

PROJECT FREE ENTERPRISE

HOUSTON



**BUDAPEST
TORUN
WARSAW**

1991

PROJECT FREE ENTERPRISE

PURPOSE AND GOALS

The Rotary spirit of international cooperation has motivated development of this seminar to share free enterprise ideas, experience, and practical advice with the newly emerging free economies of the 1990's. This seminar presents the principles of a free market and follows with a practical step by step road map for developing your own business enterprise.

Presentations will be made by practicing, successful business people using audio visual material developed from authoritative business, academic and government sources.

The seminars will be conducted in English.

The seminar structure will allow for extensive question and answer interaction after each speaker.

In addition, during the first day, written questions can be turned in to the local Rotarians or put in a question box—to be sorted and selected and to be answered on the morning of the second day.

The second day will include a discussion of import/export and specific elements of making business contacts, and then smaller groups will be created with each speaker able to discuss in detail his main topic, or your questions and concerns.

These speakers were interviewed and selected for their abilities and none of them are here to promote themselves or do business. Their mission is to share their experience in a free enterprise economy in the hope that the world will be a better place for us all.

This is the first such team of free enterprise speakers that Rotary International has ever had. It is the dream of the Rotarians in Houston that this idea will be adopted by other Rotary Districts around the world—thereby sharing principles and experience with emerging economies and other third world countries.

The fees paid to attend this seminar are low, and designed merely to cover the expense of putting on this seminar and hosting

Your local Rotary club is comprised of outstanding leaders and business people in your community and this seminar is just one small service they seek to provide in an attempt to improve the community for everyone.

We hope this seminar is beneficial and welcome your written critiques and advice.



GREETINGS FROM THE PRESIDENT OF ROTARY INTERNATIONAL

PAULO V. C. COSTA, Santos, Sao Paulo, Brazil

President, Rotary International 1990-91
Chairman, 1989 International Institute
Chairman, Planning and Research Committee, RI 1986-88
Member, Peace Forum Committee, Committee of the Trustees
1988-89
Member, Polio Plus Campaign Committee
Trustee, The Rotary Foundation 1981-84
Director, Rotary International 1978-80
Vice-President, Rotary International 1979-80

Paulo V. C. Costa is an architect and president of Arena Construtora, an architectural and construction company in Santos, Sao Paulo, Brazil. He serves as president of Arena Imoveis, a real estate company, and as president of two real estate investment companies. He is chairman of the board of Familia Paulista Credito Imobiliario, a savings and loan association, and president of an investment-holding company and a ship-holding company. Born in Santos, he graduated from the Mackenzie University of Sao Paulo with a degree in architecture.

Mr. Costa is a member of the Architects and Engineers Association, the Historical and Geographical Institute, and the council of Brazil-United States Cultural Center. He serves as chairman of the council of Benedicto Calixto Fine Arts Museum. He was bestowed the title of Citizen Emeritus by the city of Santos, Brazil.

A Rotarian since 1956, he is a member and past president of the Rotary Club of Santos. He has served Rotary International as district governor, director and vice-president, consultative group member, committee member and chairman, international assembly instructor, and a Rotary Foundation trustee. He has received the Citation for Meritorious Service and the Distinguished Service Award of The Rotary Foundation for his support of its international humanitarian and educational programs, and is a Foundation benefactor.





MEET THE PRESIDENT ELECT OF ROTARY INTERNATIONAL

RAJENDRA K. SABOO, Chandigarh, India

President-Elect, Rotary International 1990-91
Member, Community Service Committee 1989-90
Member, Strategic Planning Committee 1987-89
Chairman, Rotary Village Corps Committee 1986-88
Member, Planning and Research Committee 1983-86
Director, Rotary International 1981-83

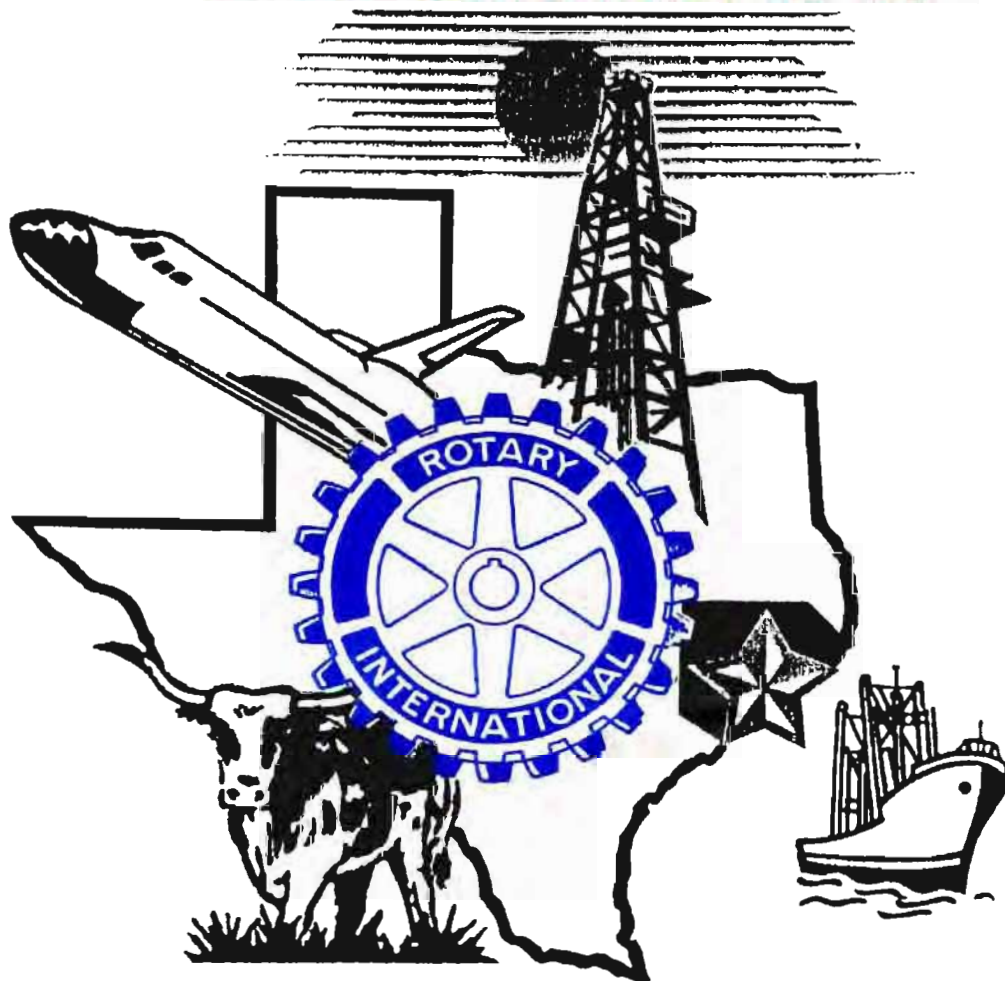
Rajendra K. Saboo is the founder and a director of Groz-Beckert Saboo Limited, a hosiery machine needle manufacturing company. He is also chairman of Kamla Dials and Devices Limited, manufacturing watch dials. He is director of the State Bank of Patiala, one of the state owned banks. He received his graduate degree in science from Calcutta University, India.

Mr. Saboo is a member of the executive committee of PHD Chamber of Commerce and Industry, the premier business association of north India. A permanent invitee to the managing committee of the Federation of Indian Chambers of Commerce and Industry, he is associated with many other trade and industrial associations as a committee member or special invitee. He is past president of the Industrial Association of Chandigarh and vice chairman of Chandigarh Center of Bharatiya Vidya Bhawan, an all-India cultural and educational organization. In addition, he is fellow of the Senate of the Punjab University and active in the local child welfare council, the Red Cross Society and the Blood Bank Society.

A Rotarian since 1961, he is member and past president of the Rotary Club of Chandigarh. He has served Rotary International as district governor, committee chairman and member, international assembly instructor and RI director. Mr. Saboo has received the Citation for Meritorious Service and the Distinguished Service Award of the Rotary Foundation for his support of its humanitarian and educational programs. He will be president of Rotary International in 1991-92 and serves on the board of directors as president elect in 1990-91.



ROTARY



**DISTRICT
589
TEXAS, U.S.A.**

PROJECT FREE ENTERPRISE
DIRECTOR, DR. DAVID TAYLOR
ONE PROFESSIONAL BUILDING
WEBSTER, TEXAS 77598

Slower Forward

After Frantic Growth, Blockbuster Faces Host Of Video-Rental Rivals

Huizenga's Pioneering Firm Still Plans to Open Stores At the Rate of 400 a Year

How Gulf War Took Its Toll

By MICHAEL J. MCCARTHY

Staff Reporter of THE WALL STREET JOURNAL

FORT LAUDERDALE, Fla.—During a recent roast here for H. Wayne Huizenga, the chairman of Blockbuster Video, Jane Fonda appeared (on tape, of course) to applaud his success and to suggest a joint dieting venture called "Bellybuster."

It's true, Mr. Huizenga has done very well indeed for a guy who got his start driving a garbage truck, who still uses the R-rated language of the refuse trade, and who just four years ago was running a modest little video chain that has since burgeoned into Blockbuster Entertainment Corp., a company that owns and franchises video rental stores with annual sales of \$633 million.

Blockbuster is to the video trade what McDonald's is to fast food: a company that created an industry.

Blockbuster took a business typified by seedy little mom-and-pop neighborhood rental shops and went national. Its stores are more like supermarkets, they don't have a porno section and they have gobbled up competitors right and left. Blockbuster claims to open a new store, somewhere, every 17 hours.

Blockbuster has set the terms of the trade. It offers huge tape selection. It has a three-night, \$3 rental scheme hugely popular with customers, who don't face additional charges when they fail to return tapes in 24 hours. It is family oriented, freshly painted and brightly lighted.

"The 100-watt lightbulb is one of our best marketing tools," says J. Ronald Castell, Blockbuster's senior vice president for programming and communications.

Bigger Than the Big Screen

Home video now makes more money for movie studios than theaters do—\$2.9 billion in home video, \$2.2 billion in theatrical business. A big chain like Blockbuster could eventually make or break some



H. Wayne Huizenga

movies. And on Wall Street, Blockbuster's double- and triple-digit earnings gains have, till recently, made the stock a high-flier.

But is Blockbuster living on borrowed time?

Since the beginning of last year, Blockbuster's year-over-year store revenue growth has slowed each quarter—from a 79% rise in the first three months to a 55% gain in the final quarter, even as the company aggressively opened and acquired stores. (At the end of last year, Blockbuster owned 787 stores itself, and franchised another 795.) Then, last week, Blockbuster officials said they expect first-quarter earnings growth to be in the range of 10% to 20%—much less than heretofore and roughly half what analysts had been predicting.

Blockbuster executives claim to be unfazed. "Growth to us is limitless at this point," says Steven R. Berrard, vice chairman and chief financial officer. Blockbuster, big as it is, still has just 11% of the video market, so there's room to bloom. Company executives say they plan to open 400 stores a year and to double their market share over the next three or four years. They see no bad portents in last year's results and blame the current quarter on the war in the Persian Gulf: Everybody was watching CNN.

Attracting Giants

But Blockbuster's performance may have more to do with the perils of pioneering than with transitory business conditions. Blockbuster's growth has made the industry attractive to competitors. Everyone has always expected a shakeout in the industry, but now it's likely to be a clash of titans. (N.V. Philips this week acquired a controlling interest in Super Club Holding & Finance SA, which operates 470 U.S. stores, including Turtle's and Movietime.) Blockbuster's growth has been closely tied to the spread of the VCR. But now most households have one; the novelty is fading; cable TV is encroaching, and so is new technology (maybe including 150-channel fiber-optic cable systems such as that currently in the works at Time Warner Inc.) If they take off, video rental might turn out to be a flash in the pan.

In any event, Blockbuster's phenomenal growth can't go on forever, as its stores saturate markets and the industry matures. But its corporate culture and the allure of its shares seem tied to dreams of unrestrained growth.

Blockbuster was the brainchild of David P. Cook, a Dallas computer whiz, whose idea it was to create a big, bright, computerized video superstore. But it was the ambitious, hard-driving Mr. Huizenga who took a stake in the company early in 1987, became its chairman within months and then, by dint of his personality, energized its growth.

Mr. Huizenga is a local hero in Fort Lauderdale. He has been trying to win a Major League baseball expansion team for South Florida; he is an owner (with a 50% stake) of nearby Joe Robbie Stadium. He owns a piece of the Miami Dolphins football team. "That Mr. Huizenga is a real American success story: from garbage col-

lector to owner of the Dolphins," says a Fort Lauderdale cabbie.

The eldest child in a family of Dutch immigrants, he didn't drive a garbage truck for long. He started a business here that merged with one in Chicago started by his (not poor) grandfather. Then he went on a shopping spree. At one point he bought 90 garbage companies in just nine months. By the time he was finished he had created the national waste-hauling giant Waste Management Corp.

He is doing the same sort of number with Blockbuster Video. "We've got to be on First and Main," he recalls thinking in his early days with the company. "We've got to be on the best street in every town." He began gobbling up little video chains, obsessed with creating the biggest video chain as quickly as possible.

Proposed sites are carefully monitored, and many are rejected, Mr. Huizenga says. But he doesn't deny that he is in a hurry; he had no lock on his business secrets.

Evidence of that abounds. Qualities that once set Blockbuster apart have been successfully copied by others. With 8,000 titles, Blockbuster used to offer the ultimate in choice. But in some markets, competitors offer even more. Tower Video, based in West Sacramento, Calif., sells the latest in home-movie technology, including 8-mm videos and laser disks, which Blockbuster largely ignores. It sticks pretty much to VHS cassettes.

Blockbuster touted service—longer hours, speedy, computerized checkout. Now it has rivals like the Video Factory in Buffalo, N.Y., where clerks in tuxedos escort shoppers to their cars under umbrellas when it rains. But when Blockbuster was unique, it could charge \$3 per tape, against an industry average of more like \$2 for an overnight rental. The extra buck contributed to earnings growth.

Lately, Blockbuster has been drawn into price wars. When some Blockbuster stores dropped their rental price to \$2 in San Antonio in February, competing HEB Video Central stores dropped their charge for new movies to \$1.50 and offers 99-cent specials.

The nation is littered with video stores—28,000, by one count. The biggest and best markets are saturated. In the Pacific and mid-Atlantic states, according to Video Store magazine, a given video store is likely to have six rivals within a three-mile radius. "There is very little key real estate left in the business," says Steve Apple, executive editor of Video Insider magazine.

In some markets, Blockbusters are bumping into one another. For that reason, one big franchisee, Cox Enterprises Inc.'s cable division, is in talks to either sell 26 Blockbuster stores in New York and Pennsylvania back to the company or to swap them for other locations in Baltimore and the South.

The crowded field might not matter so much if it weren't for signs that the fast-forward days are over for the video business. Since the mid-'80s, the growth of movie rentals has paralleled sales of video-cassette recorders. As hardware prices fell, consumers snapped up 65 million

Slower Forward: Blockbuster Has Host Of Video-Shop Rivals

VCRs in six years and surged into video stores. But with the machines now in about 70% of U.S. households, growth in the rental market last year slipped into single digits for the first time—just 7%. Some expect 1991 to be slightly worse.

Then, too, customers are less enchanted with old movies than they were, more obsessed with current hits. That also is bad news for Blockbuster. Its inventory is heavy on old movies, which cost Blockbuster less to buy. And its liberal three-night rental policy is a bit of a boomerang. Friday and Saturday customers often have little to choose from in the way of big hits because Blockbuster's shrewdest shoppers rent their movies for the weekend on Thursday.

Blockbuster maintains that no chain can hope to satisfy the demand for the biggest hits. So it provides the next best thing: a selection from which to make a good second choice. Still, many customers are frustrated. "Whenever I go to Blockbuster, they don't have the movies I want," says Linda Norman a 34-year-old mother of two, walking out of an Oz Video store in Atlanta last Saturday night.

Blockbuster's rapid-growth mind-set could, moreover, create problems, though Blockbuster doesn't think so. During its acquisition spree, it picked up some weak outfits that, competitors say, could become costly liabilities. For example, the 1989 purchase of Major Video, a chain of 175 stores based in Las Vegas, brought with it eight Denver stores in "lousy locations,"

says Scott Pearson, a general partner of Giant Video, which operates in Colorado. Blockbuster says that is the price it had to pay for acquiring what was the No. 4 chain at the time. Blockbuster plans to close and relocate some of the stores.

"This business is location, location, location," says Patrick Clifton, president of The Movie Superstore, a Phoenix chain. "Growth has [temporarily] taken care of some of the problems that may surface down the road."

Still, Blockbuster may have no choice but to keep acquiring and keep opening stores if it is to continue posting the sales gains investors have come to expect. Last year, on a per-store revenue basis, Blockbuster ranked eighth among the nation's biggest video rental chains, according to Video Store magazine. And Kellogg Associates, an accounting firm that has studied Blockbuster's Securities and Exchange Commission filings, believes new stores represent the vast majority of Blockbuster company-store revenue gains.

Blockbuster executives see no bust coming. There is plenty of growth yet in the home-video industry, they say. Paul Kagan Associates, a consulting concern in Carmel, Calif., seems to agree, projecting \$13.4 billion in video industry retail revenue by 1993, up from about \$11.2 billion this year.

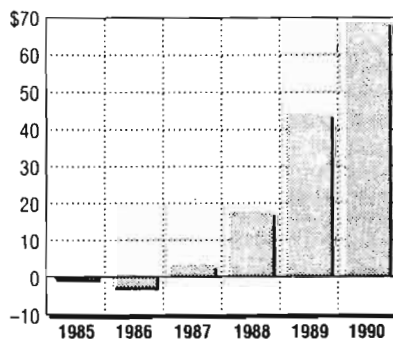
Blockbuster, meanwhile, is casting about for new products and customers. It is testing film-processing in some Florida stores, and selling compact disks and audio tapes in one store near Atlanta. It is also planning its first push into small towns that have at least 20,000 people living within driving distance. Mr. Huizenga thinks that could represent another 500 stores. And Blockbuster is going international, with 51 stores already operating in Canada and 30 in the United Kingdom.

Everything Blockbuster is doing, however, assumes that Americans in large numbers are going to continue to rent videotapes. The continuing evolution of pay-per-view television is the ultimate cloud over Blockbuster. Making a trip to the store to rent a film is inherently inconvenient. Ordering it up in your living room is the essence of convenience. Though technology and pricing are problems, pay-per-view appears to be marching inexorably forward, particularly if 150-channel cable systems become a reality for most households.

"I think Blockbuster will do just fine for the next several years," says Robert Wussler, president of Comsat Video Enterprises, a pay-per-view company. "Whether they will still be around 10 to 12 years from now, that's another question."

Earnings Have Been Strong...

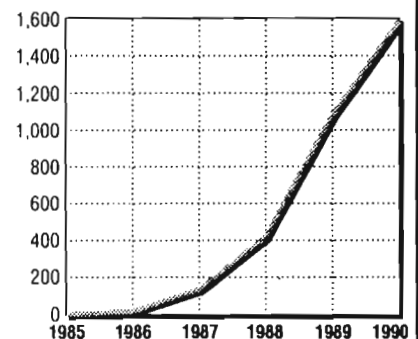
Annual net income, in millions



Let's Go to the Videotape

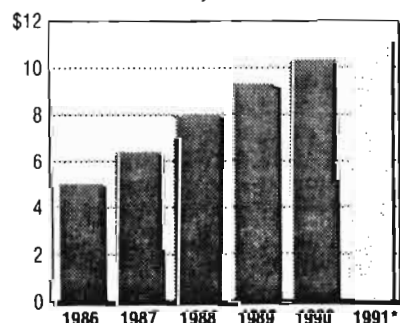
As More Stores Open...

Number of Blockbuster Video stores



Though Growth Is Slowing...

U.S. home video industry retail revenue, in billions

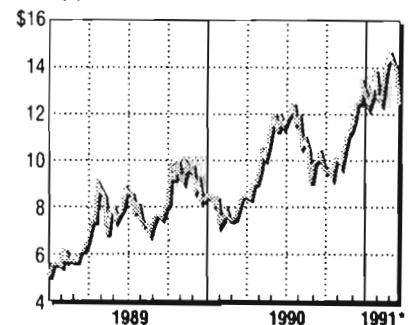


Source: Paul Kagan Associates

*1991 projection

And the Stock Is Volatile

Weekly price of Blockbuster Entertainment's stock



*Adjusted for 2-1 stock split on March 11, 1991.

GLOSSARY OF TERMS

ACCEPTANCE A draft, payable at a fixed or determinable future date, upon the face of which has been acknowledged in writing the unconditional obligation of the person upon whom it is drawn to pay it at maturity. (a) *Banker's Acceptance*—A time draft accepted by a bank. By accepting the draft, the bank is obligated to pay the face amount at a specified time in the future, usually six months or less after the acceptance of the draft. (b) *Trade Acceptance*—A draft drawn by the seller of goods on the buyer and accepted by the buyer for payment at a specified future date.

ADVICE A form or letter that acknowledges certain activities concerning shipments, credits, etc.

APPRECIATION A rise in the value of a currency in terms of other foreign currencies.

BENEFICIARY The person in whose favor a draft is drawn or a letter of credit is opened.

BID BOND SUPPORT LETTER OF CREDIT Usually issued by a bank in support of the obligation of bidder to sign a contract if he is successful in his bid.

BILL OF EXCHANGE (OR BILL, DRAFT) See Draft.

BILL OF LADING (OCEAN) A document signed by the captain, agents, or owners of a vessel, furnishing written evidence for the conveyance and delivery of merchandise sent by sea to a certain destination. It is both a receipt for merchandise and a contract to deliver it as freight, and in some forms represents title to the goods.

BLOCKED EXCHANGE OR BLOCKED CURRENCY A currency which cannot be freely converted into other currencies.

BONDED WAREHOUSE A building authorized by customs authorities for the storage of goods without payment of duties until removal.

C.I.F. Cost, Insurance, and Freight: A shipping term used in connection with a price quotation under which the seller defrays all expenses involved in the delivery of merchandise on board the carrying steamer and, in addition, prepays the freight and insures the goods to an agreed destination. In a C.I.F. sale, the seller's risk terminates upon the issuance of bills of lading by the ocean transportation company.

C & F Cost and Freight: Same as Cost, Insurance, and Freight (C.I.F.), except that insurance is paid by the buyer.

C. & I. Cost and Insurance: Same as Cost, Insurance, and Freight (C.I.F.), except that freight is paid by the buyer.

CLEAN COLLECTION A collection in which a draft or other demand for payment is presented without additional attached documentation.

COMMERCIAL INVOICE A trade invoice.

CONSIGNEE The person, firm, or representative to whom a

seller or shipper sends merchandise and who, upon presentation of the necessary documents, is recognized as owner of the merchandise for the purpose of the declaration and payment of customs duties. This term also applies to one to whom goods are shipped, usually at the shipper's risk, when an outright sale has not been made.

CONSIGNMENT A term used for merchandise shipped to an agent abroad when an actual purchase has not been made, but under an agreement by which the consignee is obligated to sell the goods for the account of the consignor.

CONSIGNOR The seller or shipper of merchandise.

CONSULAR DOCUMENTS Bills of lading, certificates of origin, or special forms of invoice to which has been added the official signature of the consul of the country of destination.

D/A: DOCUMENTS AGAINST ACCEPTANCE Instructions given by a shipper to his bank that the documents attached to a draft for collection are deliverable to the drawee against his acceptance of the draft for payment at a later date.

D/P: DOCUMENTS AGAINST PAYMENT Instructions given by a shipper to his bank that the documents attached to a draft for collection are deliverable to the drawee against his payment of the draft.

DEMURRAGE Charges assessed against the consignee for goods which are shipped and allowed to remain at the loading dock beyond the grace period.

DEVALUATION A government action which decreases the value of its country's currency by reducing the equivalent value in gold, special drawing rights; U.S. Dollars, or other currencies.

DIRECT COLLECTION A service offered on a case-by-case basis to sellers with substantial collection activity to expedite processing and thus accelerate payment. The remitting bank provides the collection forms which the seller, rather than the bank, prepares and mails with any accompanying documentation to the overseas collecting bank. Copies of the collection form are sent to the remitting bank for control and for follow-up purposes.

DOCUMENTARY CREDIT A letter of credit that requires documents to accompany the draft or demand for payment.

DOCUMENTS The shipping and other papers customarily attached to drafts, consisting of ocean bills of lading, marine insurance certificates, commercial invoices and others.

DOMICILE The place where a draft or acceptance is made payable.

DRAFT An instrument, much like an ordinary check in appearance, which is used as a formal order for payment for a sum of money.

After Date When a draft bears this phrase, the tenor begins from the date of the draft. The date of maturity is fixed and does not depend upon presentation or acceptance.

GLOSSARY OF TERMS

After Sight When a draft bears this phrase, the tenor begins to run from its presentation or acceptance.

Bank Draft A draft by one bank drawn on another. It is usually used to provide: customer with funds payable at a foreign bank.

Date Draft A draft so drawn as to mature on a fixed date, irrespective of the date of acceptance.

Drawer The issuer of the draft.

Drawee The party on whom the draft is drawn and from whom a payment of the draft is expected. payee The person to whom a draft is made payable.

Sight Draft A draft payable upon presentation to the drawee.

Tenor Time fixed or allowed for payment on a negotiable instrument.

Time Draft (Usance Draft) A draft which matures at a certain fixed date after presentation or acceptance.

EURODOLLARS U.S. Dollars placed on deposit in banks outside the United States. Such deposits are available for lending to corporations and other banks.

EXIMBANK Export-Import Bank of the United States—An independent agency of the U.S. government authorized to make and/or guarantee medium and long term loans to foreign business and governments to facilitate the export U.S. products.

EXPORT TRADING COMPANY ACT (ETC) Export Trading companies which act as middlemen to match international buyers and sellers were authorized by Congress in 1982 to make it easier for U.S. companies to sell abroad. It removed antitrust obstacles to joint trading ventures among companies in the same business and made it leg for banks to trade.

FCIA: FOREIGN CREDIT INSURANCE ASSOCIATION An insurance company operating in cooperation with the Eximbank which provides short and medium-term insurance covering commercial and political risks.

FOREIGN EXCHANGE A general term applied to transactions involving the purchase and sale of currencies.

Contract Limit A limit established between a bank and a customer which sets forth the amount of foreign exchange contracts the bank will have outstanding (open) at any one time for that customer.

Forward Foreign Exchange Contract A contract between a bank and its customer for the purchase or sale of foreign exchange at a fixed rate with delivery at a specified time in the future. It is generally used when the customer is willing to forego a possible foreign exchange profit in order to avoid a possible foreign exchange loss which may result from the purchase or sale of foreign exchange at some point in the future. Generally, an amount is added or subtracted from the current rate of exchange to account for the premium or discount, respectively.

Hedging A method whereby currency exposure (the risk of possible loss due to currency fluctuations) is offset for a

fixed period of time. This is accomplished by buying or selling foreign currency at a prearranged price to net out foreign asset positions.

Settlement Limit The maximum U.S. Dollar amount of foreign exchange contracts a bank has authorized for a customer to have mature on a single day.

Spot Exchange Contract A foreign exchange transaction in which foreign currency is bought or sold at the current rate of exchange and delivered within two business days after the transaction date.

FSC: FOREIGN SALES CORPORATION FSCs replaced domestic international sales corporations (DISC) in 1985. A portion of the foreign trade income of a FSC is exempt from U.S. tax. The distribution of such exempt income to a domestic corporate shareholder qualifies for a 100% dividend received deduction. The FSC must meet certain requirements as an entity for the partial exemption such as maintaining a foreign presence, holding foreign economic substance and performing export activities outside the U.S. customs territories.

LETTER OF CREDIT (COMMERCIAL) An instrument issued by a bank, for and at the request of its customer (the buyer of merchandise), whereby the bank unconditionally undertakes to pay the seller a stipulated amount upon presentation of documents conforming to each specified term contained in the Letter of Credit.

(a) Irrevocable Credit—A letter of credit that cannot be changed or cancelled without the consent of all parties involved.

(b) Confirmed Credit—A letter of credit in which the issuing bank's obligation to pay is backed by a second confirming bank. The confirming bank agrees to pay if the terms of the letter of credit are met, regardless of whether the opening bank pays.

LIBOR An acronym for the London Interbank Offered Rate. The interest rate at which banks in London place Eurocurrency/Eurodollar deposits with each other for a specific period of time.

O.P.I.C. Overseas Private Investment Corporation—a U.S. government corporation which guarantees and/or insures U.S. private investment in the lesser developed countries of the world.

PERFORMANCE BOND SUPPORT LETTER OF CREDIT Usually issued by a bank to assure the applicant's (its customer) performance under a contract and providing protection to the beneficiary in case of default by the applicant.

PROTEST A formal statement in writing by a notary that a negotiable instrument has been refused upon presentation for acceptance or payment, and that all parties to the instrument who are immediately notified will be held responsible. If protest is not effected within the time fixed by law, the endorsers are discharged.

REMITTANCE A transfer of funds from one place to another. A remittance may or may not be payment of an obligation.

SEMINAR SCHEDULE

Day One

- 8:00 Registration and entry fees collected
8:30 Local Rotarian's remarks
8:45 Introduction
9:00 Free Market Economy Discussion
10:00 Start-up considerations: personal analysis
10:30 Introduction of the case study
10:40 **10 minute break**
10:50 Management and organization
11:45 **Break for Lunch**
1:00 Visiting Rotarian's remarks
1:15 Marketing
2:15 Accounting records and evaluations
3:15 **15 minute break**
3:30 Capitalization and external financing
4:30 Formal business plan
5:30 Summary and closing comments

Day Two

- 8:00 Written questions answered
9:30 Import/Export: Business Resources
10:15 **15 minute break**
10:30 Workshop: small group discussions on each topic
12:00 **Lunch Break**
1:00 Workshops continue
4:00 Seminar over



Purpose of the Case Study

To facilitate illustration of the economic, business, and management principles using a possibly real enterprise.

To provide an example of the different components of a business enterprise and illustrate how they relate to each other.

To facilitate questions, answers and discussion of principles presented by providing a framework of organization, products, services and management concepts and definitions.

Overview of the CPC Company

The CPC Company is in the computer hardware and software business.

It assembles, sells and services personal computers.

It designs and sells special purpose software. It manufactures some hardware used and the assembly and packaging of imported computer modules.

The company is owned by three families, but is expanding the number of owners by issuing stock to its employees.

Management is developing a plan to franchise its concept.

Management wants to export hardware and software.

Now considering building a new, expanded facility to meet high demand, but need new investors: local or foreign.

Main concern is modernization of facilities and equipment, and the training of local managers and workers for growth.

CONTENTS OF A TYPICAL BUSINESS PLAN

1. Executive Summary
2. The Situation and The Opportunity
3. The Management Team
4. Market Research and Analysis
5. Marketing Plan
6. Design and Development Plan
7. Manufacturing Plan
8. Financial Plan
9. Schedule
10. Risks
11. Appendices and Exhibits

CPC COMPANY
Balance Sheet
December 31, 1990

ASSETS

Current Assets

Cash	\$35,000
Accts. Receivable	\$65,000
Inventory: Hardware	\$100,000
Inventory: Software	\$30,000
Inventory: Parts & Materials	\$60,000
Work in Process: Assemblage	\$50,000
Employee Advance	\$ 2,000
Travel Advance	\$ 3,000

Total Current Assets \$345,000

Long Term Assets

Computer Equipment	\$50,000
Office Furniture & Equipment	\$24,000
Leasehold Improvements	\$26,622
Lease Deposit	\$ 3,000

Total Long Term Assets \$103,622

Total Assets \$448,622

LIABILITIES

Current Liabilities

Payables: Hardware Suppliers	\$40,000
Payables: Software Suppliers	\$ 5,000
Payables: Parts Suppliers	\$20,000
Payables: Others	<u>\$10,000</u>
Total Payables:	\$75,000

Note Payable: Supplier	\$44,161
Accrued Employee Wages	\$ 7,500
Accrued Taxes: Employees	\$ 800
Accrued Taxes: Other	<u>\$ 2,000</u>

Total Current Liabilities \$129,461

Long Term Liabilities

Note Payable: Supplier	<u>\$ 44,161</u>
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Total Liabilities \$173,622

Owner's Equity

Contributed Capital	\$36,000
Retained Earnings	<u>\$239,000</u>

Total Owner's Equity \$275,000

CPC COMPANY
Statement of Income
For the Twelve Months Ended December 31, 1990

Revenue

Hardware Sales	\$768,000	64%
Software Sales	264,000	22%
Service & Parts Sales	<u>168,000</u>	<u>14%</u>
Total Revenue	<u>\$1,200,000</u>	<u>100%</u>

Less: Cost of Goods Sold

Cost of Hardware	\$537,000
Cost of Software	132,000
Cost of Service & Parts	<u>84,000</u>

Total Cost of Goods Sold	<u>\$753,000</u>	<u>63%</u>
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Gross Profit	<u>\$447,000</u>	<u>37%</u>
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Available to Pay Op. Exp.

Operating Expenses:

Fixed Expenses

Facilities Rent	\$ 24,000	
Utilities	10,000	
Local/District/Country Taxes	1,500	
Equipment Insurance	2,800	
Total Fixed Expenses		<u>3%</u>

Variable Expenses:

Accounting & Legal	\$ 6,000
Salaries: Mgmt	30,000
Salaries: Staff	100,000
Employee Benefits	10,000
Travel	15,000
Marketing	28,000
Telephone	8,000
Depreciation	2,000
Education	7,000
Association Fees	700
Office Supplies	11,000
Postage & Shipping	8,000
Computer Supplies	11,000
Printing	8,000
Misc.	4,000

Total Variable Operating Exp.	<u>\$248,700</u>	<u>21%</u>
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Total Operating Expenses	<u>\$287,000</u>	<u>24%</u>
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Net Income Before Taxes	<u>\$160,000</u>	<u>13%</u>
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T E A M



**RICHARD LYLE
ANDERSON**

Mr. Anderson is the President of Alliance Commercial Inc, a commercial real estate company. He also serves as Director and Principal of Barrios Technology, Inc., one of the largest privately held space services engineering firms in Texas.

He holds a degree in accounting from the University of Houston and a Masters in Finance from Texas A&M University.

He is married, has four children and lives in Houston, Texas.

Anderson's hobbies include World History and Economics, Tennis, Guitar and Voice.



**MARK ALLEN
BOLDGER**

Mr. Boldger is a Financial Investment Consultant for Merrill Lynch, Pierce, Fenner and Smith. Previously with Martin and Scott Advertising, in the position of New Product Marketing Manager.

He co-authors the Dollars and Decisions column of a Houston based new business magazine, DBA. The column addresses the variety of operational and financial decisions that principals of companies confront on a day-to-day basis.

Mr. Boldger is single and resides in Sugar Land, Texas.

He is a Rotarian in Sugar Land.



**WANDA LEE
ELLIS**

Mrs. Ellis has been selected as Second Alternate for the team.

She is retired from Lee College in Baytown, Texas where she is a resident.

Ellis served as a job placement counselor for Lee College.

She holds a degree in Business Administration from Sam Houston State College and a Masters in Education from the University of Houston.

She is widowed, has two children and two grandchildren.

Currently Ellis is employed at the Style Shop in Baytown. She is a Rotarian.



**PETER G.
KERTES**

Mr. Kertes is the Managing Partner for an investment banking firm, Kertes, Moss and Co.

He holds a B.A. degree from Harvard University in Psychology, an MBA from the University of Chicago in Finance and another graduate degree from the U n i v e r s i t e Catholique De Douvain (Belgium) in Economics.

Born in R o m a n i a, Mr. Kertes speaks eight languages fluently: Hungarian; Romanian; French; Italian; Spanish; Portuguese; German' and English. He is single and resides in Houston, Texas.

T E A M



**GONZOLO
MONTOYA**

Mr. Montoya, born in Bogota, Columbia, came to America at the age of 15 years.

He has been with McDonnell Douglas as Senior Staff Manager for 23 years, where he works with the Space Station Project.

Montoya is married, has two daughters and two grandsons.

He speaks fluent Spanish and English, is conversant in Italian and is studying French.

A restaurant owner and stock broker, Montoya also enjoys acting and directing for the stage. He resides in Nassau Bay, Texas.



**JOSEPH
MARCINKOWSKI**

Mr. Joseph Marcinkowski is a Laser Professor and owner of the company, Multi Media Learning Center. In addition, he is the President of Ariane International, and is the exclusive agent for the sale of Puro-lite resins in Poland.

He holds a degree in Economics from the University of New York City College, and is a graduate of the Bernard Baruch College of New York City.

In addition, he has also studied Russian while in college.

Marcinkowski is married, has three children, and is active in youth sports.



**KEVIN JOSEPH
PRICE**

Mr. Price serves as the Executive Director of Economic Education for the Free Enterprise Education Center.

Prior to coming to this job, Mr. Price was a political consultant in Washington, D.C. and later in Texas.

He is a graduate of Abilene Christian College with a degree in History. While attending college, he studied German.

Mr. Price is married, has two children and resides in Houston, Texas.

He and his wife have both served as house parents for troubled teenagers.



**JEAN FONTENOT
RIGGS**

Mrs. Riggs was named as First Alternate to the team.

She has been employed by the City of Deer Park as a manager and supervisor of programs, facilities and personnel for over twenty years.

Mrs. Riggs is married to a newspaper publisher. She is a contributing editor to the publication.

She is the Director of International Services for her Rotary club.

Mrs. Riggs is an accomplished public speaker with Toastmasters International.

She enjoys acting in community theatre.

T E A M



**DR. DAVID
TAYLOR**

Dr. Taylor was born in Oklahoma and currently resides in Seabrook, Texas.

He is a Pediatric Dentist, and is the owner of the Children's Dental Center.

Dr. Taylor earned his DDS and MDS in Dentistry from the University of Missouri at Kansas City.

In Rotary, he serves on the Board of Directors for the Space Center Club and has been very active in the youth exchange program in Hungary and the Soviet Union.

He conceived the district level Free Enterprise Project and is the team leader.



**JAMES
THOMAS**

Mr. Thomas is a Certified Public Accountant.

He holds an Associates degree in Arts and Business from Wharton Jr. College and Bachelor of Business Administration from the University of Houston.

He is married and resides in Friendswood, Texas.

Mr. Thomas has been very active in Rotary, and has served as his club's president. He is a Paul Harris Fellow for the Rotary International Foundation.

Thomas enjoys traveling, camping, hunting, photography and is an avid bass fisherman as well.

THE OBJECT OF ROTARY

The Object of Rotary is to encourage and foster the ideal of service as a basis of worthy enterprise and, in particular, to encourage and foster:

FIRST. The development of acquaintance as an opportunity for service;

SECOND. High ethical standards in business and professions; the recognition of the worthiness of all useful occupations, and the dignifying by each Rotarian of his occupation as an opportunity to serve society;

THIRD. The application of the ideal of service by every Rotarian to his personal, business and community life;

FOURTH. The advancement of international understanding, goodwill, and peace through a world of fellowship of business and professional persons united in the ideal of service.



THE FOUR- WAY TEST

of the things we think, say or do

1. Is it the **TRUTH**?
2. Is it **FAIR** to all concerned?
3. Will it build **GOOD WILL** and **BETTER FRIENDSHIPS**?
4. Will it be **BENEFICIAL** to all concerned?

**ROTARY FUNDING PARTNERS
FROM DISTRICT 589 ROTARY CLUBS**



**SPACE CENTER ROTARY CLUB
BAYTOWN ROTARY CLUB
MEMORIAL SPRING BRANCH ROTARY CLUB
SUGAR LAND ROTARY CLUB
NORTHSHORE ROTARY CLUB
PASADENA ROTARY CLUB
FM 1960 ROTARY CLUB
GULFWAY HOBBY ROTARY CLUB
HARRISBURG ROTARY CLUB
DEER PARK ROTARY CLUB
UNIVERSITY AREA ROTARY CLUB
FRIENDSWOOD ROTARY CLUB
WEST HOUSTON ROTARY CLUB**

**With grateful appreciation
PROJECT FREE ENTERPRISE
acknowledges**

**Krzysztof Ziebinski
Lot Airline**

**CARRYING
THE SPIRIT OF POLAND
AROUND THE
WORLD**

