nothing short of admirable.

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Relationship Marketing

Tova Cohen

> *"People can have the Model T in any color - so long as it's black".*

This statement was made by Henry Ford in the first half of the 20th century, and it aptly described the marketing era at the time: product orientation. Industries at that point were mainly focused on product efficiency and relied on the product to “sell itself”. There was not much emphasis on the level of variety of products or their features. It was there if you wanted; as simple as that.

Nowadays, marketing has moved on from this approach. Marketers have learned the tricks and adopted strategies to attract consumers to their products by turning their “wants into needs”. As of the 1990s, marketing has shifted to an era known as relationship marketing. This is where there is less emphasis on the product itself and more on establishing a relationship between the consumer and the company. Marketers, through their advertisements, look to entice customers into purchasing their products. They tend to rely on a general category of appeals, commonly referred to as emotional appeals, where the advertiser builds an emotional attachment between the product and the consumer.

A commonly used emotional advertising appeal is a humorous one. This is used in about 30% of advertisements, and it is a way to catch consumers’ attention (Ambekar, 2009). Whether it is a catchy slogan, a funny picture or a witty comment, they inspire laughter, triggering a positive emotion between the customer and the product. The emotional connection is then elicited when the customer sees the product on the shelf.

This positive emotion creates brand loyalty that is the focal point of companies’ efforts today. Most companies want their customers to feel like a “member” of their “community”; thus companies compete with each other to “recruit” customers and increase their devotion towards their products. For example, companies “recruit” as many members as possible by airing commercials during events, such as the Super Bowl. It is estimated that for the last Super Bowl, companies paid on average of $4 million per 30 seconds of air-time (Stampler, 2014). In 2014, approximately 111.5 million people watched the Super Bowl. Although companies do not always promote specifically their products, they often use the time to get their name exposed to large audiences (“Who Bought What in Super Bowl XLVIII”, 2014).

The psychological marketing tactics behind this recent shift is rather innovative. Every company aims for brand recognition: to have their customers repeatedly choose their product over a myriad of other similar products from different brands. When customers form a relationship with a product, they build a community of loyal buyers making the brand successful and profitable for the company.

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What's Up with WhatsApp

Sari Mizrahi

With today's modern technology, smartphone owners have the ability to download applications to their phones and have them ready to use whenever they want. Among the most popular applications is WhatsApp Messenger (i.e., a play on words of "What's up"), an international instant messaging application system. This application makes it possible and affordable for smartphone owners to communicate with others all over the world.

In January 2009, Jan Koum, a Russian native, decided he wanted to create a new app with his friend Alex Fishman. Koum wanted to build an alternative to costly SMS and realized the growing widespread use of smartphones, and that this application would enable people all over the world to communicate efficiently and affordably with each other. In the beginning, the app would get stuck and crash often. Koum considered giving up on his project and looking for a new job, but everyone around him kept persuading him to continue with WhatsApp; however, when he realized that WhatsApp had 25,000 users, he asked five of his old colleagues to invest $250,000 in seed funding. By February 2013, the amount of active users had increased to 200 million. The company became worth $1.5 billion.

When WhatsApp was first launched it did not come with all the features it has today. As the company saw gradual success in the number of users, they were able to add more features such as picture and video sharing.

When WhatsApp began to expand to over 250,000 active users, the app suddenly started to spread. When it was being downloaded all over the world, they started to think of new features and ways to improve the app. WhatsApp added the option of adding and sharing photos, creating group chats with friends, sending voice notes, sharing videos and more. They developed many upgrades and kept improving the application in order for it to be compatible with all kinds of smartphones. People wanted to use WhatsApp so much that it contested the once extremely popular Blackberry Messenger, a messaging application unique to the Blackberry world only.

As WhatsApp grew in its popularity, Koum hired a friend in Los Angeles to create a version compatible with Blackberry Smartphones, and Blackberries/BBM became less popular, because the BlackBerry Messenger was no longer an exclusive or special feature. Each new version of WhatsApp had seemingly small improvements, but all were essential to the app. In an attempt to control the large amount of growth in such a short amount of time, the company decided to make it a paid service. Despite the new charge for the app, it grew very fast and expanded worldwide in record time. In 2013 WhatsApp hit 250 million active users, and is currently at 450 million users with an extra million each day.

WhatsApp has also been tested for privacy and security. When signing up for this app, users must sync their phone contacts; this allows them to see who is also using the same app and is available to chat. WhatsApp had to upgrade and strengthen their security system in order to protect and maintain information such as names, numbers, and photos of WhatsApp users.

On February 19, 2014, Facebook Inc. acquired WhatsApp Inc. for $19 billion. According to Bloomberg Business, Facebook paid $4 billion in cash, $12 billion in Facebook shares, and $3 billion in restricted stock units went to WhatsApp founders and employees (Frier & Saitto, 2014). Investment from a successful social media website such as Facebook will ensure that WhatsApp will continue to grow and generate high profits. In an interview with Bloomberg, Mark Zuckerberg, Facebook's 29 year old CEO, said he expects

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WhatsApp to reach more than 1 billion people worldwide in the next few years.

Today, WhatsApp can be found worldwide on almost every smartphone. WhatsApp started as a little experiment of a social media that turned out to be one of the most successful applications. It is an innovation that started from the bottom and reached the top in a very short time. Bloomberg's Business News notes "Free social-messaging applications like WhatsApp cost phone providers around the world -from Vodafone Group Plc (VOD) to America Movil SAB (AMXL) and Verizon Communications Corp. -$32.5 billion in texting fees in 2013, according to research from Ovum Ltd. That figure is projected to reach $54 billion by 2016" (Kharif, Thomson, & Laya, 2014). This prediction is probably accurate and realistic given the great success of WhatsApp.

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LinkedIn: Scoring your Next Interview

Raquel Frohlinger

Launching its website in 2003 from a basement, LinkedIn became one of the first exclusively professional networking websites. Founder Reid Hoffman, and his team members, Allen Blue, Eric Ly, Stephen Beitzel, David Eves, Lee Hower, Konstantin Guericke, Ian McNish, Yan Pujante, and Chris Saccheri started the site in late 2002. Growing with over 200 million users, the need for a professional networking has proven itself successful.

LinkedIn provides a professional social networking platform upon which prospective employees can network with distantly related "friends", present their qualifications, and maintain a professional reputation in order to land a job. Various university courses have even required their students to create a profile in order to boost their likelihood of obtaining a job. According to Allen Blue, co-founder of LinkedIn, the website has become the "next generation résumé". LinkedIn has become a common ground for all professionals, primarily in the business market, as it provides the chance to express one's self as qualified and confident without being perceived as arrogant (Taub, 2013).

LinkedIn has also benefited employers by allowing them to preform background checks on the accounts of their prospective employees. With one's prior work experience, human resources (HR) personnel use their network of mutual connections to research extensive criminal history and conduct other background checks of their candidates that extend beyond their LinkedIn accounts. Therefore, Eric Taub (2013) cautions LinkedIn users to not "accept every invitation to join someone's network of contacts. The point of LinkedIn, according to Mr. Blue, is not to amass the greatest number of contacts, but to connect with those you know and trust, who then can introduce you to others you may wish to meet".

Users are encouraged to use LinkedIn as an opportunity to present correct titles and terms in describing their professional self. Ted Prodromou's book "Ultimate Guide to LinkedIn for Business" expands upon what titles and categories are appropriate for candidates in various fields. He suggests that candidates search other profiles of those working in their field of interest that have reputable contacts and use similar appropriate phrases to describe themselves (Prodromou, 2012).

Understanding the purpose of LinkedIn is vital as a member of the website. Having an account on LinkedIn does not automatically deem an individual as a professional, rather, it is about utilizing LinkedIn's features to highlight their strengths.

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The Baby Keurig

Batsheva Steinman

Last semester, I invented the "Baby Keurig", a quick, easy, and convenient way to make a baby's bottle. The following was my business pitch:

Having a baby brings much joy to parents' lives. However, having a baby is not easy. Many times, parents become stressed over small things, such as the perfect measurements and temperatures for their baby's bottles, or whether or not they will under or over feed their child.

The Baby Keurig, a new high tech formula prep machine by Keurig, can assist parents and alleviate these stresses. Now, when babies need their diapers changed and are simultaneously due for feeding, this product allows parents to do both tasks at the same time. Just like the standard Keurig machine, a child's caregiver can simply place the K-cup of formula in the Baby Keurig (The Baby Keurig K-cups comes in different measurements ranging from 2 to 10 ounces), set the number of ounces desired, place a bottle under the spout, press "prepare". Thus, the machine is set to prepare the child's bottle. The Baby Keurig machine will set exact measurements as specified at the appropriate temperature for child's feedings and will distribute the formula straight into the bottle. Preparation time ranges from one to two minutes depending on the measurement selected.

Not only is the Baby Keurig incredibly convenient for caregivers who can use the extra time, but it is also space convenient and child safe. This product is small enough to fit into the nook of a kitchen counter and comes with a protective case and a retractable cord so that it is can travel conveniently. The Baby Keurig is also has a heat-protective exterior and power lock button to prevent accidental burns among curious children.

Parents will never have to mess with formula powder or cautiously wait for the bottle to warm up; rather they could savor those extra minutes of sleep or relax their worries about their child's bottles. With the Baby Keurig, and perhaps a regular Keurig machine as well, parents can now make a bottle for their baby, make themselves a cup of coffee, and change a diaper at the same time.

The price for the Baby Keurig machine and Baby K-Cups was determined in relation to the price of a Keurig coffee machine. Standard Keurig machines range from $120 to $150. The Baby Keurig will be priced at $135 (which includes the travel case). This accounts for a 101% markup and a 51% gross margin.

In pricing the K-Cups, the average cost of a 24 oz. canister of baby formula as well as the amount of formula that is needed per average bottle (roughly 6 oz.) were taken into account. Given that consumers of the product can only use the K-cups and no other brands, I had to consider the competitive advantage in terms of price per ounce of formula. A typical canister of 24 oz. formula costs roughly $30 which accounts for 77 oz. of formula ready for consumption. The K-cups cost 10 cents per cup to produce and can be sold in a box of a number of K-cups ranging from 2 to 10 oz. totaling to 24 oz. for $20 (e.g., 12 two oz. cups, 8 three oz. cups or other variety of measurements). The selected price accounts for a 150% markup and a 60% gross margin. The calculation of the breakeven point consists of various expenses, such as employee salaries, overhead costs, manufacturing the products, storage of products for online orders, and advertising. They roughly amount to $300,000.

The breakeven point for the Baby Keurig is 4,286 units (300,000/135-65) and $578,610 in sales (4,286x135). For the Baby K-Cups, the breakeven point would be 25,000 units (300000/20-8) and $500,000 in sales (25,000x20). Due to the fact that the Baby Keurig machine is a one-time purchase and the K-cups will be more frequently purchased, it is important to focus on making profit from their

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sales as well as to hold an advantage over the competitors. Furthermore, larger K-cup packages sold online will be slightly discounted. The above calculations only apply to in-store purchases.

This project provided a real perspective on a practical way to start out a business by identifying the target market and developing pricing and promotion plans. I hope to one day put these skills to practice!

Caterpillar: SWOT ANALYSIS

Avroham Hammerman

Caterpillar Inc. is a company that builds, markets, and distributes heavy machinery and engines. It was founded in 1925 by Benjamin Holt in California and is now based in Peoria, Illinois. Caterpillar, which has $89 billion in assets is ranked number 42 in the 2013 Fortune 500, and is the world's leading manufacturer of heavy machinery.

Caterpillar produces quite an impressive array of machinery. From front loaders and excavators to larger than life dump trucks. They even have a full line of underground mining equipment in their impressive line-up. Another less known service provided by Caterpillar is their financial services, such as, insurance for their equipment; probably because no one else will insure these "monsters". But perhaps the most inspiring thing about this company is its mission statement. "Our mission is to enable economic growth through infrastructure and energy development, and to provide solutions that support communities and protect the planet ("The Company History", 2014).

Strength weakness opportunity and threats (SWOT) analysis is a widely used method to evaluate the situation of a company. Managers put together SWOT analysis by showing the strengths and weaknesses of the company or the internal situation, and the opportunities and threats or the external situation. The comparison helps determine whether the strength and opportunities are greater than the weaknesses and threats, in which case the company is thought to be in a good standing. However, if the weaknesses and threats are greater, then the company is in trouble.

The strength of a company depends on many factors. The first and most obvious strength of Caterpillar is its global leadership in the market. When someone says bulldozer or excavator it is synonymous with Caterpillar. The fact that they are the leader or the brand name in their field already gives them an edge and advantage over the competition. When a major construction project comes up Caterpillar machines are often used. For example, the completion of the Gotthard Base Tunnel in Switzerland was built using 50 pieces of Caterpillar equipment. In 2011, 400 pieces of their equipment completed a 2,400 kilometer rail line in Saudi Arabia ("The Company History", 2014).

Another great strength of Caterpillar is the growing and expanding infrastructure in the Asia/Pacific region. In China and India, where infrastructure development is exploding, Caterpillar has gained a strong foothold and is the leading provider of equipment (Trefis Team, 2013 November). Statistics show that the Asia/Pacific region has accounted for 40% of global industrial growth in 2013. Thus, Caterpillar is on the right track by expanding into the highest developing region of our time ("Rebuilding Policy Buffers, Reinvigorating Growth", 2013).

The purchase of ERA Mining in 2012 also provided crucial share in the mining industry. ERA Mining with its Chinese subsidiary Siwei is in the field of underground roof support, which is greatly needed in the mines of China and further strengthening Caterpillar's position in that region.

Looking at the trends in China, we see the population is moving from the countryside and rural areas into the cities. A growing population in the city means that new housing units must be built to house all the newcomers. Along with the new houses, the cities' infrastructure will need a major overhaul in order to accommodate the population influx. Currently 50% of Chinese people live in cities and the trend is continuing and

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gaining strength. All of the expansion forecasts a positive and bright future for Caterpillar.

Caterpillar has multiple brands, which they either started themselves or acquired. They have quite an impressive amount of subsidiary companies. These companies range from mining equipment to hydraulic hose manufacturing and everything in between. Many of the acquired companies supply raw materials. Caterpillar's subsidiary companies are not only diverse in what they produce but also where they are located. They have factories in the United Stated, China, India, Germany, the United Kingdom, and other countries. This highly diversified line of products and locations add great strength to Caterpillar's standing. This diversification makes them much less susceptible to economic fluctuations.

As all companies both large and small, Caterpillar has its weaknesses. A big weakness is that about a third of their profits come from mining equipment. The demand for mining equipment can rise and fall at any given time as it did in 2013 (Trefis Team, 2013 December). The fact that the industry is not a relatively stable industry is a considerable risk for Caterpillar. In order mitigate company's dependence on one industry they have to diversity and target more aggressively other markets.

In order for Caterpillar to stay in the lead and produce the latest and most cutting edge machines they have to invest in research and development (R&D). According to Bloomberg they spend $8 million a day on R&D (Massar, 2014). If a downturn in the economy lasts too long with less demand for the construction equipment, the results could be devastating. Yet, they choose to keep on investing heavily in R&D in order to stay on top of their game and in the lead. Despite their diverse portfolio of brands and products, considerable investment on research can weigh down the company financially.

The ultimate weakness is that when the world economy takes a hit and the world goes into a recession, such as in 2008, Caterpillar as a whole can be very susceptible and vulnerable to the economic forces. When the economy slows down, people start to make cutbacks in order to protect themselves from the uncertainty. One of the first industries that will feel the recession is the construction industry. Thus, a company such as Caterpillar would experience the downturn in the form of weaker sales.

In 2008, the construction industry felt the recession almost immediately. In the United Kingdom new home construction projects fell 37% from the previous year (Hopkins, 2008). Not only were people starting to set tighter budgets but the banks were cutting back on loans. The financial institutions, weakened by risky loans, did not give out loans as easily as before. The amount of loans approved were 27% less than what was given the year before. In the U.S. 780,000 construction related jobs disappeared in the last quarter of 2008 and in the U.K. 100,000 jobs were lost in the same period. When companies started cutting back a massive number of employees already at the beginning of the crises, it stood to reason that new machines were most certainly not be excluded from the down spiraling trend.

Caterpillar felt the recession right in the beginning in 2008 and was only saved from severe losses by the expanding into the Chinese market. Still, their sales for 2008 were much weaker than expected ("Caterpillar Sees 'Definite Threat' of US Recession", 2008).

As the U.S. pulls out of a recession with falling unemployment, we see a rise in construction. As people get back on their feet, they in turn start spending more on construction. Also, the continued growth of infrastructure in developing nations, such as China and Brazil, are great opportunities for Caterpillar.

In the past, Caterpillar has made many acquisitions in order to grow and meet global demand. One of Caterpillar's more recent purchases was Bucyrus, an underground mining company. This is the latest market they are actively pursuing. By being able to continue acquiring companies in new fields and to strengthen their current foothold in existing markets, their opportunities seem endless.

Companies producing cheaper heavy construction machinery are the biggest threat to Caterpillar. When looking to buy construction machinery there are many competitors. They all tout that their products are superior. Back in the day, Caterpillar had the entire U.S. construction machinery market. However in recent years, some of other companies have taken a bite out of their marketshare. Companies, such as Komatsu and Hitachi, offer cheaper alternatives and are a big threat to Caterpillar's long term position. Companies with less expensive options are not the only threat. Volvo, an auto manufacturing firm, has also entered the heavy machinery industry with increasing marketshare.

So, what makes so many people still choose Caterpillar? The answer is their marketing strategy. Caterpillar's marketing strategy centers around consumers the way no one else does. They have a guaranteed 48 hour delivery of spare parts anywhere in the world or they pay for it. Their strategy is real simple, added value. They give better service than anyone else in the industry. It is a great relief for a customer to know that spare parts are just 48 hours away. When construction is under way, a delay can be a major inconvenience. No matter how good products are and no matter how well they are built, they still may break. Broken machines can bring construction projects to a grinding halt with incurring costs. The guarantee of the 48 hour delivery is one of the main factors that keeps Caterpillar in the lead.

In the last few years, Caterpillar has used another marketing strategy to get to their target audience: social media (Sandman, 2012). They started using social media to get through to the blue collar audience and build customer loyalty. Social media not only gives them great marketing opportunity, but it allows for customer feedback. By asking their clients directly for their input in the design of the products, customers feel that their opinion matters and are important to the company.

Over all, Caterpillar is a solid company; it has a highly diversified portfolio with significant marketshare in many sectors and diversified location of their plants.

However, having such a diversified portfolio they must be careful not to get carried away in their ambition to take over that entire market. Recently, Caterpillar has heavily invested in the mining sector. In their ambition, they acquired some mining companies, the biggest two were Bucyrus International and China's ERA Mining Machinery for $8 billion and $700 million, respectively. Having invested heavily in the mining industry it was no surprise that this sector in 2012 accounted for roughly 22% of their overall revenue (Knight, M, 2014). However, in 2013 the mining sector started to falter. Obviously, when Caterpillar entered the mining industry they may have had short term objectives in mind. They did not foresee the drop in the mining industry. Thus, when entering a new industry very aggressively they need to be careful and keep an eye on the long term.

Keeping a company in the lead is a challenge. Hindsight is 20 20, yet, foresight is what drives a company. When looking where to invest and where to cut back, companies must keep a constant watch on the market and demand. A company of the size of Caterpillar can make huge gains from investing or entering a new market but it also incur even bigger loses from entering the wrong sector. It is a constant challenge to stay on top of their game. Yet, overall Caterpillar has been doing a phenomenal job staying in the lead and meeting their competitors head-on. A company does not achieve the prestige and brand loyalty that Caterpillar enjoys without doing something right.

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Planning For a BlackBerry Turnaround Through Brand Repositioning

Ezra Karakowsky

BlackBerry appears to be a great company that has gone "bad". The company, formerly called Research in Motion, changed its name to BlackBerry in 2013 to publicly signal a change in the company's vision and approach. Since 2011, the company has faced a huge range of problems. Its first tablet, the PlayBook, was a failure; its network suffered a big service outage; and weak sales resulted in a major downsizing of its workforce (Castaldo, 2012).

In 2013, BlackBerry attempted a comeback with the BlackBerry 10 phone. It did show some signs of promise but did not trigger the expected "big comeback". Clearly, BlackBerry has a lot of catching up to do. What else does BlackBerry need to do to get back into the spotlight? Among different approaches to address this question, one stems from a marketing perspective.

The aim of this paper is to ultimately offer a plan for BlackBerry to gain back at least some of its marketshare that it has lost over the years. In order to present a plan, there is a need to examine elements that will impact the success of a marketing plan for BlackBerry. This paper specifically focuses on brand repositioning. This marketing concept is explained, discussed, and integrated with an understanding of consumer behavior and its effect on consumer choice in the smartphone market.

Below, I first present a background statement which provides an examination of the notion of brand repositioning. Selected studies in the literature review section draw upon several streams of thought regarding brand repositioning. Lastly, a marketing plan is presented in regard to achieving a brand repositioning goal for BlackBerry.

Blackberry and the Smartphone Market

In 1984, Mike Lazaridis and Douglas Fregin founded an electronics and computer science consulting company called Research in Motion (RIM). It rose to fame after it came up with a breakthrough technology – an easy and effective device that allowed employees to send and receive e-mails while being away from the office. They called it the BlackBerry (Gillette, Brady, & Winter, 2013). For years, it seemed that BlackBerry had a very bright future in the smartphone market.

The year of 2002 saw the introduction of the first genuine smartphone, which was credited to RIM. The company released BlackBerry 5810, which featured a phone, PDA, e-mail, Internet capabilities, a built-in calendar, address book, and other applications. Blackberry also focused on providing wireless email access. Two years later, RIM added handset-free phone functionality on the Blackberry 6210 model. It seemed to be a company with a huge potential. It was not long before RIM became one of the world's most valuable technology companies. The BlackBerry became the norm especially among business executives.

However, soon the smartphone market faced drastic changes. In 2007, Apple's launched its first iPhone, which was considered a big leap forward in the industry. The iPhone was similar to an iPod, except it could also make phone calls, take pictures, and browse the Internet. While Apple was not the first to launch a smartphone, it successfully combined several features to offer more ways of communicating with others.

To popular culture, the iPhone became a mobile media center. In that regard, the iPhone changed

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the nature of the smartphone market. Up until that time, smartphones were seen more along the lines of something that business people used (i.e., the BlackBerry). However, as Apple came to establish the smartphone for all consumers, it became a culture phenomenon and a "must-have" device for all.

BlackBerry did not take Apple's iPhone seriously. BlackBerry's management kept thinking that consumers will always flock to the most durable, most secure, and efficient phone. BlackBerry also assumed that consumers would always prefer a keyboard. They failed to see the change in consumers' behavior that appeared to shift away from the BlackBerry brand. In 2009, BlackBerry's share price had fallen to less than $50, from its high of $236 in 2007. A writer from the New Yorker magazine observed:

> "The consumerization of business technology was already underway, and the company had failed to come to grips with it: when BlackBerry users returned home and pulled off their ties, they picked up iPhones, which were a lot more fun to use. Soon, they wanted to use iPhones at work. Simultaneously, companies realized that workers would be happier and more productive buying the device of their choice, and the firms themselves, spared the expense of providing their employees with phones, and would save money" (Vara, 2013).

Similarly, an article in Time Magazine (Gustin, 2013) refers to the mistakes BlackBerry made in its assumptions about consumer purchasing behavior and the elements that effect consumer choice. BlackBerry did not anticipate that the general consumer, as opposed to just business customers, would eventually lead the consumption of smartphones. Second, BlackBerry was not prepared for the emergence of the "App", which helped to drive the huge adoption of iPhone and Android-based devices. Maybe most important of all, BlackBerry failed to realize that smartphones would become more than straight forward communication devices (i.e., not just a phone) and eventually become mobile entertainment units (Gustin).

BlackBerry's problems seem very much related to brand positioning. BlackBerry established itself as a serious business users' phone and it never really seemed to get rid of that image. Apple, on the other hand, positioned its iPhone in a much broader way. This issue will be discussed and examined in the next section.

Background Statement: Brand Repositioning

First, it is important to understand the meaning of brand positioning. According to Perreault, Cannon, and McCarthy (2013) brand positioning focuses on the process of creating and altering perceptions of consumers about a company's products or brands. In other words, positioning refers to how customers think about proposed and/or present brands in a market. It is through the brand's positioning that a company can build a competitive advantage of its product attributes in the mind of consumers. Positioning can also be considered as the target market's perception of the product's key benefits and features, relative to the offerings of competitive products.

Given that brand positioning is the process of positioning the brand in the mind of consumers, brand positioning is also referred to as a positioning strategy, brand strategy or a brand positioning statement. Reis and Trout (2000) explained that the goal for a company is to identify and attempt to "own" a marketing niche for a brand or product, using strategies such as pricing, promotion, distribution, packaging, and competition. The aim is to generate a unique impression in the customers' minds so that they can associate something specific and desirable with the company's brand that is distinguished from the competitors.

Reis and Trout (2000) also argue that brand positioning occurs whether or not a company attempts to actively develop a position.

However, if the company takes a proactive approach, it can positively influence its brand positioning in the minds of its target market (Perreault et al., 2013). Arguably, it seems that BlackBerry did not take a proactive approach to managing its brand image. It simply left its position to drift according to the self-generated and changing perceptions of consumers.

Repositioning involves a major change in the consumers' perception of the product. In other words, repositioning is the effort to implement a major change in the target market's perception of the product's key benefits and features in comparison to the competition. The change of the established product positioning is aimed at making the brand more meaningful to the target segment (Perreault et al., 2013). This is the main challenge for BlackBerry.

Who is BlackBerry's target market? Initially the company focused on business people. Once it lost ground to the iPhone, BlackBerry lost both business customers as well as consumer users. In response to Apple's wider target market approach BlackBerry's aim is now to appeal also to the broader market of both the business and individual users.

Understanding consumer behavior is a critical criterion for dealing with brand repositioning. Consumer behavior involves the processes that consumers use in selecting and using products/services to satisfy their needs (Perreault et al., 2013). The study of consumer behavior involves understanding of how products are used and purchased. Knowledge of consumer behavior should then serve as basis for selecting the right strategy for product positioning and increasing product demand.

Given the above considerations, we now know that smartphones are information and entertainment units; they are no longer confined to a narrow purpose of simply dialing a phone number. Understanding consumer behavior also means understanding the psychology of how consumers are affected by their environment (e.g., culture, family, and media). These critical factors can influence the success of BlackBerry's attempt at brand repositioning; and this is addressed in the next section.

Literature Review

Each customer has their own idea of what the brand represents (Maurya and Mishra, 2012). Based on that notion, positioning is not exactly something you do in isolation, but rather, it is the result of a wide set of customers' perceptions. In other words, positioning is not something created in a "vacuum" but rather the act of positioning is a shared experience with the customers. Understanding perceptions of the consumer is therefore critical. It is the image of the brand that consumers carry in their mind that ultimately matters.

Gwin and Gwin (2003) assert that the core concepts of positioning include the target market and the perceived differentiation from the competitors. In addition, they note that the concept of value to the customer is central to effective positioning. Specifically, the brand must be able to communicate this value effectively to at least one market segment in order to entice customers to switch to that brand.

A traditional approach to implementing brand repositioning involves taking small steps from the established to the newly desired position. It requires a lot of insight into the minds of consumers. On the other hand, there have been cases of some brands significantly altering their brand meaning. This drastic approach may be a requirement for BlackBerry, which would need to include the shift to both the consumer and business users.

Some scholars (Van Auken, 2003) believe that there are a number of reasons for brands with radical transformations to be successful. First, they are forced to change image due to their brand's declining core market (e.g., BlackBerry). Second, they do not extend parts of the brand image into new market segments. Third, they avoid inconsistent or different brand meanings. Finally, successful companies carefully plan their repositioning efforts. That is, the company's marketing strategies need to be carefully altered to address the new target audience (Van Auken).

The first step for BlackBerry is to examine the essence of what their brand represents and what customers want. According to Maurya and Mishra (2012) to position a brand in the customers' mind, the company must look "inside itself" and understand how all parts of the company create a consistent image. That is, all members of the organization that reach customers have to communicate effectively and consistently express the brand's desired image. Also, every aspect of a marketing approach should reflect the brand image that the company wants to achieve.

The literature indicates that many marketers do not follow a rigorous approach in assuring that brand repositioning is done effectively (Van Auken, 2003) despite the fact that the approach must embody all relevant parts and actions of the organization to reflect the new brand image.

The literature also indicates steps for brand repositioning, which includes the brand strategy process. First, experts observed that brand positioning statements are often confused with company taglines or slogans. Positioning statements are for internal use only. These statements help to guide marketing decisions that affect the customers' perception of the brand. A well-crafted positioning statement is an effective tool for helping to clarify marketing strategies, advertising campaigns, and promotional tactics (Van Auken, 2003).

Before creating a positioning strategy, it is first necessary to identify the brand's uniqueness and determine its differentiating attributes from the competition. Accordingly, Bueno and Jeffrey, (2013) identified a number of steps to clarify product positioning in the marketplace: 1) determine the current positioning of a brand; 2) identify direct competitors; 3) understand each competitor's brand positioning; 4) identify product's uniqueness by comparing current positioning to competitors' products; 5) develop a distinct and value-based positioning idea; 6) craft a brand positioning statement; and 7) test the efficacy of the brand positioning statement.

The brand positioning statement has been described as a one- or two-sentence declaration that communicates the company's brand as a unique value in contrast to competition. According to Bueno and Jeffrey (2013), there are four essential elements of a well-crafted positioning statement: 1) target customer: summary of demographic description of the target group of customers that the brand is trying to attract; 2) market definition: the context in which the brand has relevance to customers; 3) brand promise: identification of the most compelling (emotional/rational) benefit to the target customers relative to the competition; and 4) reason to believe: compelling evidence that the company's brand provides the benefits it claims to have.

After addressing those elements above, an effective positioning statement can be developed. An example of a brand positioning statement from Amazon.com in 2001 included: "For World Wide Web users who enjoy books, Amazon.com is a retail bookseller that provides instant access to over 1.1 million books. Unlike traditional book retailers, Amazon.com provides a combination of extraordinary convenience, low prices, and comprehensive selection" (Stayman, 2014). This is the kind of statement BlackBerry needs to generate.

Marketing Plan and Justifications

An effective marketing strategy sets out a plan for the best use of organizational resources to meet company objectives. The aspect of the marketing strategy that this paper focuses on is the repositioning of the BlackBerry's smartphone brand. In addition to what was stated above, positioning can also include improving a customer's perception about the experience or benefit from the product. The company can positively influence the perception of customers through strategic promotional activities and by carefully defining the marketing mix.

Effective positioning involves an understanding of competing products and the benefits sought by the target market. It includes a differential advantage over other products (Perreault et al., 2013). Therefore, BlackBerry should aim to position itself mainly against the iPhone.

While many experts suggest that the main themes of marketing include segmentation, targeting, and positioning, positioning is the most ignored or poorly executed step in marketing (Van Auken, 2003). It seems to be very true in the case of BlackBerry. Ries (2001) notes, "if you do not actively define and manage your product positioning, your customers, media or worse your competitors will". This is exactly what happened to BlackBerry. Consumers started perceiving Apple's iPhone as a more advanced, consumer friendly, and "cool" product than the BlackBerry.

My recommendations for repositioning include the above mentioned suggestions as well as the ones that Pollack (2008) offers. Brand positioning is based most notably on five key issues: price, quality, product attributes, distribution, and usage occasions. Reasons for repositioning BlackBerry's brand include declining sales, loss of consumer base, stagnant product features, as well as growing competition, particularly from Apple. Experts including Pollack (2008) and Brunet-Garcia (2010) suggest a multi-phased brand repositioning approach to help guide the process.

Phase I. Determining the Current Status of the BlackBerry Brand

The purpose of this phase is to understand BlackBerry's brand, including exploring main opportunities and challenges. The objective is to obtain a clear picture of BlackBerry's brand in present terms. Understanding the brand includes reviewing the history of BlackBerry, including its current brand positioning, the original positioning, its brand evolution, and the current brand's standing. Market research needs to address the following issues: factors that differentiate BlackBerry's brand from the competitors and the historical communication of BlackBerry's brand to consumers.

In terms of BlackBerry's current brand, we need to address a number of questions. What is the current customers' base? What are their profiles? What are the reasons for purchasing the product? What are the buying patterns? What are the usage patterns? After addressing these questions, the review is due to include the brand's sales history, revenue, marketshare, and the current product strategy.

This phase should also examine the strengths and weaknesses of the production and distribution processes, BlackBerry's major clients, and key selling points along with a review of all promotional materials. In addition, a complete evaluation of the competition should encompass the number of competitors, keys to their success, their competitive advantage, and their key challenges.

Phase 2. What Does the Brand Stand for Today?

Consumer surveys can help assess how consumers feel about Blackberry's brand today. Getting a clear insight into the way consumers feel and relate to BlackBerry will offer a starting point for the repositioning plan. BlackBerry must make greater efforts to differentiate its brand characteristics. Right now, customer perceptions are nowhere near where BlackBerry would like them to be. There is no clear brand position that currently exists; at least not a favorable one. In customers' minds it is unclear what BlackBerry offers today. It seems to conjure up images of an old, business oriented phone that is used by very few today. Customers do not know enough about BlackBerry and how it can address their needs as compared to the iPhone.

There are several tools to identify key growth opportunities for the BlackBerry brand in the marketplace. Consumer surveys can help provide an understanding of current consumer perceptions of the BlackBerry brand. This can also help assess how far to "move" the brand's image without alienating current customers and their loyalty. In this regard, one way is to organize a meeting with "brand equity groups", which will directly get insights from BlackBerry consumers about their purchasing decision process. The brand equity groups will also help uncover customers' needs and benefits that the brand currently offers. The group meetings can take place over two days in several sessions.

The process will provide a current estimate of the value of the brand in the customers' eyes. The goal of the BlackBerry brand equity groups is to identify opportunities, including looking at growth areas as well as satisfying unmet user needs.

Phase 3. Developing the Brand Positioning Platforms

After BlackBerry management obtains a better understanding of the status of its brand within the marketplace, the next step is to determine the platform for repositioning. The goal of Phase 3 is to use all the marketing research, brand, industry, and consumer information to reposition the brand by capturing the way BlackBerry wants consumers to think and feel about their brand.

This phase of the process should identify several critical brand positioning factors to illustrate how much BlackBerry's brand can be "moved" in order to retain existing customers and acquire new ones. It addresses at least three basic questions. What should the BlackBerry brand be? What benefits will it deliver to the consumer? How can promotion influence the product purchase patterns?

In order to answer the above questions, we need to conduct strategic brand positioning workshops; preferably in two sessions. The first session would be developing the BlackBerry brand vision, which describes where the brand is and what it should become. It should also map out the shift of the brand for the short and long term. The second session would address "stretching" the brand. This involves a compilation of all the information gathered in order to review consumer insights for determining the characteristics for the end goal of the brand. The BlackBerry brand could include parameters, such as, "fun", "mystery", "anticipation", and usage occasions. Notably, this process should be driven by the feedback from consumers. The overall purpose is to determine the areas worth pursuing for the BlackBerry brand vision.

Once the new brand positioning platform is developed, it needs to be tested and validated with consumers with the ultimate goal of refining it. Focus groups would allow talking again with consumers to confirm the new brand positioning, revise the platform, and test the "stretching" of brand. The final output of this phase consists of an overview of consumers' attitudes towards the newly identified brand characteristics and the final map of brand positioning.

Phase 4. Refining the Brand Positioning and Management Presentation

Following the development of the new brand for BlackBerry, the next step is to review the new repositioning and communicate this vision with BlackBerry departments in order to gain support and align collective implementation effort. It is important for everyone at BlackBerry to understand and support the new brand positioning strategy. The guiding plan is important for those supervising the marketing efforts and the implementation plan. The final phase involves refining and finalizing the brand strategy by incorporating new feedback from consumers and the brand groups.

The last stage needs a strong team to regularly communicate with the senior management within BlackBerry. This includes presenting the new brand positioning efforts to the brand group and senior management throughout the process. Once the top leadership of BlackBerry endorses the repositioning, the focus can shift on marketing and communication with the customers.

Therefore, a BlackBerry "Brand Identity Manual" needs to be created to specify how the new brand positioning is expected to produce growth for BlackBerry. The manual will highlight industry, competitive trends, and consumer attitudes that support the new brand positioning. Its purpose is to communicate marketing research findings and the reasoning for the new brand positioning. It also displays a consistent message for all involved brand function areas and support groups within the company; and it communicates the all agreed-upon brand positioning strategy for the company.

As Brunet-Garcia (2010) notes that throughout the process, there are a few fundamentals to keep in mind to ensure that the new brand position and image align with BlackBerry’s goals. A successful marketing campaign should be based on gathering sufficient information from consumers and other stakeholders to properly reposition the brand and adequately communicate it to employees of the company. Finally, the board of directors of BlackBerry and other top decision makers need to be involved in each stage of the process to support the effort.

In conclusion, I am confident that following this systematic approach to brand repositioning can help BlackBerry regain their marketshare and establish the brand in a more positive light in the eyes of consumers.

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Employee Motivation and Output

Naftali Perkal

In any workforce, managers often find themselves struggling to keep their employees engaged and motivated to perform their tasks. A worker may become bored on the job when it is very routine-like with the same tasks to be done over and over. Inevitably, boredom may affect employee's productivity, however by empowering employees and instilling faith in their abilities, managers may find that they can motivate employees and combat their boredom and motivate them.

Empowerment is a management technique that involves giving employees more authority, control, and responsibility over how they perform their work activities. This technique has increased employee and managerial productivity alike. In other words, the more responsibilities managers allow workers to take on, the less the managers will have to supervise them. Thus, the managers will have more time to accomplish other more important tasks.

On a psychological level, there is much to discover about the concept of empowerment from an individual's perspective. Lee and Koh (2001) outlined four dimensions of empowerment. The first is meaningfulness, which is the meaning of a value, task or goal, judged in relation to an individual's own ideals or standards. Second is competence, or an individual's belief in his or her ability to perform tasks skillfully. The third is self-determination, which is an employee's choice in the initiation and continuation of work behaviors and procedures. The fourth is impact, which is the perception of one's ability to influence certain outcomes while on the job. The higher individuals score in each one of these criteria, the greater their sense of empowerment (Greasley, Bryman, Dainty, Price, Soetanto, & King, 2005).

Thomas and Velthouse (1990) state that there are six variables, which influence these four criteria. Included in these variables are task assessments, environmental events, interpretive styles, global assessments, interventions, and behaviors. Each one of these variables is linked to at least one of the four principles listed above. Environmental events influence the opportunities that individuals face in the workplace, which in turn will affect their outcomes at work. Task assessments are related to the meaningfulness of an employee's task goals. Global assessments are involved with decisions which an employee makes to impact different outcomes. Employees' interpretative style of different situations on the job will help determine their competence and abilities to preform necessary work tasks.

The benefits of empowerment can be divided into two areas, which are advantageous for both the individual and the organization. Five examples of empowerment are information sharing, upward problem solving, task autonomy, attitudinal shaping, and self-management. Studies have shown that individuals who consider themselves empowered have reduced ambiguity and conflicting issues within their role. Additionally, empowerment leads to less strain on the employees as they are now able to control their own environment. However, there are instances where managers find themselves struggling to empower employees due to employees' resistance to empowerment in fear of increased responsibilities and accountabilities. In addition, managers may also resist empowering employees as they may view it as relinquishing power and diminishing their own status (Thomas & Velthouse, 1990).

The word motivation is derived from the Latin word "movere", which means to move. Motivation represents a goal-oriented psychological process that causes the arousal and persistence of voluntary actions. Robbins (1993)

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defines motivation as the willingness to exert high levels of effort toward goals, conditioned by the ability to satisfy some individual need. When employees are motivated, they tend to feel a tenuous need for particular goals to be achieved, thus directing their behavior to do so. Motivated employees tend to be in a state of tension to accomplish goals and that is the reason they exert effort. Motivation theorists have developed an equation that reflects this relationship: the higher levels of internal tension the employees experience, the more effort they will exert to accomplish a particular goal.

Sanil Ramball (2004) too, theorizes five methods of explaining human motivation, which include an employees' receipt of reinforcement, their cognition, job characteristics, and emotions. Need theories, equity theory, expectancy theory, and job design theory are used to explain the five theoretical concepts mentioned above. The need theory attempts to locate internal factors that energize behavior, which can vary over time, strength, and environmental factors.

The equity theory states that individuals are not only concerned with the total amount of rewards they receive for their efforts, but rather with their award and effort in comparison to others. For example, an employee can compare outcomes, such as effort exerted and salary levels. A perceived imbalance in one's outcome-input ratio in comparison to others creates tension. This tension is a basis for motivation as people strive to achieve outcome levels, which are fair and equitable to the input.

The equity theory is based on three assumptions. The first assumption is that people develop beliefs as is to what is fair in return for their input on a job. The second assumption is that people compare as to what they perceive a fair exchange with their employers. The third assumption states that when people believe that their own reception of treatment is not equitable relative to exchanges that others make, they will take necessary action deemed appropriate to establish fairness.

The expectancy theory holds that individuals will be motivated to behave in ways that bring out desired combinations of expected outcomes. This theory states that the strength of a tendency to act in a certain way is dependent on the strength of an expectation that will be followed by a given outcome. The theoretical approach of a job design is the idea that the task itself is the key to employee motivation. Therefore, a monotonous job brings down any possible motivation to do well. On the other hand, a challenging job can enhance an employee's level of motivation. To stimulate and challenge an employee to excel, a manager can give the employee variety, autonomy, and decision capacity on the job. To add more variety and challenge, a manager can provide job enrichment and job rotation.

From the years of 1908 to 1914 Henry Ford and his production managers developed a system of the moving conveyor belt (Jones & George, 2014). With this system, workers would repeat their specific tasks over and over for nine hours a day. Although this was a very efficient way to assemble cars, Henry Ford's employees were inefficient and unmotivated by their monotonous work. As a result, Ford's car plants experienced high employee turnover; by the year 1914, turnover levels reached anywhere from 300 to 400%. To decrease employee turnover and increase effort among his employees, Ford cut the length of workdays to eight hours and doubled workers' wages form \$2.50 to \$5.00 per day.

Unfortunately, Ford also assigned task watchers who disciplined the employees' work, creating an environment where employees felt constrained in their social environment at work, ultimately decreasing any sense of motivation among his employees. Years later, Ford allowed employees to engage in multiple tasks and responsibilities on the job to eliminate the boredom of doing the same task repetitively (Jones & George, 2014).

In conclusion, communication methods between managers and employees about awards and key motivational factors deserve more attention by organizational researchers. Future research studies should better inform managers on how to take feedback from the employees seriously, diversify their tasks to eliminate boredom, and let the employees operate within a reasonable amount of autonomy and free choice.

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Why Can't We All Be Steve Jobs?

Talya Landau

The name Steve Jobs instantaneously ignites a light bulb in people's minds. It invokes words such as Apple, entrepreneur, and innovator. It is utterly impossible to be oblivious to the world that Steve Jobs created. The streets are filled with mementos screaming, "I am Apple".

You cannot pass by a Starbucks or classroom without seeing the signature sleek, steel computer embossed with the luminous apple - Steve's Apple. Jobs possessed qualities different than the average human being. These qualities allowed him to break boundaries and create a world that did not exist before. Was he the most driven person? Maybe. Was he the smartest person? Probably not.

His ideas were different, and people thought he was crazy. He may have very well been crazy, and bordering on a personality disorder, but these were the strengths of his success. As Jobs said in the Apple's "Think Different" campaign, "while some may see them as the crazy ones, we see genius. Because the people who are crazy enough to think they can change the world are the ones who do" (Janssen, 2011). He was referring to himself.

Most young ambitious entrepreneurs today are looking to fill a void. They want to find the supermassive black hole in our society, and fill it with their new, innovative ideas. While most people fail to take advantage of their environment, they cannot see when raw ideas are staring them straight in the face. They want to have the ability to conjure something from nothing.

When Jobs' brilliant, tech-wiz friend Steve Wozniak created the personal computer Jobs saw the potential in his brilliant idea and grabbed it. Without Jobs the PC could easily still be rusting over in Wozniak's garage, gathering layers of dust. When Wozniak was making the computer, Jobs focused on selling. Steve Jobs was not looking at the black hole; rather he took a star and created a universe. He had the ability to take an unbelievable idea, pounce on it, and turn it into an unbelievable product.

Nobody can deny it, Steve jobs was controversial, rude, and distant. These traits allowed him to move forward successfully, but it also caused people to resent him. His goal was purely product motivated. If someone presented an idea to him that he did not like, he screamed. He said what he thought. If he believed someone to be slightly incompetent, in his eyes they were an utter failure. He also had a nasty ability to take advantage of people and not feel guilty about it.

His co-founder, Steve Wozniak, said, "Jobs is a complex person, and being manipulative is just the darker facet of the traits that make him successful" (Isaacson, 2011, p. 54). If Jobs had been worrying about how the person on the other end of the telephone line felt, or if his worker cried when he got home out of sheer embarrassment, he would not have been able to construct his empire. This insensitivity was a vital element of the method to his brutal and successful madness.

Jobs founded Apple when he was 20 years old in his parent's garage. Ten years later Apple was worth over $2 billion, had over 4,000 workers, and Jobs was kicked out of his company. Jobs was self-motivated. He knew what he loved; and failure was not an option for him. After the shame of being exiled from his family, he founded another tech company, Next, which was later bought by Apple. At the same time he founded Pixar, which began a new era in movie animation. Another world of wonders was introduced to us by Steve Jobs.

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An average person cannot produce one multi-billion dollar company during one's lifetime, let alone two. There was no such thing as failure. Jobs would always keep going until his idea worked and there was no other option. His perseverance, self-motivation, and ruthless in treatment of others, personified his success as an entrepreneur. He did not act often like a "typical" human being because he was not a "typical" human being. Can we all be the next Steve Jobs? I do not think so. But, would anyone want to be like him? That is another question.

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Business Ethics: The Good the Bad and the Enron

Yosef Shine

Since the dawn of mankind, humans were created with an innate sense of morality. Whether it is based on conscience or religious background, man is tied down to a variety of rules he must live by. Standard wrongdoings such as murder, rape, and adultery are customary; and though some may stray from the aforementioned path, most people will not lose sight of the moral base. However, there are certain immoral acts which have constantly been overstepped and trodden upon. Honesty and integrity seemingly take a step back when money is involved. When translating ethics into a business environment, much of the material seems to get lost in the shuffle.

Business ethics are an accepted set of moral values and standards of conduct in a business organization. The specifics of what this actually means can vary from one organization to another. However each company is run by these standards, and should they fall short in following the protocol, punishment will ensue. In the days of monopolies and trusts, big businesses would lower their prices drastically to run small companies out of business, monopolize on the product, and then increase prices to whatever they deemed fit. During those times, there was no minimum wage, limited worker benefits, or unemployment, which meant that employees were working without being heard. The salary they received was minimal and the conditions they were forced to work in were deplorable.

Andrew Carnegie, the famous American businessman, treated his workers with little to no care, yet he was considered to be the prime example of "rags to riches" American story. If the standard of business in America was based on Carnegie, then there was something important missing in the American business model.

Fortunately, nowadays businesses understand the need to remain honest and true, and understand the repercussions of not following basic laws of morality and ethics. Though, the most dastardly punishment for business is to lose customers, stockholders, and potential partners, as nobody wants to deal with people without moral standards. Many businesses have crumbled due to lack of ethical behaviors, while others have flourished due to their constant moral high ground.

The Enron

Marianne Jennings wrote of Enron in her book "The Seven Signs of an Ethical Collapse":

> "The Enron Corporation was an American energy and services company based in Texas. Before its bankruptcy on December 2, 2001, Enron employed approximately 20,000 staff and was one of the world's major electricity, natural gas, communications, and pulp and paper companies, with claimed revenues of nearly $111 billion during 2000" (Jennings, 2006, p. 65).

Enron was the front runner in hundreds of different technological advances. Many employees used technology, such as video calling and streaming video ahead of their time. Yet, Enron was caught in a public fraud scandal. Fortune Magazine columnist Bethany McLean pondered aloud whether Enron was overpriced. When she inquired, Jeffery Skilling, who had become the CEO of Enron as former CEO Kenneth Lay had stepped down, referred to her comments as unethical. However, her reports did seem to show much amiss in the ways Enron did accounting, and soon afterwards the company began reporting losses. They first reported a $638

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million loss in just the third quarter, which prompted the United States Security and Exchange Commission (SEC) to begin an inquiry in October of 2001.

Kenneth Lay then tried persuading Commerce Secretary Don Evans against downgrading Enron's credit score that prompted a full investigation by the SEC. After which, Enron revised the past five years of profit sheets to reflect $586 million in losses, instead of the profits they previously claimed. A federal subpoena was filed against all of their documents, and the stock subsequently plunged to less than a dollar. Within a month, Enron declared bankruptcy and was forced to lay off 4,000 employees. Years later, George Bush was still sorting out the various intricacies within the scandal and a separate Enron Task Force was created within the newly formed Corporate Fraud Task Force. The story left America reeling and trust in large companies plummeted.

Enron's collapse was due to unethical practices of top management. First of all, a company must be forthright about its profit margins, funds, and records. They must show proper earning potentials and be honest about their competitors. When a company does not employ these standard ethical laws, they are in essence, lying to their customers and shareholders. This was what Jeffery Skilling did. It was reported by CrimeRadius.com, a site specializing in ethics in business:

> "Skilling had a reputation for painting a picture of robust profits without regard to underlying conditions. One of Skilling's prerogatives as Enron president was an insistence on using mark-to- market accounting, utilizing both a bevy of off-book accounts in addition to documenting anticipated profits as present in the current fiscal year" ("Learn about Business Ethics", 2009)

With documented profits not yet realized, they persuaded shareholders to purchase more of their stock. Kenneth Lay turned a blind eye due to the increasing amounts of funding they were receiving, which was necessary for their many new projects. Usually, when a company begins to diversify into new areas or projects, a loss is shown. However, due to the partnerships with other companies, such as Chewco Investments, Enron documented favorable financial standing.

Shareholders jumped at the chance of owning shares of a company that was able to retain positive balance even during times of diversification. However, the stock had not just maintained its previous growth it had supposedly flourished and tripled in profits in just three years. With the amount of investments Enron was making, everything seemed possible. Yet, Kenneth Lay and Jeffrey Skilling knew better, and though they advocated for their company profusely, they discretely rid themselves of their shares, as the SEC began poking around.

Ethics is corporate standard of moral laws that businesses must follow. Lying is the antithesis of morality. By creating a fabrication of profit margins for private gain, the leaders of Enron marked themselves as scandalous individuals. While Kenneth Lay passed away before a verdict, Jeffrey Skilling was given as sentence of 24 years and four months for his crimes. Sixteen other people were also sentenced in this scandal.

Yet, ethics is not only about breaking the law. It is about breaking trust, and a code of comradery between people in the workplace and the stakeholders of the company. When Enron crashed, thousands lost millions of dollars. Four thousand people lost their jobs and the entire American economy, even the global economy, was left reeling.

"During the Enron debacle, it was workers who took the pounding, not bankers. Not only did Enron employees lose their jobs, many lost their retirement savings. That's because they were at the bottom of the investing food chain" (Kiyosaki, n.d.). When Lay and Skilling committed their crimes, they looked out for nobody but themselves. They believed, because they were higher on the totem pole, they deserved to disregard the needs and feelings of others. Ken Silverstein wrote for Forbes magazine on the debacle,

> "The company's failure in 2001 represents the biggest business bankruptcy ever while also spotlighting corporate America's moral failings. It's a stark reminder of the implications of being seduced by charismatic leaders, or more specifically, those who sought excess at the expense of their communities and their employees. In the end, those misplaced morals killed the company while it injured all of those who had gone along for the ride" (Silverstein, 2013).

Everyone has an internal moral compass. Should people choose to ignore it, they lose sight of anything holding them back from destruction; whether it be self-destruction or destruction of those around them. Enron's executives chose their path without care for those around them, or those relying on them.

One of a company's largest responsibilities ethically is the employees and their safety. Employees must be treated with respect and dignity. If employees feel they are treated properly they will perform well for the company, they will feel indebted to do their job. Yet at Enron, employees knew that their concerns held no validity with higher officials in the business. Brent Scowcroft, an Enron board member, expressed concerns to Kenneth Lay, who then answered him with a curt, "How could you be right, and the men of this caliber be wrong?" (Jennings, 2006).

Lay was referring to his right hand Skilling and CFO Andrew Fastow. Although Brent Scowcroft was a retired general, presidential aide, and a board member of Enron, his opinion still meant very little against those of stronger caliber. Apparently, after the debacle many employees came out with concerns they had expressed to Skilling, Lay, and Fastow; each one rejected. They complained that they had never summoned up the courage to voice, in fear of losing their job or plaudit within the company.

Therefore, an ethical company should have a simple yet effective system of reporting faults, not only directed at management, but at policies and biases. A company, that wants to maintain growth, should set up an anonymous reporting system to reassure employees in fear.

Ironically, Enron was actually known as one of the most charitable companies in the world at the time. Just because companies give to charity it does not mean they are ethically correct. Most of Houston's charities were funded by Enron, and even the Texas Rangers once played on the Enron field. Companies are often active in charity work to create a better name for the company. Another reason Enron executives may have donated money is to assuage the guilty feelings from the crimes they were doing. Ethics represent actions and words within the company: the way workers treat one another, customers, partners, and stakeholders.

The Good 3M

Yet, there is hope in the world. Since the fall of Enron specifically, companies are focused on creating and implementing ethical code of conduct for their companies. The 3M Company has been named as one of the world's most ethical companies by the business ethics website Ethisphere ("World's Most Ethical Companies – Honorees", 2014). The morals it upholds is a standard the rest of the business world should attempt to follow. On their website they clearly state, "At 3M, we believe that what the company stands for is just as important as what we sell. We are proud to have built a century-old tradition of operating with uncompromising honesty and integrity" ("3M Company Information Packet", 2013). Honesty and integrity are two of the most important aspects of an ethical company.

Reading through the 3M code of conduct many words stick out: "Be good, be honest, be fair and impartial, be loyal, be accurate, and be respectful"

(“Respectful Workplace Principle”, 2012). Each of these statements represents trust and understanding between a company and its employees, as well as its partners.

> “3M’s goal is to have a work environment that reflects and values the best in everyone, where people treat each other respectfully and professionally, and where individual differences are valued. Any harassment or unprofessional or inappropriate behavior, even if not illegal, interferes with that goal and will not be tolerated. Unlawful discrimination is also prohibited. This Principle applies whenever employees are at work, and to work events and other 3M-sponsored activities” (“Respectful Workplace Principle”, 2012).

These rules are explicitly stated. The company ensures that they are read, understood, and complied with throughout each employee’s tenure.

What separates 3M from the rest of the world is the regard for ethics. First, the story goes back to their invention process. According to Lehrer’s study in the book “Imagine” 3M shot into existence with the creation of the sticky notes (Lehrer, 2012). Beforehand, they were a standard company with many inventions and competing well within the industry. However, one day when trying to make long-lasting glue, a technician realized his glue was too weak and removed from the paper with ease. Rather than being swayed, he focused on creating a new invention, a sticky note.

At many companies failure is not encouraged; nevertheless at 3M, trying is always encouraged regardless of the outcome. Time is set aside daily for workers to sit and brainstorm. These ideas are then put into use with hundreds of inventions submitted on annual basis for review. Needless to say, many companies have copied 3M’s policies that support employees’ innovation efforts.

When a company puts trust in their workers and believes in them to the point of allowing them to do absolutely nothing but think, it gives employees a sense of empowerment. Empowerment can be well related to ethics. It gives workers responsibility, appreciates their contributions, and allows them to work to benefit the society. Kathryn Schroeter, Ph.D., discusses empowerment as follows:

> “Being empowered is acting with integrity to create the environment in which we and others can develop character, competence, and synergy. It is a balance of autonomy and dependence. When we take a stand or advocate for some aspect of our nursing practice as something we want, we are creating a vision. We are willing, therefore, to take a risk for it. Advocating for something implies advocating to someone in order to bring about the vision. Advocacy as ethical practice means taking some sort of action on behalf of someone or something that we believe in” (Schroeter, 2006).

The above quote can be applied to any organization. When workers feel empowered, they will step up and try to do their best job not only for themselves, but for the better of the company. Giving them power and authority when deserved is a wonderful way to boost morale and business ethics.

3M does not only allow freedom and empowerment to innovators and inventors, but to all employees. William McKnight, the chairman of 3M from 1949 to 1966, understood the proper way to treat his employees and in 1948 he wrote,

> “As our business grows, it becomes increasingly necessary to delegate responsibility and to encourage men and women to exercise their initiative. This requires considerable tolerance. Those men and women, to whom we delegate authority and responsibility, if they are

> good people, are going to want to do their jobs in their own way. Mistakes will be made. But if a person is essentially right, the mistakes he or she makes are not as serious in the long run as the mistakes management will make if it undertakes to tell those in authority exactly how they must do their jobs. Management that is destructively critical when mistakes are made kills initiative. And it's essential that we have many people with initiative if we are to continue to grow" (Gunther, 2010).

From the first day on the job, he knew how to treat employees well, not as underlings or subordinates, but as trusted and equal individuals. An intern working at 3M in 2012 spoke reverently about the company:

> "3M is a very large company with many smart people. It is great to be able to learn a lot from your colleagues. There is a big emphasis on collaborating with people across the company. The good thing about 3M's size is that there is almost definitely a position that is a good for you. The people are very nice, and the company culture is built on ethical business practices" ("Employee Reviews of Companies: 3M", 2012).

Reading through the many reviews of the company, it can be noted that most of them center on an ethical environment. The reviews also mention various drawbacks about working at 3M, such as, being extensively focused on business, new ideas, and money. This highly driven environment does not sway the ethical ruling of the company. Every business is focused on making money and 3M is focused also on innovation. 3M demonstrates that a company can attain its goals and profitability while still holding on to ethical standards. Many companies have sacrificed treatment of customers, consumers, and partners' respect for the purpose of pursuing money-making agendas. 3M proves to us with its steady stream of products and considerable profits that these sacrifices need not to be made.

Many employees are afraid to report ethical problems in a workplace for fear of losing a job or promotion. In fact, Canadian ethics whistleblower Clearview Strategic Partners, Inc. recently conducted a study with deplorable findings.

> "According to Clearview, 28% of respondents witnessed the misuse of company property at their current employer, 25% saw harm to employees, 17% observed privacy violations, 17% were aware of fraud, 13% witnessed conflicts of interest, 9% knew about bribery or corruption, 12% observed environmental violations, and 11% had knowledge of the misrepresentation of financial results" (McDonald, 2013).

3M abides by a moral code by encouraging employees to report workplace concerns. It has set up guidelines, written by Camille Cohen, the Compliance Officer with 3M Health Information Systems:

> "1) Teach your employees that it's okay to report and remind them of the anonymous hotline.
> 2) Ask middle managers to address small infractions as they arise to prevent larger issues.
> 3) Remind middle and senior managers that a report of misconduct is not an act of disloyalty, nor a questioning of their abilities" (Cohen, 2013).

The third piece of advice is the most important. When the manager understands that rebuke or suggestions are not personal slights, it opens up the floor for creating a better work environment for both the workers and the managers. A more comfortable work environment, where people are not only free to express ideas but concerns, is the forefront of an ethical business. A useful management technique is to have multiple employees in one room presenting their ideas to rid of potential biases and unwanted misperceptions.

3M Social Responsibility

Lastly, 3M maintains a global ethical standard and social responsibility regard by contributing to the Sustainable Forestry Initiative. 3M sells many paper products, which are made from trees. Trees are necessary to continue the Earth's cycle of carbon dioxide and oxygen. Therefore, to protect the environment, which 3M needs to exploit to make products, the company plants new trees as part of the Sustainable Forestry Initiative. Not only do they plant a new tree for every one they fell, but during a special promotion in 2010 and 2011, they planted a tree for every registered Sticky Note pack bought in stores. Label on each package read:

> "3M is proud to partner with American Forests to ensure the success of our Plant a Tree Program. American Forests is a world leader in forest restoration, a pioneer in urban forestry, and a primary advocate for the benefits of trees and forests. American Forest's mission is to grow a healthier world and provide healthy forest ecosystems for every community" ("3M Buy One Plant One", 2011).

3M also claims that for 30 years prior to global warming issues, they had already begun initiatives to recycle products and used recycled materials in their production. It was 3M's own initiative.

Conclusion

Ethics depend on each individual entity. Everyone has a moral responsibility to the world and to themselves. The inability to maintain moral standard is a sign of lack of character and ethics. As vaunted psychologist Justin Shultz says "Just as character matters in people, it matters in organizations". Businesses must also be run with ethical lenses. If a company should lose sight of ethical values, they lose sight of humanity, and there must be eventual repercussions for wrongdoing. Enron was worried about the state of its quarterly reports, and therefore deceived the business world.

3M however, realizes the importance of being a long standing trustworthy company. 3M is a company who maintains its morals even if it means compromising profit. They have systems in place to maintain righteousness. When speaking of stock prices, many people will ignore quarterly reports to focus on the long term aspect of investing. Although its quarterly report may not always be positive, it is a highly sought after long term stock option. 3M is a company people have faith in as its morals are in its foreground for over a hundred years. In sum, the key lesson for any enduring company is a set of fair and eternal principles, which should not be compromised.

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The Crux of the Crazy Eddie Case: Why Internal Controls are Crucial

Ahuva Zucker

What came to be known as the Crazy Eddie scandal could have been prevented with the passage of the Sarbanes-Oxley legislation. The electronics chain known as "Crazy Eddie" had its accountants sign off on material misstatements, namely in inventory, in a collusion against its auditors.

Eddie Antar, founder and chief executive officer (CEO) of the Crazy Eddie electronics chain, had built up a discount electronics empire that was formed almost entirely of his own family members (Knapp, 2009). Because of his control over the company, Eddie Antar was able to collude with his relatives against the auditors.

The Sarbanes-Oxley Act, passed in July 2002, sought to tighten the reins on internal controls by including a requirement in Section 404 that "the external auditor report on the effectiveness of the company's internal control over financial reporting" (Arens, Edler, & Beasley, 2010).

Internal control consists of the policies and procedures designed to provide reasonable assurance that the company achieves its objectives and goals. While management is responsible for establishing internal control that will provide reliable financial reporting, it is the responsibility of auditors to attest whether or not management has successfully done so. Prior to Sarbanes-Oxley, auditors were only responsible to attest the fairness of financial statements, however now the Act has expanded their jurisdiction and access when auditing businesses to better detect fraud.

The weak internal controls began with Sam Antar, the chief financial officer (CFO) of Crazy Eddie. He and several other of Eddie's relatives were hired in key management positions (i.e., Sam was Eddie Antar's first cousin). At the age of 14, Sam Antar began working for his cousin Eddie as a stock boy. In the years to follow, he attended Baruch College because Eddie Antar and other "family members believed that [his] formal college education in public accounting would help them execute more sophisticated financial crimes in the future" (Antar, 2014). The most remarkable thing he did over the course of his career, though, was working for the accounting firm Penn and Horowitz, Crazy Eddie's auditors, at the same time that he was working for Crazy Eddie off the books.

After Sam Antar stopped working at Penn and Horowitz and prior to Crazy Eddie's going public, the electronics company hired a new accounting firm, Main Hurdman. Prior to the Sarbanes-Oxley, the new auditing firm was not required to contact Penn and Horowitz since Crazy Eddie was still a privately owned corporation. This lack of communication prevented Main Hurdman from doing an internal review of Crazy Eddie prior to accepting them as a client ("AU Section 315", 2014).

Before accepting clients, accountants can perform an acceptable audit risk, a measure to determine the risk of providing attestation services. Inherent risk is the measure of how likely there are material misstatements before taking internal controls into consideration. It is important for new accountants to look at both acceptable audit risk and inherent risk to properly plan the audit and determine the amount of required testing in order to accurately assess fairness of financial statements. Aside from internal controls, there were reasons for Main Hurdman to believe that there was high audit risk with Crazy Eddie, given its CFO's career past.

At the beginning of substantive testing, auditors should perform analytical procedures to identify whether there are any issues they will need to be

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verified more thoroughly. In the case of Crazy Eddie, between 1985 and 1987, inventory doubled from year to year while sales only grew slightly; The resulting lower inventory turnover ratio over time should have caused the auditors to question the reporting. Had they done more diligent testing, they may have detected some of the fraud that Crazy Eddie had been perpetrating. Frauds included, but were not limited to, falsifying inventory and recording trans-shipping transaction as sales. There was physical miscounting of the merchandize. Crazy Eddie's employees misled the auditors (Antar, 2014) and allowed for consigned merchandise to be included in the inventory count (Knapp, 2009).

Auditors have to be independent in fact and in appearance. Had Crazy Eddie's auditors worked more independently, they may have done a better job attesting inventory totals. Perhaps they could have also made random inventory checks and refused help from Crazy Eddie's employees. Trans-shipping transactions reported as sales could have been checked by vouching after doing detailed tie-ins. It is unclear what exactly the auditors were doing and why they did not catch these material misstatements.

At that time, the auditors were not required to consider Crazy Eddie's internal controls. But they still could have uncovered the fraud, had they done a more rigorous job in auditing. If Sarbanes-Oxley had been created earlier, they would have been required to analyze the company's internal controls and perhaps, been able to identify fraudulent reports.

Though auditing internal controls may be costly, it ensures overall market efficiency by raising the standards of management. Cases like Crazy Eddie hurt more than their shareholders and employees; they hurt an entire market by increasing distrust in management and external auditors. Audited financial statements are good for attesting the balances, but audited internal control is attestation that the company is well run, healthy, and complies with the law.

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Cisco Systems, Inc.

Dov Ringel

Cisco Systems is an American multinational corporation headquartered in San Jose, California. Cisco Systems manufactures and sells Internet Protocol based networking and other products related to the communications and Information Technology industry. They also provide services associated with these products and their use. Their main business service is to provide products for transporting data, voice, and video within buildings, across campuses, and around the world. Cisco products are promoted as being able to transform how people connect, communicate, and collaborate. The company markets its products to everyone from business and telecommunications companies to public institutions and personal residences ("Cisco Systems", 2014).

Cisco's products and services are designed to help customers use technology to address their business needs and enable them to improve productivity. Cisco prides itself in producing user friendly products that allow customers to reduce costs and gain a competitive advantage. They produce networking products and solutions designed to simplify and secure customers' network infrastructures. They deliver products and services that help customers reduce their total cost of network ownership.

Strategy

Since the technology markets are always changing, Cisco Systems constantly upgrades their products and services, including the introduction of next-generation products with greater performance and technological advances. The focus on continuous innovation allows them to remain ahead in the market with strong competitive advantage over their competitors. This strategy, and their ability to constantly improve and create new products, enables Cisco to enhance their own competitive position.

As one of their new products, Cisco has recently announced that it intends to invest over $1 billion over the next two years to build a global Intercloud. This new "cloud" will house data for companies that require an off-site location. Cisco will be offering "cloud" computing service to corporate customers as a way of entering this new emerging market. Cisco is hoping to capitalize on the new trend of companies renting computing services rather than buying and maintaining their own computer systems. Companies often choose not to incur high initial costs of purchasing and maintaining the systems. They also do not want the hassle, and are realizing that the cloud can be a vehicle for achieving higher profits with lower cost. By entering this market at an early stage, Cisco is poised to take the leading role in the cloud market.

Cisco's spending will go toward building up data centers to help run the new service, called Cisco Cloud Services. Business customers will be able to rely on the computing system for many business needs. It will allow companies to keep tabs on customer orders and let employees access their work computers from any Internet-connected machines.

Cisco is also entering the security solutions world. When Cisco enters these new product segments they invest many resources to provide a high quality product and services. As such, Cisco invests a considerable amount of cash flow in research and development. Cisco believes that these new product segments have the potential to turn into multi-billion dollar business. This will hopefully aid Cisco in their future growth and maintain the leadership in the industry.

Cisco net sales over the past 20 years have been on the rise. Of course, this does not come without pain. John Chambers, Cisco's longest standing CEO has cut more than 12,000 jobs and sold many

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poorly performing businesses. But despite rising sales and strong growth Cisco's stock price has been relatively steady since 2000. Its stock price, however, has not risen above $35 since 2001. But Chambers is set out to change that.

According to an article by Forbes Magazine, Cisco System's CEO is planning big shifts to help keep Cisco ahead in the constantly changing data and information technology market ("Cisco Systems", 2014). Cisco has always pursued a growth by acquisition strategy, and it continues to do so, acquiring competing companies and gaining an edge in the market.

Cisco has also revamped its internal strategies to maintain a solid market presence. Cisco employees are now required to work together on products and services that solve customers' business problems. This is a huge departure from the company's previous 30 year operating policy, where each product group worked in their own specific area rarely interacting with other groups. Chambers hopes this new policy will get the complacency out of the system. When people work together, and corroborate on projects and customer solutions, real growth can occur.

Perhaps, Cisco's biggest bet on the future is the "the Internet of everything", a world where billions of sensors, phones, and machines can be managed by Cisco. Cisco plans on providing all of the elements that connect this world system, from the virtual data centers to servers, technology, video, and even the web infrastructure. Cisco will provide the consulting services for the clients and develop wide range of support applications. John Chambers has big plans for this newest strategy. He wants to "combine it with everybody – open – so that the sensors companies, the manufacturing companies, and others will be able to interface with it" (Guglielmo, 2014).

Cisco has always been about reinventing itself and overtaking competitors. With Cisco's foray into the cloud market with its long term plans and strategies, they are conveying that they know the challenges ahead and are ready to tackle them. Management's strong involvement and the compnay's exceptional business model promote confidence in the world's largest maker of data networking gear.

Financial Standing

Cisco Systems Inc. has experienced a very stable growth. Today, the company is making money at a steady inclining rate, which makes it an excellent growth stock with a good long term investment potential. Cisco has a strong share of the market among its competitors. Most businesses, as well as most households in America and the world over, use at least one Cisco product, particularly routers. Its growth rate has averaged 7% for the past five years and it will likely continue growing in the next few years. It is the industry leader for its return on the equity (ROE) ratio at 18.1%, and it is the third in the technology industry for its earnings per share (EPS) growth.

Following is financial overview of Cisco Systems. All data were collected from the company's filings and public records for September 2013.

Price	$ 21.39
Shares O/S	5,151.28
Market Cap	$ 110,181
EV	$ 75,790
EBITDA	$ 13,547
EV/EBITDA	5.59
EPS	$ 1.86
E/P	8.70%
P/E	11.50
5x EBITDA	67,735
Earnings before Interest and Taxes	$ 11,196
Sales	$ 48,607
Avg. Assets	$ 96,475
Asset Turnover	0.50
Avg. A/R	$ 4,920

A/R Turnover	9.88
Avg. Inventory	$ 1,569.50
Inventory Turnover	12.21
A/R collection period	36.94
Days to sell inventory	29.89
Avg A/P to purchases	20.11
A/P payment period	18.15
ROA	10.3%
ROE	18.1%

Compared to other companies, Cisco has showed relative consistent growth and market share. But in order to maintain a real long term growth and make Cisco profitable, it will have to keep up with competitors and the industry as a whole. Cisco will need to continue to make new acquisitions and to lead the industry with the new technological innovations.

However, the risk of investing in Cisco, as well as in any technology and communication company, is the industry itself. The markets in which they operate rapidly change. There are numerous vendors in each product category. Barriers to entry are relatively low, and new companies that create similar products are regularly formed. The overall number of different companies providing niche product solutions is constantly increasing.

Also, technology companies have to be careful when it comes to the development of new products. They produce highly complex products that incorporate leading-edge hardware and software technologies. New software oftentimes contains bugs and errors that can unexpectedly interfere with operations. While companies take many steps necessary to prevent these mishaps, there is no assurance that they will be able to detect all errors, which may have a negative impact on the company's financial standing.

However, as Cisco has been able to constantly upgrade their systems and provide up-to-date support to its customers, it has been able to maintain a steady growth. It is being very proactive in getting involved in new emerging markets as their earnings indicate. Overall, Cisco Systems Inc. is promising constant growth and steady expansion to make a good long term investment.

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Faculty Contributions…

Does Corporate America Find The Modigliani - Miller Dividends Irrelevancy Theorem Relevant?

Eliezer Goldberg, MA, MBA

In a series of papers published in 1958 and thereafter, Noble laureates Franco Modigliani and Merton Miller (M&M) proposed theorems that are the basis for modern corporate finance theory. Briefly stated, these are the theories:

1. Investors should not be concerned by the leverage on a company's balance sheet, because it will not corrode the financial value of the firm.
2. The weighted average cost of capital (WACC) of a firm will not change as it ratchets up leverage; the cost of debt will not increase but the cost of equity will.
3. Dividend policy has no effect on a company's market value.
4. Equity holders are indifferent to a company's financial policy.

The third proposition is intriguing in light of commonly studied stock valuation models' being dividend-based, not to mention the focus of corporate finance on the study of present value of investment cash flows in comparable asset classes and risk-adjusted cash flows for non-comparable classes. One of the most important topics in fixed income investing is duration analysis[1] which rewards the present values of large cash flows.

History of Corporate Finance

In an excellent book on the history of corporate finance, Baskin and Miranti (1997) explain that the evaluation of corporate finance began in the Middle Ages, when Western Europe started trade with the Orient and the Americas.

Pools of investors would fund a ship to travel to the Orient or the Americas and return with merchandise that could be sold off, with the gains from the sales of the exotic goods serving as the payoff to investors. The equity investors received the residual claims on the liquidated merchandise. These investors took the risk that that ship or merchandise would be lost at sea or the merchandise imported wouldn't raise enough money to provide a sufficient return to the investors. At some point, some investors were very comfortable with the trade business and instead of taking their residual claims in cash would invest them in the next ship going out to sea.

The important historical point is that investors received cash for their investments and accounting net income did not suffice[2]. If a ship owner or, after the initial financing, the pool administrator would seek to sell more shares or borrow money to raise cash for anything that would dilute existing investors' claims, they faced strong opposition, unless the endeavor was in jeopardy.

Dilution of a residual claim lowers the value of the claim. Just the knowledge of possible dilution by management can lower the value of the residual claim. A common example would be a company liquidating in bankruptcy, regardless of whether it is liquidating via Chapter 7 or undergoing a Chapter 11 reorganization that turns into liquidation. Every fiscal quarter that the estate writes out checks to those administering the bankruptcy the creditors' claims lose value. In bankruptcy reorganization, when management receives shares or when a pool of shares is created to pay contingent creditors, the potential for additional shares flooding the market weighs on the stock price. Options awarded to employees

[1] Frederick Macaulay (1882-1970) is credited with developing bond duration analysis.

[2] At one point, pool administrators attempted to pay investors their residual claim only if there was sufficient net income on the venture's income statement, but investors resisted the change, because they feared accounting gimmickry to thwart their returns.

also have dilutive potential and company valuations take this into account.

Valuation Models

Net income is not the same as cash flow. It is an accounting outcome when a company deducts all expenses from revenue. A dividend is a cash flow to stockholders, analogous to interest serving as cash flow to debt holders. If dividend payments were tax-deductible, they would occupy a line on the income statement no different from interest expense.

Modigliani and Miller claim investors can replicate dividend by selling stock. They claimed:

Value of firm =

> (Dividend + earnings before interest & taxes – value of new shares sold to pay for the dividend) / discount rate

If the amount of dividend is funded by new shares you sold, they net out, leaving:

Value of firm =

> (Earnings before interest & taxes) / discount rate

This theorem works well if the discount rate does not have market capitalization[3] as a component, as would be the case if, for example, M&M used the capital asset pricing model (CAP-M) to create a discount rate.

CAP-M = E(r) = Rf + B(RM-Rf)

Where:

> E(r) = expected return of a capital asset
>
> Rf = the risk free rate
>
> B = beta of the capital asset
>
> RM = expected return of the market

The CAP-M method uses historical stock price movement to calculate the expected return but does not look at the market capitalization or enterprise value (EV).[4]

What would be the outcome if M&M used earnings yield[5] or enterprise value/earnings before interest and taxes (EV/Ebit) to calculate the value of the firm?

Using the Earnings Yield Model

If M&M had used the earnings yield, the sale of new stock would not have been offset by the dividend:

Earnings yield = net income/market capitalization

Net income is on the income statement, but neither dividend paid nor sale of stock show up on the income statement. Both appear in the financing activities segment of the consolidated statement of cash flows.

For example, if a company distributes $5 of dividends and sells $5 of stock to pay for it, assuming it had a $50 market capitalization ($5 price per share x 10 shares outstanding), $4 in EBIT, and $2 of net income, the M&M example with earnings yield as the discount rate will change the stock price from:

Ebit/(net income/market capitalization) =

$4/[($2/($5X10)] = $10

Where the earnings yield was 4% (2/$50).

The sale of the stock has increased the shares outstanding while leaving the operations of the company unchanged. There is no reason to change the company's valuation (4% earnings yield), but now the company has increased the shares outstanding by 10% to 11 shares. The market will lower the stock price to make up for the additional 10% of shares and adjust the stock back to a 4% earnings yield:

$2/ ($4.55 X 11) = 4% earnings yield

[3] Market capitalization = share price x shares outstanding.

[4] Enterprise value is commonly calculated as net debt + market capitalization.

[5] Earnings yield is net income/market capitalization, or per share basis: earnings per share/price; it is the inverse of the price/earnings ratio.

An investor would not want his stock being diluted to a price below what he paid for. When micro-cap companies raise funds through the stock sales of their stock because they have no other funding option, the stock price falls as equity is diluted by stock being sold at lower and lower price levels.

Using the Enterprise Value/Ebit model

The enterprise value/Ebit valuation method produces would have similar results to using the earnings yield.

Enterprise value =

> Market capitalization (price x shares outstanding)
> + Preferred stock
> + Debt
> + Minority interest
> - Cash

Here again, a distribution of dividends paid for by the sales of shares would not impact the numerator in M&M's equation; the EV/EBIT model would adjust because the EV market capitalization is one of its components.

For purposes of this exercise, we will assume zero debt:

EV = ($5 X 10 + 0)/$4 = 12.5X

With a new share sold to fund a dividend the EV valuation would adjust accordingly.

EV = ($4.55 X 11+0)/$4 = 12.5X

Have companies embraced M&M's Dividend Irrelevancy Theorem?

Fama and French (2001) wrote that firms paying dividends fell from 65.5% in 1978 to 20.8% in 1999. That may have been true in the heady, bull market prior to the bursting of the Internet bubble burst in 2000, when the Standard and Poor's 500 index (S&P 500) had a total return of 3,119% (17% annualized) and the Dow Jones Industrial Average had a total return of 2,985% (16.9% annualized). Back then, investors clamored for stock at inflated valuations hoping to profit from capital gains. That 21-year period, or part of it, may have been an extraordinary investment bubble event that was an anomaly.

A popular collegiate textbook does not agree with this conclusion. In Ross, Westerfield, and Jaffe's (2013) popular corporate finance textbook the French and Fama study (2001) is still included, even though the data is decades stale. The textbook does quote a two-year study that notes a resurgence of dividends (Julio & Ikenberry, 2004) but questions its relevance.

Furthermore, the resurgence in dividend payers has been observed only over the two year period from 2002 to 2004. Perhaps this trend is a statistical aberration (Ross et al., 2013, p. 598).

With rates the lowest in decades post a cataclysmic economic contraction in 2008 and the Federal Reserve's easy money and Quantitative Easing policy, is dividend resurgence still an aberration? On December 17, 2012, a Bloomberg search for dividend-paying members of the Dow Jones Industrial Average found that every member of the average now pays dividends. A similar search among S&P 500 found that 392 of the 500 members, or 78% of the firms in the index, paid dividends in the past year.

Research Methodology

What has been the long-term trend for dividends? How many companies have applied the Modigliani - Miller theorem and never offered dividends?

This study has examined companies that have been in existence the last 10 years. Ten years tends to be considered a long term investment. The purpose was to look at mature companies going through an average business cycle period. There have been 10 business cycles from 1954 through 2007 and, on average, the trough-to-peak periods have lasted 3.4 years. The goal was to measure dividend policy through the average number of years of a business cycle.

The companies chosen:

a) were domiciled in the United States;
b) traded on an exchanges in the United States;
c) had a market capitalization of $250 million or more;
d) had not seen their market capitalization decline below $125 million during the period;
e) never paid dividend during the past 10 years; and
f) had their initial public offerings before January 1, 1998.

A market capitalization of $250 million was chosen as a minimum because it is low enough to include small capitalization stocks. This was important because a 2004 study contended that a mere 25 companies accounted for the majority of dividends paid out in the year 2000 (DeAngelo, DeAngelo, & Skinner, 2004). For the purposes of this exercise, we are not calculating the aggregate dividends paid but are researching the breadth of the range of dividend payments over the past 10 years.

Criterion (d) in the list above was designed to prevent exclusion of companies that dipped below their typical trading bands during the bear market of 2007-2008. By setting the floor at a market capitalization of $125 million during the prior 10 years, the study preserves mature small-capitalization companies while excluding those too small to be significant to the study.

Results

There are 13,490 companies that are domiciled in the United States and trade on one of the domestic exchanges, of which 3,206 presently have a market capitalization equal or greater than $250 million. Only 182 out of 639 companies have been in existence for more than 14 years, have not experienced a decline in market capitalization below $125 million over the past 10 years, and have not paid any dividends over the past 10 years. Thus, only 28.5% of the companies in this study followed the M&M's Dividend Irrelevancy Theorem.

Possible Reasons

There are several possible reasons for the observed findings. First, investors disillusioned by the late 1990s tech stock bubble do not show as much interest in non-dividend paying stock. Second, there may be lower beta for dividend-paying stock, making them more attractive to investors who prefer less-risky stocks. Third, due to the low interest rate environment, investors are willing to give higher valuations to dividend-paying companies. This may answer why companies have continued to pay dividends since 2008 or have increased their dividends. Since the study looked only for 10 years of dividend payments, this reason could not be completely conclusive. Fourth, dividends are taxed at a more favorable rate than wages or interest income.

Future Study

Many questions arise for future research. Out of the 182 companies that did not pay any dividends, how many had bond indenture covenants or bank debt loan documents that restricted dividend payments? How many of them did not have positive net income, suffered from a limited amount of cash, were insolvent or near insolvency?

If companies embraced dividends due to the Federal Reserve's Quantitative Easing programs, have investors rewarded the companies with higher market valuations than predicted by historical norm?

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CATHERINE THE GREAT AND CHASSIDIC PASSOVER DIETARY STRICTURES – THE STRANGE CONVERGENCE

Kenneth S. Dreifus, MBA

On Passover, Rabbi Yosi Ha-Glili quotes the Haggadah, the source by which the viziers of Egypt reported the Ten Plagues, to recount the many miracles in which "The Almighty" freed the Jews from 210 years of servitude in Egypt. In remembrance of this servitude, many Chassidim readopted a dietary stringency on Passover in the 1700s. This paper attempts to contextualize the Chassidic practice of refraining from the consumption of moistened matzoh products on the first seven days of Passover in its relation to a seemingly unrelated royal decree by Russian Empress, Catherine the Great.

It is a Jewish obligation to eat a rabbinically-prescribed minimum of matzoh at the seder[1], the traditional family celebration which takes place on the first night of Passover (i.e., first two nights outside of Israel). The foods eaten by the Sephardic and Ashkenazi Jews diverged during the 13th century[2], as Ashkenazis prohibited the consumption of legumes on Passover, due to the relative ease by which grain flour and bean or rice flour could have been confused. The Talmud also mentions that there was a stringency of not soaking matzoh on the grounds that it too might ferment[3]. However, observant Jews relied on the decisions of the Vilna Gaon[4], who ruled that matzoh cannot ferment after it is baked; and the practice of abstaining from soaked matzoh ("gebrokts") fell into disuse. It was a greater mitzvoh (religious obligation) just to stay alive.

We can speculate as to why the Jews and their rabbis of the pre-medieval and medieval times did not attempt to refrain from the use of gebrokts. As the Jews were scattered all over Europe and Levant after the destruction of the Second Temple by Roman forces in the year 70 CE, many of the places to which they emigrated had prohibitions on land ownership, entering into guilds, and restrictions on living outside of the ghettos located in each city. The Ashkenazic Jewish masses, especially those who settled in modern-day Central and Eastern Europe, were largely poor and usually had barely any religious training to be able to follow and participate in synagogue rituals. Hunger was a constant threat, and the diet emphasized relatively affordable, grain-based carbohydrates to provide sufficient calories to subsist.[3] In short, as the Torah taught the need to emphasize life in order to perform mitzvohs[6], the thrust of rabbinic law tended toward finding leniencies where they were possible, especially in the area of preservation of life and health.

However, with the discovery of the western hemisphere by English, Dutch, Portuguese, and Spanish explorers during the 15th and 16th centuries, the flora and fauna of the New World were introduced to Europe. These items included proteins such as turkey[4], tobacco, sugar cane, cacao, bananas, and complex carbohydrates consisting of maize and potatoes.[5]

The peasants of Europe readily adopted the maize as feedstock for animals, but potatoes received a much more tepid reception. Maize became accepted as it was known as corn, which is also the old English word "for the edible seed of certain cereal plants, especially wheat in England

[1] Exodus 12:15-20; BT Pesachim 28b cf. R. Shimon – Sifri Deuteronomy 130 and Mechilta, Pischa 8.

[2] As quoted in the Mordechai (approximately 1200 CE) and codified by the Rama (approximately 1550) in his comments on the Shulchan Aruch (Aruch Chaim).

[3] myjewishlearning.com/culture/2/food/Ashkenazic_Cuisine.

[4] http://www.history.org/Foundation/journal/Holiday06/turkeys.cfm.

[5] https://www.lib.umn.edu/bell/tradeproducts/potato.

and oats in Scotland".[6] However, some Russian Orthodox clergyman actually prohibited the use of potatoes, as the potato is not mentioned in Scripture.[7]

Throughout the latter part of the 18th century, there were a number of poor grain harvests in Russia, which subsequently caused much social upheaval in Europe. In response, Catherine the Great, a German princess who married into the Russian House of Romanov, issued a directive to Russian peasants in 1765 to grow potatoes instead of grain (Titova, 2005). As she had been learned in Germany, potatoes thrive in a variety of climatic conditions, and grow more quickly than grain (Ungar, 2013). She may have cared for her Christian people, but she also wished to avoid a fate of regicide, a practice that was circulating in response to widespread famine among the proletariat. Her concern about maintaining the traditions of Old Russia (because of nagging doubts relating to her German background) and the desire to maintain the loyalty of the Russian Orthodox hierarchy and its people contributed to issuing various anti-Jewish edicts during her reign.[8]

Throughout the same time, Chassidsm was growing throughout Poland, Russia, Hungary, Romania, and modern Belarus. It served as a protest against the scholarly, ascetic form of Judaism embodied by the Lithuanian yeshivas. The Chassidim were regarded by these yeshivas as being nearly heretical; they were denigrated for their prioritization of prayer over learning.

However, the introduction of potatoes in Russia set the stage for Chassidim to prove their legitimacy as Jews by adopting a tradition-based mitzvah enhancement. Given that the potato was now readily available in Central and Eastern Europe by the end of the 17th century, the ability to abstain from gebrokts was now within the reach of the Jewish masses.

The earliest modern mention of the practice of abstaining from gebrokts on Passover is quoted by Rav Shmuel Zalmen of Liadi.[9] Other sources citing the practice maintain that the practice was revived by Reb Dov Ber of Mezeritch.[10] It also possibly gave Chassidim a new weapon to validate their quest for legitimacy, as the learned rabbis of Lithuania and their followers, by and large, did not observe this stringency.[11]

After the widespread access to potatoes among Chassidic Jews, the ability to refrain from gebrokts on Passover became widely practiced in Chassidic homes around the world, including the United States and Israel. In the 1980s, refraining from gebrokts became even easier for Chassidim and other Jewish groups alike outside their homes, too.

Hotels and restaurants offered non-gebrokts, cholov Yisroel, and shmurah matzoh Passover menus. These menus increased business, as they were now able to accommodate a wider range of kosher consumers, including Sephardic Jews, Misnagdim (non-Chassidic Ashkenaim), and Chassidim.[12]

Additionally, advances in food technology created potato derivatives such as potato starch, potato flakes, and dried potato meal. Professional chefs used these ingredients to create dishes that were appetizing while still being non-gebrokts. They provided Misnagdic guests with an alternative to matzoh balls or matzoh brei (a fried omelet of soaked matzoh and eggs) on Passover. In addition, rabbinic decisions permitting the use of baking powder and baking soda (as earlier they

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6 The Random House College Dictionary – Revised Edition (1988).

7 http://www.history-magazine.com/potato.html.

8 http://www.jewishencyclopedia.com/articles/4152-catherine-ii.

9 Responsum 6 – printed at the end of Shulchan Aruch HaRav.

10 Shulchan Aruch Oreich Chaim Shneur Zalman Ba'al Ha-tanya.

11 Ma'aseh Rav, op.cit.; Brought in response to the Maharshag 56:2.

12 With the 2014 Passover season, TotalJewishTravel.com celebrated its 27th season.

had erroneously been placed in the same category as yeast)[13] opened up new horizons in the area of Passover baking.

Though unexpected, it was the importation of a foodstuff by an anti-Semitic Russian Empress that now allows Jews throughout the Western World to observe Passover on a higher plane of observance

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[13] "There is nothing wrong about a raised product at Passover per se," said Rabbi Moshe Elefant, executive rabbinic coordinator and chief operating officer of the Orthodox Union's kosher division, the oldest and most widely accepted certifier of kosher foods." Quoted in http://www.nytimes.com/2006/045/05/dining/05leav.html.

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