Distinctive displays: A multidisciplinary caseplay
Silver, William S;Howard, C Thomas;Clouse, Maclyn L
Journal of Management Education; Jun 1999; 23, 3; ProQuest Central
pg. 263

DISTINCTIVE DISPLAYS: A MULTIDISCIPLINARY CASEPLAY

William S. Silver
C. Thomas Howard
Maclyn L. Clouse
University of Denver

This article is the result of an unusual collaboration among unlikely colleagues—management and finance professors. The idea came about in response to a problem that was encountered in developing multidisciplinary courses for our integrated MBA program. Simply put, it was discovered that our traditional case pedagogy was unsuited for multidisciplinary courses. This was an issue of both the content of the cases and the ways in which cases had been typically taught.

The cases used in our program usually were designed to explore business problems from the perspective of a single discipline. Thus, there were finance cases, marketing cases, strategy cases, and so forth, yet very rarely did these cases provide relevant information from multiple disciplines. Furthermore, the ways in which the cases were analyzed and discussed often emphasized a single discipline. If a case discussion moved toward an exploration of issues from the perspective of another discipline, an instructor would typically steer the discussion back on track toward the discipline in which he or she was more comfortable teaching. Finally, it was observed that our case assignments generally involved analysis and discussion, but rarely involved behavioral practice, applications, and issues of implementation.

The purpose of this article is to describe the Distinctive Displays caseplay. A caseplay is a learning technology that combines the problem-solving

Authors' Note: Correspondence should be addressed to William S. Silver, Department of Management, Daniels College of Business, University of Denver, Denver, CO 80208; (phone) 303-871-2248; (fax) 303-871-2294; (e-mail) wsilver@du.edu.

JOURNAL OF MANAGEMENT EDUCATION, Vol. 23 No. 3, June 1999 263-289
© 1999 Sage Publications, Inc.

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.

elements of traditional business cases with the behavioral requirements of experiential role-plays. In the Distinctive Displays caseplay, participants act out a management case by negotiating a merger between two exhibit design companies. Participants are required not only to develop solutions to case problems, but they must also carry out the implementation of the solutions. Thus, the Distinctive Displays caseplay evolves over time. Instead of making one decision at the end of the case, participants make a series of decisions throughout the exercise. Once a decision is made, the exercise dynamics change.

In this article the story of Distinctive Displays is introduced, and suggestions are offered for using this caseplay in the classroom. In the appendix, the procedure for running the exercise is described, and role sheets and associated exhibits are provided.

Overview of the Distinctive Displays Caseplay

The caseplay involves two companies, Distinctive Displays and Environs, which are in the process of negotiating a merger. Both companies are involved in the Exhibit Designers and Producers industry in Portland, Oregon. Distinctive Displays has annual revenues of $2 million and is recognized for its efficient operation and quality service. It is run by the strong-willed Jamie Sampson, who seems to have lost some of his zest for the business. Sales have been flat over the last few years after rising sharply during the early years of the firm. Sampson views the merger as a way to provide a much-needed shot in the arm to his company.

Lee Hanson is the owner of Environs. A free-spirited individual, Hanson has excellent skills in marketing and sales but is weaker in day-to-day management skills. With a great deal of flare, she pushed Environs into a leading position in the Portland display market in a relatively short span of time. Unfortunately, the lack of attention to detail and the firm's finances have caught up with her. Environs is on the verge of bankruptcy, and Hanson views the merger as a way to salvage some value from a rapidly sinking ship.

The caseplay has two roles: Jamie Sampson, owner of Distinctive Displays, and Lee Hanson, owner of Environs (see the appendix). Half of the class receives the Sampson version while the other half receives the Hanson version. Students first conduct the financial analyses and prepare for the negotiation session. The students are then paired up and asked to conduct the merger negotiations. As a final exercise, the students write a paper analyzing and examining the results of the negotiations. The classroom discussion of the caseplay involves a collective debriefing of the individual negotiations.

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.

The Jamie Sampson and Lee Hanson versions contain much of the same information about the industry and about the history and finances of the two companies. However, the information appears in a different order in each version, and is given differential emphasis. In addition, the two versions diverge with respect to some of the initial negotiating positions. In the Sampson version, the reader discovers that he is not interested in having Hanson as a partner but would like to hire her as his marketing director at a salary comparable to his operations manager. Sampson is also concerned about Hanson's new portable display store (the Exhibit Source), because there would appear to be a conflict of interest for Hanson if she joins Distinctive Displays. Finally, Sampson is interested in Hanson's industry contacts, clients, and employees, but is unwilling to assume any responsibility for Hanson's past liabilities.

In the Hanson version, the reader finds that she is interested in receiving a salary nearly twice that of the operations manager as well as hefty sales commissions. Furthermore, Hanson would like to be treated more as an equal with Sampson and also be in a position to eventually take over Distinctive Displays. With respect to the new portable display venture, Hanson is quite reluctant to give up this very promising business.

Teaching With the Distinctive Displays Caseplay

GETTING STUDENTS PREPARED

Before using the Distinctive Displays caseplay, it is important to assess the current level of skill competence and create a readiness to change (Whetten & Cameron, 1995). The negotiations for the Distinctive Displays caseplay are fairly complex and are most meaningful if students have some prior experience with conflict resolution. One option is to have students participate in some other conflict resolution exercises (e.g., Lewicki, Litterer, Saunders, & Minton, 1993) before attempting Distinctive Displays. Another suggestion is to have students write a brief analysis of a meaningful negotiation in which they have recently participated, or in which they are about to participate.

It is important to note that merger analysis requires complex financial analysis and computer spreadsheet skills. To assess their preparedness, have students complete a thorough financial ratio analysis. This demonstrates the students' understanding of the financial statements and ratios that allow an assessment of financial strengths and weaknesses. The students must also understand the mathematics of present value analysis and show competence with spreadsheet software (e.g., Microsoft Excel).

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.

TOPICS ADDRESSED IN THE CASEPLAY

The primary text used in our program for addressing many of the management issues is *Getting to Yes* (Fisher, Ury, & Patton, 1991), although this text is supplemented with some readings on conflict resolution, negotiation tactics, persuasion, and so forth. The following outline shows some of the topics that are presented and discussed in our classes, as they pertain to the caseplay:

I. Managing conflict
  A. Sources of conflict
  B. Conflict resolution strategies
  C. Integrative and distributive solutions
  D. Outcomes of conflict
II. Negotiation dynamics
  A. Separate the people from the problem
  B. Focus on interests rather than positions
  C. Invent options that are mutually beneficial
  D. Insist on using objective criteria
III. Preparation and strategy
  A. Planning for negotiations
  B. Trade-offs, asymmetrical values, and packaging
  C. Developing alternatives to a negotiated agreement
  D. Negotiation tactics
  E. Ethics in negotiations
IV. Persuasion
  A. Sources of power
  B. Influence tactics
  C. Persuasive appeals
  D. Nonverbal communication

For the financial elements in the case, the following areas are addressed:

I. Proforma statements
  A. Income statement
  B. Balance sheet
  C. Statement of cash flows
II. Business valuation techniques
  A. Discounted cash flows
  B. Sales and earnings multipliers
  C. Market to book ratios
  D. Comparables
III. Calculation of appropriate discount rates
  A. Capital asset pricing model
  B. Dividend growth models
  C. Weighted average cost of capital
IV. Computer spreadsheet modeling
  A. Basic model building

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.

B. Sensitivity testing
C. Simulation analysis
V. Regression analysis and forecasting

MANAGERIAL AND FINANCIAL ISSUES

The Distinctive Displays caseplay is unique in that there is equal weight given to the analysis of both quantitative and management issues. During discussion of the exercise, a number of issues emerge. First, the proposed merger seems to be beneficial to both firms and is a financially viable deal. For Distinctive Displays, it represents an opportunity to boost sales and reinvigorate what seems to be a stagnate firm. For Hanson, it provides an opportunity to salvage some value from a dying firm. But both owners have other promising opportunities so that if things get difficult in the negotiations, either side can walk away from the proposed merger. This makes for an interesting set of negotiations.

For Sampson, the underlying interest is to improve the performance of his company by increasing the use of Distinctive Display's human and capital resources. This means an increase in sales. The merger with Environs is one way to do this. Environs has a base in the permanent displays segment of the market, a segment in which Distinctive Displays traditionally has not been involved. Furthermore, Hanson could bring her industry contacts and clients to help Distinctive Displays attract national sales, and take advantage of the new Portland convention center business.

Bringing on Hanson and her eight employees will add incremental annual fixed costs of around $430,000 (assuming an employee benefits ratio of 25%). At a contribution margin of 43% (assuming that cost of goods sold [COGS] are the only variable costs), Hanson must bring in $1 million in new sales just to break even. For the merger to create incremental value, the new firm will have to be quite successful. This argues for a compensation package for Hanson that is strongly tilted toward pay for performance.

Sampson's interest with respect to Hanson is one of monitoring and controlling her. He wants Hanson to eventually assume leadership of the company, but believes that Hanson needs more time to develop some broader business skills. The title of Hanson's new position with the company is less important to Sampson than ensuring that Hanson cannot get the company in trouble. The production manager's salary represents a standard against which Hanson's compensation package can be developed. Hanson's interest is in maintaining her lifestyle and being compensated for what she brings to the business. Furthermore, the Exhibit Source portable display store is an important issue for her.

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.

Adding spice to this already challenging deal are the personalities of the two owners. Sampson is a coldly efficient manager who has developed strong personal ties with his employees and his customers. Hanson, on the other hand, is the quintessential sales manager and visionary who is always looking for the next mountain to climb before finishing the last deal. Can two such different personalities coexist in the same firm? Both people have their doubts about the other while at the same time respecting each other's skills. The appendix summarizes the positions and interests of both Sampson and Hanson.

BEHAVIORAL DIMENSIONS OF THE EXERCISE

This caseplay differs from a traditional business case in that the students must act based on the results of their analysis. They get to practice their management skills and receive immediate feedback about their performance. Once the negotiations begin, there is no prescribed sequence of events, and students must react in "real time" to changing circumstances, offers, and counteroffers. This caseplay differs from a traditional role-play in that the richness of information adds realism and provides a context such that the exercise is less like improvisational acting and more like managerial problem solving. There is no correct answer to the caseplay. Due to differences in assumptions, each negotiation is different and within the same class there are dramatically different outcomes to the negotiations.

It is important to note some of the dynamics that may occur because of the way in which the two versions are written. In the Sampson version, the word *acquisition* is used to describe the negotiations, whereas in the Hanson version the word *merger* is used. This suggests that each person may approach the negotiation from a different perspective. In addition, some of the issues are given different weight in each of the versions. For example, Environs's debt is a big issue for Sampson, but one which Hanson has already considered and potentially addressed. Finally, Sampson and Hanson share common interests with respect to bringing on some of Hanson's employees and in developing synergy with their complementary business strengths. However, they have initially different positions with respect to Hanson's compensation, her role in the combined company, and the issue of the Exhibit Source. Thus, there is ample opportunity for building on common needs, but the strong possibility exists that the sides may choose to go their separate ways.

ANALYSIS ASSIGNMENT

To reinforce student development and to help transfer their learning to new situations, students are given the following assignment:

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.

> Conduct a financial analysis of the proposed combination and estimate the synergistic effects. Calculate the value of each of the two firms individually and the value of the combined firm. This task will require several assumptions that may be subject to debate between you and your counterparts in the other firm. Meet with the representative of the other firm to discuss the financial and nonfinancial terms of an agreement. Write a five-page paper analyzing and presenting the results of your financial analysis and the outcomes of the negotiations. Examine and report on the different aspects of what happened during the negotiation and assess the effectiveness of your participation and that of your counterpart. Include an appendix that identifies and discusses the valuation techniques and the assumptions that underlie your valuations of Distinctive Displays, Environs, and the combined firm.

This assignment is then evaluated for both the accuracy of the financial analyses and for the critical thinking involved in examining the process of the negotiations. Because these assignments are done individually, it is often enlightening for the students to have them compare the results of their analyses with their negotiation partner. Videotaping may also be used to help students examine their own skill development. Students should review the tapes of their negotiations (including others done before or after Distinctive Displays) and identify examples of effective tactics, ineffective tactics, and skill improvements over time.

Using the Distinctive Displays Caseplay in Single- and Multidisciplinary Courses

Many universities are experimenting with multidisciplinary business education and are adopting their own unique and innovative approaches. Therefore, it is incumbent on the designers of educational material to allow for flexibility and creativity on the part of users. There are a few options for using the Distinctive Displays caseplay. One option is to use it in a single integrated course. Our experience is that it works best after a fairly intensive unit on negotiation skills in which students have already had the opportunity to engage in a number of simpler negotiations. Students also need to have been exposed to the necessary financial analysis and computer spreadsheet skills.

This caseplay also has been used to tie together the first two courses in our integrated MBA program. In this instance, the case is divided into two separate negotiations: a financial negotiation in which students discuss assumptions and come to some agreement about the terms of the merger, and a management negotiation addressing issues of salary, ownership, structure, and so forth. The students do the financial analysis and conduct the preliminary financial negotiations in the Foundations of Business

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.

Decisions course (a class in accounting, finance, and statistics). The final negotiations are conducted in the High Performance Management class that covers organizational behavior, human resource management, and managerial communication.

Because both the negotiations and the financial analyses are complex enough to stand alone as single disciplinary course activities, a final option is to use the caseplay in a traditional organizational behavior or finance class. The caseplay also has applications in other related courses such as entrepreneurship, business strategy, small business management, human resource management, and leadership. It is highly encouraged that even when used in single disciplinary courses, the caseplay be team taught by instructors from multiple disciplines. This is a good way to ease into the world of multidisciplinary teaching. Not only does this help broaden the discussion for the students, but it is a fun and rewarding experience for the faculty.

Conclusion

It is clear that many of our traditional pedagogies can be unsuited to teaching in multidisciplinary courses. In this article, the Distinctive Displays caseplay has been presented not only as an instructional tool to be used in multidisciplinary classes, but also as an example of an exciting method for facilitating multidisciplinary teaching and case research. Though it is hoped that instructors find our caseplay helpful for achieving their learning objectives, readers should be encouraged to develop other caseplays.

The simplest way to design a caseplay is to look for a case that already has been developed. To turn it into a caseplay, you first need to have comprehensive information on multiple people in the case. Look for cases outside your traditional discipline and see how they might be augmented with the addition of a little more information about the actors and their activities. Second, you need a scenario for future action. For example, have people hold a meeting, conduct a focus group, participate in a brainstorming session, and so forth.

Of course, the more exciting approach is to develop a caseplay from scratch based on your own case research. The collaboration of people from different disciplines in both the data gathering and the writing of the caseplay is highly encouraged. Break out of your disciplinary boxes—the result will be a more comprehensive and relevant business education for your students!

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.

Appendix
Distinctive Displays: A Multidisciplinary Caseplay

OBJECTIVES

1. To identify and resolve interdisciplinary managerial problems.
2. To increase student understanding of and abilities in conflict resolution, negotiation, and persuasion.
3. To identify financial strengths and weaknesses through ratio analyses.
4. To generate proforma financial statements for the two firms as independent entities and for a merged firm.
5. To practice the interpersonal communication skills of listening, feedback, power, and nonverbal communication.

PARTICIPANTS

This exercise was designed for one-on-one negotiations. A variation is to conduct two-on-two negotiations, where the second person on each team is an advisor (e.g., lawyer, financial advisor, investor, etc.).

TIME REQUIRED

The time required is from 2 to 4 hours.

ADVANCED PREPARATION

1. Before class, assign roles to each student. Have students develop a detailed set of financial projections using a spreadsheet program. Five years of historical data are provided for both companies. Also have students project the impact of the merger on the next 3 to 5 years with respect to sales, profits, and cash flows. Finally, have the students estimate the value of each of the two firms and the value of the merged firm. Students should be advised that each version of the case contains proprietary information that should not be divulged to the other side prior to the negotiations.
2. After the students have completed their financial analyses, they must prepare to conduct the merger negotiations. Ask students to identify the main issues and attempt to separate their interests (goals, needs) from their positions. The case is constructed so that each version has a different, although related, set of issues. Have students plan how they would like the negotiation process to unfold, their strategies and tactics, and their various alternatives and options.
3. It is strongly recommended that the exercise be team facilitated by faculty from both the management and finance disciplines. Fortunately, mergers and acquisitions is a topic that finance people like to talk about, so one should probably be able to recruit a colleague from the finance department. Furthermore, some finance professors may not be familiar with experiential exercises and will appreciate the opportunity to work with this pedagogy. At our school, trades are often made where instructors in different disciplines agree to help out on one or two class sessions in each other's course. As a final recommendation, this exer-

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.

cise can be a good one for having practicing managers come in as guest instructors and offer their perspectives.

4. If it has been a few years since your last course in finance, the following book is recommended to help familiarize you with the financial concepts (e.g., valuation, modeling, mergers and acquisitions) addressed in the caseplay:

Higgins, R. C. (1992). *Analysis for financial management*. Boston: Irwin.

If you are interested in more information about negotiation, conflict resolution, power, and so forth in addition to the sources already listed in the references, we recommend the following:

Crum, T. F. (1987). *The magic of conflict*. New York: Touchstone.
Pfeffer, J. (1992). *Managing with power*. Boston: Harvard Business School Press.
Ury, W. (1993). *Getting past no*. New York: Bantam.

PROCEDURE

STEP 1 (5 minutes). Before class, students are assigned roles and are asked to prepare for the negotiations as described above. Students should expect to spend a few hours on preparation.

STEP 2 (5 minutes). Students are paired off for the negotiations.

STEP 3 (1 to 2 hours). Students conduct the negotiations. This may be done in class or outside of class. If done in class, it is best to separate the negotiating dyads so that they will not overhear each other. If done outside of class, ask the students to select an appropriate setting (e.g., a restaurant, office, golf course, etc.). The choice of setting then becomes an interesting discussion issue. Our experience has been that the negotiations typically take between 1.5 and 2 hours but can vary from 1 to 4 hours.

STEP 4 (15 minutes). Have students post the results of their negotiations around the classroom or present their results to the class.

STEP 5 (1 hour). The following questions may be used as part of a full class discussion of the caseplay:

1. What are the incremental fixed costs for Distinctive Displays by taking on Hanson and her eight employees? What incremental sales are necessary to cover these new fixed costs? Should the remaining eight Environs employees be retained by the new firm, and at what compensation package?
2. What is the impact of the merger on sales over the next 3 to 5 years? On profits? On cash flows?
3. What is the appropriate discount rate for Distinctive Displays? For Environs? For the merged firm?
4. What is the gain from the merger?

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.

5. What portion of the gain is attributable to Sampson? Hanson?
6. How should the merger gain be split between Sampson and Hanson?
7. Should the merger be consummated or should Sampson and Hanson go their separate ways? What should be the name and structure of the merged firm?
8. What role should Sampson play in the new firm? Hanson?
9. What compensation package should Hanson receive?
10. How should the firm deal with the existing Environs debt?
11. How should Hanson's portable display store, the Exhibits Source, be handled in the future?

RECOMMENDATIONS FOR STUDENT READING

Brealey, R. A., & Myers, S. C. (1991). *Principles of corporate finance*. New York: McGraw-Hill.

Daly, J. (1991). The effects of anger on negotiations over mergers and acquisitions. *Negotiation Journal, 7*, 31-39.

Fisher, R., Ury, W., & Patton, B. (1991). *Getting to yes: Negotiating agreement without giving in*. New York: Penguin.

Higgins, R. C. (1992). *Analysis for financial management*. Boston: Irwin.

Lewicki, R. J., Litterer, J. A., Minton, J. W., & Saunders, D. M. (1993). *Negotiation*. Boston: Irwin.

Savage, G. T., Blair, J. D., & Sorenson, R. L. (1989). Consider both relationships and substance when negotiating strategically. *Academy of Management Executive, 3*, 37-48.

Whetten, D. A., & Cameron, K. S. (1995). *Developing management skills*. New York: Harper Collins.

EPILOGUE

Sampson entered into negotiations with Hanson feeling as though he held all the trump cards:

> That was a wonderful way to enter a negotiation because all I had to do was listen. And I could have said no. I knew Lee was going to go bankrupt. She realized that she had no alternative for the near future. However, I felt that it was important to negotiate in good faith. I wanted to determine what would best serve both of our interests so we both could make the company grow. I wanted her to show up here with bells and whistles on, and saying, "I have got a real good opportunity here. I can bring what I do best, to a company I respect and a guy I can work with, and maybe we can turn it into something bigger than the sum of its parts." So she was quite pleased in that the agreement far exceeded anything she expected to receive. I gave her more incentive than was really required.

The deal with Hanson had three main components. The first part involved the former employees of Environs. Distinctive Displays agreed to hire six production workers and two account executives. Sampson felt that he was generous in that he agreed to match their former wages. All of the new personnel were placed on a 90-day probationary employment status, as specified by company policy. The second part of the agreement contained provisions specific to Hanson, who was given the title of

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.

TABLE 1
Sales for Distinctive Displays

Year	*Sales ($)*	*Growth (%)*
1970	62,000	
1971	131,000	+111
1972	206,000	+57
1973	172,000	–16
1974	141,000	–18
1975	161,000	+14
1976	267,000	+66
1977	386,000	+45
1978	317,000	–18
1979	389,000	+23
1980	756,000	+94
1981	1,030,000	+36
1982	1,507,000	+46
1983	1,686,000	+12
1984	1,580,000	–6
1985	1,841,000	+17
1986	1,514,000	–18
1987	2,152,000	+42
1988	2,021,000	–6
1989	1,865,000	–8
1990	1,621,000	–13
1991	1,957,000	+21[a]
1992	1,848,522	–6

a. Change in accounting method. Projected 12 months based on actual sales of $1,467,805 for 9 months.

executive vice-president. Her compensation package included a 10% commission on sales, $50,000 annual salary, $9,000 annual car allowance, and $9,000 annual expense allowance.

The third section of the agreement concerned special provisions involving the long-term position of Lee Hanson. Of the net profit percentage reported on Distinctive Display's year-end income statement of sales credited to Lee Hanson (and the two former Environs account executives), 50% was to be paid to Hanson at an agreed upon time after the first year. If Hanson were to continue her employment with Distinctive Displays after the end of the first year, (a) upon the first day of the second year of employment she would receive 10% of the sale price of Distinctive Displays in the event of such a sale, and (b) upon the discontinuance of employment for any reason after the end of the first year, the first provision would be void and Hanson would receive 10% of the equity of Distinctive Displays.

A second case (Distinctive Displays Deux), which describes the events during the first year of the merger, is available from the authors.

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.

TABLE 2
1992 Competitor/Market Analysis for Portland, Willamette Valley, and Southwestern Washington Region

	Sales ($)	*Market Share (%)*
Crown	3,300,000	37.3
Distinctive Displays	2,000,000	22.7
Environs	1,200,000	13.5
Berke Productions	1,100,000	12.4
Creative Productions		
CBS		
Oregon Exhibit Company	500,000	5.6
Downing		
Skyline		
Expo System	250,000	2.9
Giltspur/Phoenix	500,000	5.6
Total	8,850,000	100

NOTE: Volume from out-of-region clients not deducted, and volume going to out-of-region exhibit companies not counted. These two flows roughly cancel out.

Role for Jamie Sampson

It is a typical gray Oregon morning in early November 1993. As you awake to the first faint light of the rising sun, your mind immediately turns to the critical negotiations involving your company, Distinctive Displays, which for 23 years has designed and created custom exhibits for national trade shows. Over the last 5 years, a number of things have happened (most notably a leveling off of sales growth) to convince you that the 24th year will have to be different. The negotiations involve a proposed acquisition of Environs Inc., which is owned and operated by Lee Hanson. The resulting company would vault into a virtual tie with Crown, the current sales leader in the Exhibit Designers and Producers Industry for the Portland market.

DISTINCTIVE DISPLAYS

In 1969, you were nearing the end of your professional ice hockey career. In preparation for the transition to a new career, you began to work part-time as an industrial designer. But working for someone else was not at all appealing to you, so you moved to Portland and formed Distinctive Displays, an exhibit design and production company.

Over the years, Distinctive Displays has evolved into a full-service company providing design, fabrication, graphics, shipping, set ups, dismantling, and storage of exhibits. Although exhibits are produced for a variety of applications (e.g., for sales offices, meeting rooms, store windows), Distinctive Displays has specialized in custom exhibits for national trade shows. For example, the Ski Industries of America has a trade show every year in March to show products that are to be available for the

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.

following year (winter ski season). People who attend these shows are buying their inventory for the following year or they are trying to find out what type of advertising and marketing support the companies will provide to them. Distinctive Displays helps exhibitors determine ways to impact the attendee at different levels, so that they are drawn to an exhibit and remember it.

The account executives at Distinctive Displays are the primary contacts with the clients. To provide the best service, account executives sit down with clients and determine the type of shows they want to go to, the size of the exhibits, the products they want to promote, and the marketing objectives for the exhibit. A good account executive tries to nurture the relationship so that the client returns for new exhibits each year. Upon determining the client's needs, the account executive passes on the information to an exhibit designer, who creates a representation of the exhibit for presentation to the client. Originally, these presentations consisted of three-dimensional models and two-dimensional drawings; however, in the past few years the designers at Distinctive Displays have been using computer-aided design (CAD) to make three-dimensional graphic presentations for the client. The CAD technology enables them to create a number of different views of the exhibit and to more easily incorporate changes into the design.

Once the client approves the design it goes to the production department, where professional builders construct the exhibit. These builders come from a wide variety of backgrounds, including furniture, crafts, home building, general construction, and stage production for theater. Depending on the size and complexity of the exhibit, the production process involves crafting the exhibit using wood, metal, and/or plastics. Painting, photography, printing, animation, and other graphics are then added to the exhibit.

COMPANY HISTORY

Table 1 shows a history of company sales. You took great pride in moving the company into second place in the very competitive regional market of Portland, the Willamette Valley, and Southwestern Washington State. Table 2 shows the current structure of the market. The fundamental marketing strategy has been to work with major regional corporations to meet their needs with respect to exhibits at trade shows throughout the United States. Accounts range in size from $10,000 annually to as high as $200,000. Exhibits, once constructed, can be reused as often as six times at various trade shows. Consequently, dismantling, shipping, storage, and set up represent a significant portion of total revenues. Distinctive Displays is able to meet a customer's needs from the very first contact all the way through to the final disposal of the exhibit, a period extending as long as 2 years. Compared to its chief regional competitors, Distinctive Displays is a very efficient operation. Among other things, it has the highest sales per employee, the second highest sales per square foot of space, the highest net worth, the highest current ratio, and the highest Dunn and Bradstreet (DB) credit rating (see Table 3).

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.

TABLE 3
1992 Competitor Comparative Analysis

	Crown	*Distinctive Displays*	*Environs*	*Berke Productions*
Sales ($)	3,300,000	2,000,000	1,200,000	1,100,000
Number of employees	45	20	15	12
Sales per employee	73,333	100,000	80,000	86,666
Net worth	280,570	354,740	(218,988)	104,342
Current ratio	1.4	3.5	.36	1.5
Dunn and Bradstreet ratings	BB2	BA1	Unrated	CC3
Square footage	71,500	30,000	15,000	17,000
Sales per square foot	46.15	66.66	80.00	64.70
Years in business	44	23	10	5

NOTE: Parentheses indicate negative amount. For the Dunn and Bradstreet ratings, B represents better and C represents lower credit ratings.

However, in recent years your company has not performed well financially. Table 4 contains 5 years of financial results for Distinctive Displays. For example, sales declined an average of 2.2% from 1988 through 1992 and return on sales declined from 8.6% to 4.4%, compared to a national average of 8.8% (in the $1.3 to $2 million sales category). Tables 5 and 6 provide information for the Exhibit Designers and Producers Industry. You attribute this poor performance to three causes. First, the Portland regional economy has not performed well in recent years compared to the rest of the nation. Even though the economy was currently showing strong growth, it will take time for this strength to show up in company sales. Second, in recent years fixed costs have increased and resources, both human and facilities, are being underused. You estimate that the current facilities could handle $3.2 to $3.5 million in sales. Third, profit centers for each sales category have not yet been established.

As the lackluster financial performance continued, you began to consider different options. One option was to acquire one of the competitors and thus move up to a significantly higher level of sales. This alternative was attractive because Portland was building a new convention center that will be completed in 1994. This may open a new market for Distinctive Displays—companies outside the region with trade show exhibits in the new convention center. This new opportunity, combined with a strengthening regional economy, would allow Distinctive Displays to take advantage of its excess capacity. Also, an increase in size might forestall the entry of a national firm, such as Exhibitgroup or Giltspur, which could be attracted to the Portland market as a result of the new convention center.

ENVIRONS INC.

The best prospect for an acquisition involves Environs Inc., a company formed by Lee Hanson in 1983. Environs is widely recognized as the most creative company in Portland's permanent exhibit and display market. Permanent exhibits are used by

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.

TABLE 4
Financial Results for Distinctive Displays (in dollars)

	1988	*1989*	*1990*	*1991*	*1992*
Income Statement					
Sales	2,021,000	1,865,500	1,621,000	1,467,805	1,848,522
Cost of goods sold	1,103,466	1,029,480	909,381	835,181	1,067,872
Gross profit	917,534	835,520	711,619	632,624	780,650
Operating expenses	742,276	689,234	611,090	556,038	696,846
Other income (loss)					
EBIT	175,258	146,286	100,529	76,586	83,804
Interest expense	1,452	816	27	1,728	2,459
EBT	173,806	145,470	100,502	74,858	81,345
Balance sheet					
Assets					
Current	677,571	459,563	394,877	306,854	3,329,932
PP&E	236,419	226,494	240,411	256,959	262,385
Less, accumulated depreciation	(184,095)	(189,291)	(209,166)	(225,785)	(243,492)
Other				87,521	96,508
Total	729,841	496,666	426,122	425,549	448,394
Liabilities and equity					
Current liabilities	375,101	141,926	71,382	70,809	93,654
Long-term debt					
Total liabilities	375,101	141,926	71,382	70,809	93,654
Common stock	1,701	1,701	1,701	1,701	1,701
Additional paid-in capital	1,699	1,699	1,699	1,699	1,699
Retained earnings	351,340	351,340	351,340	351,340	351,340
Total stockholders equity	354,740	354,740	354,740	354,740	354,740
Total liabilities and equity	729,841	496,666	426,122	425,549	448,394

NOTE: EBIT = earnings before interest and taxes; EBT = earnings before taxes; and PP&E = property, plant, and equipment. For the income statement, 1991 is a 9-month year. Parentheses indicate negative amounts. Distinctive Displays is an S corporation, so all taxable flows through to Mr. Sampson and is therefore not taxed separately at the corporate level.

home builders, manufacturers, and many other businesses, primarily in sales offices and conference rooms. Hanson's skills are mainly in the areas of sales and marketing. Because of her creative talents and a strong local economy, company sales doubled every year between 1983 and 1987. In terms of other aspects of the business, Hanson knows little about the cost of producing the displays and, in her own words, Environs's production process was "organized chaos." She finds it exhilarating to create "monuments" but has little patience for the many details of running a business. She loves to compete and win, and until 1990 she was winning.

In 1990, Hanson made what proved to be two fateful decisions. With help from strong sales and profits growth (see Table 7), she convinced a local savings and loan to

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.

TABLE 5
Exhibit Designers and Producers Industry—
1992 Survey (combined operating statement for years 1992 and 1991)

	1992 (54 companies)		*1991 (61 companies)*	
	$	%	$	%
Net sales	219,844,300	100.0	200,927,200	100.0
Cost of sales				
Direct labor	37,357,100	17.0	35,336,400	17.6
Material	74,229,700	33.7	66,878,500	33.3
Overhead	36,245,100	16.5	37,764,500	18.8
Total	147,831,900	67.2	139,979,400	69.7
Gross profit	72,012,400	32.8	60,947,800	30.3
Expense				
Sales	22,349,500	10.2	18,277,100	9.1
Design	5,727,700	2.6	5,419,700	2.7
General	31,570,000	14.4	29,038,500	14.4
Total	59,647,200	27.2	52,735,300	26.2
Net income	12,365,200	5.6	8,212,500	4.1
Other income	1,413,900	0.7	1,337,500	0.6
Net income (before federal income tax)	13,779,100	6.3	9,550,000	4.7
Federal income tax	4,181,200	1.9	3,438,700	1.7
Net income for the year	9,597,900	4.4	6,111,300	3.0

SOURCE: Industry Trade Publications.

extend Environs an unsecured $215,000 line of credit. In addition, she purchased a 40,000 square foot building with a mortgage from another local savings and loan and moved Environs to the new location. Consistent with Hanson's style, Environs's new facility included an elaborate display and sales area and a smaller production area. When the Portland economy turned soft in 1991, Environs lost two of its major customers, accounting for more than 50% of sales. By 1993 sales had dropped by 30% relative to 1990 and losses were exceeding $100,000 per year. The 1993 loss was expected to exceed $200,000. Chronically undercapitalized, Environs and Hanson went into crisis mode. Environs started producing exhibits for trade shows in direct competition with Distinctive Displays. Throughout 1992 and early 1993 it seemed that the big deals were coming just in time to keep the doors open. However, you have heard that Hanson is currently having difficulty making tax payments, and has begun the process of closing down the company.

THE NEGOTIATIONS

You first became aware of Lee Hanson in the early 1980s as your respective companies grew to prominence in Portland's regional market. In 1985, while you were president of the Exhibit Designers and Production Association, you invited Hanson to

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.

join the association. From that time on you have stayed in close contact with one another. You have been impressed by Hanson's creative and marketing abilities and the speed with which Environs became a major player in the industry. Through the years, mutual respect has helped build your relationship.

As both companies began to experience financial problems, Environs's being far worse than those of Distinctive Displays, talk of an acquisition began to enter your social conversations. In late 1992, after an extended and draining confrontation, Hanson ousted her production manager, Tom Margolis, who was also a minority shareholder in the company. Due to personal problems, Margolis had ceased to be effective in running the assembly operations. In search of a new manager, Hanson contacted you and the subject of an acquisition came up again.

Both of you recognize the benefits of putting the two companies together. The new company would be able to combine the efficiency of Distinctive Displays with the creativity of Environs to maximize the quality of its products and work processes. Furthermore, the company would be able to more efficiently use its production capacity and be able to have a strong presence in both the permanent display and trade show exhibit market segments. As you reflect on the upcoming meeting with Lee Hanson, you find that there are five issues you see as critical.

The first issue is the role that Hanson should play in your company. Although you believe that Hanson will bring significant sales and marketing expertise to the organization, you do not want to commit immediately to a partnership. As an excellent salesperson yourself (your personal sales totals exceed Hanson's totals), you feel that the addition of Hanson is a way to further enhance an already strong area of your company, not a means for patching up a weakness. You are concerned that Hanson can tend to be too reckless in business decisions and too unorganized in the way she manages her work. You envision a situation in which she would work under you as your sales and marketing manager. Hanson and her sales force could infuse a new burst of energy into Distinctive Displays, but you would be able to monitor and control her activities. With time, you hope that Hanson will develop a broader business perspective that will enable her to take over the leadership of the company. However, your current production manager, Chris Bordeau, is a highly capable worker, and you are also considering the idea of grooming her as your replacement.

A second issue is the compensation package that you will offer to Hanson. You have not had a sales manager before, but instead have directed that function yourself. If Hanson were brought in as the sales and marketing manager, this would put her in a position of responsibility that is on the same level as your production manager, Chris Bordeau. Chris currently earns $55,000 and you believe that this is a good ballpark figure to discuss with Hanson. In addition, you believe that actions speak louder than words and are prepared to offer a 5% commission on sales, and more if Hanson's sales exceed the $1 million that both you and she expect. Finally, you recognize the importance of industry contacts, and value Hanson's impressive connections and networking capability. Indeed, one of the most attractive features of the possible acquisition is that you believe she will be able to help you crack the national market for trade show

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.

TABLE 6
Exhibit Designers and Producers Industry—1992 Survey

	Sales Volume (thousands)			
	1,000-1,300	*1,301-2,000*	*2,001-2,500*	*2,501-4,000*
Number of companies	4	7	8	11
Average sales ($)	1,134,900	1,631,300	2,183,400	2,985,600
Condensed operating statement (%)				
Net sales	100.0	100.0	100.0	100.0
Cost of sales				
Direct labor	17.0	20.4	20.2	15.0
Material	31.4	28.4	33.1	39.2
Overhead	14.6	17.3	13.9	14.6
Total	63.0	66.1	67.2	68.8
Gross profit	37.0	25.2	33.2	30.2
Expenses				
Sales	8.8	7.7	10.3	8.7
Design	4.4	2.9	4.1	3.7
General	23.8	14.6	18.8	17.8
Total	37.0	25.2	33.2	30.2
Net income (loss) on operations	0.0	8.7	(0.4)	1.0
Other income	1.0	0.1	0.9	1.7
Net income (before federal income tax)	1.0	8.8	0.5	2.7
Federal income tax	0.3	3.4	0.7	0.6
Net income for the year	0.7	5.4	(0.2)	2.1

SOURCE: Industry Trade Publications.
NOTE: Parentheses indicate negative amounts.

exhibits in the new convention center. You are prepared to offer Hanson a generous expense account of $10,000 to help her in this area.

A related issue is to compensate Hanson for the clients she will be bringing over to your company. You believe that you can get from one third to one half of Hanson's clients regardless, but Hanson has a good reputation with her clients and was able to establish a company image in the marketplace. In addition, she could enhance Distinctive Displays's position in the permanent displays market segment. You are willing to discuss with her the possibility of equity in the company and/or some share of the net profit based on Hanson's sales. However, it is of paramount importance that Distinctive Displays in no way be responsible for any of Hanson's past liabilities. You have already spent numerous hours with your lawyer making sure that the deal would not allow such exposure. He has told you to make sure that Hanson has satisfied all of her financial obligations. In your mind, nothing that Hanson offers is worth risking damage to Distinctive Displays's strong financial position.

A fourth issue is that you hope to have Hanson bring over eight of her employees. It has been difficult for you to find good people. A few of her employees have

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.

TABLE 7
Financial Results for Environs (in dollars)

	1988	*1989*	*1990*	*1991*	*1992*
Income statement					
Sales	1,737,802	1,272,710	1,683,338	1,636,338	1,163,060
Cost of goods sold	925,390	707,658	769,585	906,076	650,171
Gross profit	812,412	565,052	913,696	730,262	512,889
Operating expenses	721,725	704,099	748,534	808,548	610,162
Other income (loss)	(25,944)	1,950	(14,144)	(12,505)	(34,806)
EBIT	64,743	(137,097)	151,018	(90,791)	(132,079)
Interest expense	26,140	31,328	31,719	20,957	30,749
EBT	38,603	(168,425)	119,299	(111,748)	(162,828)
Income tax (tax credit)		(2,427)			
Net income (loss)	38,603	(165,998)	119,299	(111,748)	(162,828)
Balance sheet					
Assets					
Current assets	333,480	171,164	278,724	143,519	134,765
PP&E	287,207	314,010	1,016,545	251,174	261,252
Less, accumulated depreciation	(138,106)	(202,622)	(187,094)	(195,779)	(225,113)
Other assets	6,766	12,278	23,025	92,075	42,765
Total assets	489,347	294,830	1,131,200	291,075	213,669
Liabilities and equity					
Current liabilities	267,403	263,868	362,229	235,910	374,041
Long-term debt	118,974	93,990	712,699	110,642	58,626
Total liabilities	368,377	357,858	1,074,928	346,552	432,667
Common stock	2,500	2,500	2,500	2,500	2,500
Additional paid-in capital	1,963	1,963	1,963	1,963	1,963
Retained earnings	59,904	98,507	(67,491)	51,808	(59,940)
Current earnings	38,603	(165,998)	119,299	(111,758)	(163,521)
Total stockholders equity	102,970	(63,028)	56,271	(55,477)	(218,998)
Total liabilities and equity	489,347	294,830	1,131,199	291,075	213,669

NOTE: EBIT = earnings before interest and taxes; EBT = earnings before taxes; and PP&E = property, plant, and equipment. Parentheses indicate negative amounts. Environs is a Regular corporation.

approached you privately about coming to work for you, and you believe that you could hire some of these people whether or not the deal with Hanson works out. However, the opportunity to obtain an intact team is appealing. You are willing to pay these people in the same manner as you pay your own experienced employees (which is on average a $33,000 salary and a 4% bonus at the end of the year), rather than start them out at new employee wages.

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.

TABLE 8
Product Width and Depth Matrix

	Distinctive Displays	*Environs*
Basic services		
Design		
Conceptual	X	X
Engineering	X	X
Fabrication		
Woodworking	X	X
Metals	X	X
Plastics	X	X
Painting	X	X
Animation	X	X
Electronics	X	X
Crating	X	X
Graphics		
Artwork		X
Photography		
Silk screening	X	X
Auxiliary services		
Freight logistics	X	
Show services	X	
Storage	X	
Rentals	X	X
Set up/dismantle	X	X
Portable/modulars	X	X
Printing		X

A final issue is that you would also like Hanson's portable exhibit store, the Exhibit Source, to be worked into the deal. Portable exhibits are one of the fastest growing segments in the exhibit industry. They generally sell for $5,000 or less, compared to the $10,000 and up for the custom exhibits in which Distinctive Displays specializes. They are inexpensive for the client and relatively easy to sell. Because you have begun to get into this area yourself, Hanson's store represents a conflict of interest for her. You believe that there is great potential in this area, but are proceeding slowly and cautiously as is your nature.

As you analyze how to address these issues, you also begin to consider your other options. One alternative is to sell the company and move on to a new career. After more than 20 years in the same business, the opportunity to do something different is highly appealing. A second alternative is to acquire one of your other competitors, such as Berke Productions. Although you believe that Hanson can offer a lot to your business, you are only willing to go so far in bringing her on board.

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.

Role for Lee Hanson

It is a typical gray Oregon morning in early November 1993. As you awake to the first faint light of the rising sun, your mind immediately turns to the critical negotiations involving your company, Environs Inc., which for 10 years has been recognized as the most creative company in Portland's permanent display market. Permanent displays are used by home builders, manufacturers, and many other businesses, primarily in sales offices and conference rooms. For example, a home builder may want a display showing the layout of model houses and a community center. The past 2 years have been difficult ones—a substantial drop in sales has forced you to begin the process of closing down the company. The negotiations involve a proposed merger with Distinctive Displays, which is owned and operated by Jamie Sampson. The resulting company would vault into a virtual tie with Crown, the current sales leader in the Exhibit Designers and Producers Industry for the Portland market.

THE PERMANENT DISPLAY BUSINESS

The account executives at Environs are the initial contacts with the clients. They determine the type of display a client needs and then pass on the information to a design engineer, who creates a representation of the display. Next, in the production department, professional builders construct the display. These builders come from a wide variety of backgrounds, including furniture, crafts, home building, general construction, and stage production for theater. Depending on the size and complexity of the display, the production process involves crafting the exhibit using wood, metal, and/or plastics. Painting, photography, printing, animation, and other graphics are then added to the display.

HISTORY OF ENVIRONS

You began your career with the New York Stock Exchange as a clerk in the member firm compliance department. You rose rapidly in the organization and were subsequently recruited by Shearson as a manager for a recently acquired mail order business. After having your first child, you and your spouse decided that living in New York City was no longer desirable and so the family moved to Portland, Oregon in 1976. There you were introduced to the printing and graphics industry and from 1980 through 1983 you started four companies involved in graphics, signs, films, and exhibits. You formed Environs in 1983.

Your strengths are mainly in the areas of sales and marketing. Because of your creative talents and a strong local economy, company sales doubled every year between 1983 and 1987. In terms of other aspects of the business, you know little about the cost of producing exhibits and, in your own words, Environs's production process was "organized chaos." You find it exhilarating to create "monuments" but have little patience for the many details of running a business. You love to compete and win, and until 1990 you were winning.

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.

In 1990, you made what proved to be two fateful decisions. With help from strong sales and profits growth (see Table 7), you convinced a local savings and loan to extend Environs an unsecured $215,000 line of credit. In addition, you purchased a 40,000 square foot building with a mortgage from another local savings and loan and moved Environs to the new location. Consistent with your style, Environs's new facility included an elaborate display and sales area and a smaller production area. Unfortunately, the Portland economy turned soft in 1991. Two of your major customers, accounting for more than 50% of sales, went out of business during the subsequent downturn. By 1992, sales had dropped by 30% relative to 1990 and losses were exceeding $100,000 per year on a regular basis. The 1993 loss was expected to exceed $200,000. Chronically undercapitalized, you put Environs into crisis mode. Environs started producing exhibits for trade shows in direct competition with Distinctive Displays. Throughout 1992 and early 1993, it seemed that the big deals were coming just in time to keep the doors open. And although you loved the challenge of keeping the company afloat, your 14-hour days and frantic pace were exacting a terrible toll on yourself, employees, creditors, family, and personal savings. Contributing to this stressful situation was the fact that you were beginning to have difficulty making tax payments. One business rule you have always followed is never to get into tax trouble, because unlike other creditors, the IRS was not at all accommodating or open to negotiating. Finally, in September 1993 you decided that Environs could not continue in its present state and so began the process of closing down the company.

DISTINCTIVE DISPLAYS

Your best prospect for successfully extracting Environs from its financial difficulties involves merging with Distinctive Displays, an exhibit design and production company owned by Jamie Sampson. Whereas Environs focused on developing permanent exhibits for sales offices and conference rooms, Distinctive Displays is more of a full service company providing design, fabrication, graphics, shipping, set ups, dismantling, and storage of exhibits for national trade shows. Table 1 shows a history of company sales.

Sampson took great pride in moving the company into second place in the very competitive regional market of Portland, the Willamette Valley, and Southwestern Washington State. Table 2 shows the current structure of the market. The fundamental marketing strategy was to work with major corporations in the region to meet their needs, with respect to exhibits at trade shows throughout the United States. Accounts ranged in size from $10,000 annually to as high as $200,000. Exhibits, once constructed, could be reused as often as six times at various trade shows. Consequently, dismantling, shipping, storage, and set up represented a significant portion of total revenues. Distinctive Displays was able to meet a customer's needs from the very first contact all the way through to the final disposal of the exhibit, a period extending as long as 2 years. Compared to its chief regional competitors, Distinctive Displays is a very efficient operation. Among other things, it has the highest sales per employee,

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.

the second highest sales per square foot of space, the highest net worth, the highest current ratio, and the highest Dunn and Bradstreet (DB) credit rating (see Table 3).

However, in recent years the company has not performed well financially. Table 4 contains 5 years of financial results for the company. For example, sales declined an average of 2.2% from 1988 through 1992, and return on sales declined from 8.6% to 4.4% compared to a national average of 8.8% in the $1.3 to $2 million sales category. Tables 5 and 6 provide information for the Exhibit Designers and Producers Industry.

THE NEGOTIATIONS

You and Sampson first became aware of each other in the early 1980s as your respective companies grew to prominence in Portland's regional market. In 1985, Sampson, as president of the Exhibit Designers and Production Association, invited you to join the association. From that time on you have stayed in close contact with one another. You have always held out Distinctive Displays as an example of how to run a company in the rough and tumble exhibit industry. Distinctive Displays's longevity and history of profitability were, in your opinion, just short of amazing. Through the years, mutual respect has helped build your relationship.

As both companies began to experience financial problems, Environs's being far worse than those at Distinctive Displays, talk of a merger began to enter your social conversations. In late 1992, after an extended and draining confrontation, you ousted your production manager, Tom Margolis, who was also a minority shareholder in the company. Due to personal problems, Margolis had ceased to be effective in running the assembly operations. In search of a replacement, you contacted Sampson and the subject of a merger came up again.

Both of you recognize the benefits of putting the two companies together. The new company would be able to combine the efficiency of Distinctive Displays with the creativity of Environs to maximize the quality of its products and work processes. Furthermore, the company would be able to more efficiently use its production capacity and be able to have a strong presence in both the permanent display and trade show exhibit market segments. For a deal to be worked out, you expect that one of the conditions on which Sampson may insist is that Distinctive Displays not assume any of your liabilities. Therefore, in September 1993, after you decided that Environs had to be shut down, you approached both of the savings and loans with which you had loans. Both were surprised to hear that you were having trouble. After a series of discussions, they agreed to a debt repayment plan without forcing you into bankruptcy (you credited this success to your approaching the banks first rather than the other way around). With regard to the $215,000 line of credit, one of the savings and loans agreed to allow you to liquidate all of the firm's assets, with the exception of the building, and use the proceeds to pay off the $215,000 balance. The savings and loan would absorb the difference and would give you until the end of the year to liquidate the assets (mostly accounts receivable, inventory, and equipment) in an orderly fashion. At the time, it was estimated that the assets could be sold for around $50,000.

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.

With regard to the building, the other savings and loan agreed to handle it as a Deed in Lieu by putting the building on the market at a price high enough to cover the loan amount. If in 6 months it did not sell, the price could be dropped as much as necessary to attract a buyer. You would be responsible for covering one half of the resulting loss up to a maximum of $40,000 (a very likely event). You would then be obligated to repay this amount as a long-term, zero interest loan. However, as of now, neither the building nor the other assets have been sold and there are only verbal agreements and a few memos, but no formally signed contracts. This latter situation exists because, in your opinion, the savings and loans are reluctant to recognize the losses in light of the troubled state of savings and loans in general. Even without formal written agreements, your lawyers are confident that you have satisfied your financial obligations.

As you think about the upcoming meeting with Jamie Sampson, you discover that there are three issues that you believe must surface. The first issue has to do with the compensation package that you would receive from Sampson. You are used to a certain type of lifestyle, and feel that you need at least $100,000 to restore your personal life to some semblance of normalcy. Because your spouse is currently working you have some flexibility here, but you are aware that there is a high probability that you will have to pay up to $40,000 in 6 months (if your building doesn't sell). You will be bringing a substantial chunk of your business with you, and feel that you should be compensated based on its value to Distinctive Displays. Furthermore, you can help Distinctive Displays penetrate a new market. Portland is building a new convention center that will be completed in 1994. Your extensive industry contacts will enable you to attract new accounts with companies outside the region that want trade show exhibits in the new convention center. This new opportunity, combined with a strengthening regional economy, could allow Distinctive Displays to take advantage of its excess capacity. Also, an increase in size might forestall the entry of a national firm, such as Exhibitgroup or Giltspur, which could be attracted to the Portland market as a result of the new convention center.

Between your current clients and your impressive connections and networking capability, you believe that you can bring in at least $1,000,000 to $1,500,000 in new business. Some piece of the business will have to be worked out as compensation for this sales increase. It could be in the form of sales commissions and minority stock ownership, although your previous experience with the production manager at Environs has soured you on the idea of minority owners. Given your sales and marketing expertise, your proven ability to establish an image in the marketplace, and your previous experience running your own company, you feel that some form of share in the profits is a fair business arrangement.

A second matter that you feel strongly about is the loyalty you feel toward the employees who have stayed with you through some very difficult times. It is important that these eight employees be taken care of in the final deal. At Environs, the average salary was $32,000 with a 15% bonus at the end of the year. You believe it is vital to get Sampson to hire your people and to match these compensation figures.

A final issue that you consider is the role you will play in the company. You admire the way Distinctive Displays is managed, but are not sure that you want to be in a

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.

subordinate position. You envision a shared leadership arrangement, with Sampson running the production side of the business and you running the sales and marketing side as an executive vice president. In a few years when Sampson retires, you could take control of the entire business or the two of you could hopefully sell it for a substantial profit.

As you analyze how to address these issues, you also begin to consider your other options. The most promising is the Exhibit Source, a portable exhibit store that you have recently opened in downtown Portland. Portable exhibits are one of the fastest growing segments in the exhibit industry. They generally sell for $5,000 or less, as compared to the $20,000 and up for the custom exhibits in which Distinctive Displays specializes. They are inexpensive for the client and relatively easy to sell. Due to the success of the Portland store, several potential investors have asked you to open stores in other West Coast cities. You have gone as far as lining up a number of key people in the event you decide to expand. If you do choose to join Distinctive Displays, you will insist that you be allowed to operate and own the Exhibit Source independently. Although you recognize that this may represent a potential conflict of interest because Distinctive Displays is moving into the portable display area, you feel that you are way ahead of them in this area and do not want to compromise your opportunities.

Beyond the Exhibit Source, you have been offered a position as a marketing manager for an interactive video company in New York and a position as a regional sales manager for a portable exhibit company in California. If you decide to pursue any of these alternatives, you feel confident that you can "sell" your customer list and your sales staff to either Crown or Distinctive Displays. Given your long association with Jamie, you would of course prefer to deal with him. In fact, over the years, the two of you have come to view Crown as the enemy. The one thing about which you are certain is that you do not want to continue as an independent firm in the permanent display business.

Issues, Positions, and Interests for Jamie Sampson and Lee Hanson

ISSUE 1: HANSON'S ROLE IN DISTINCTIVE DISPLAYS

Sampson's position: Sales and marketing manager
Sampson's interest: To monitor and control Hanson's activities
Hanson's position: Executive vice president of marketing
Hanson's interest: Autonomy and shared leadership of the company

ISSUE 2: HANSON'S COMPENSATION PACKAGE

Sampson's position: $55,000 base salary, 5% commission, $10,000 expense account

Sampson's interest: Hanson's compensation to be equitable and based on performance, and to reward Hanson for penetrating new market segments

Hanson's position: $100,000 base salary, commission-based pay

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.

Hanson's interest: To pay off debts, retain her standard of living, and be fairly compensated for the new business she brings in

ISSUE 3: PAYMENT FOR ENVIRONS'S FORMER CLIENTS

Sampson's position: Some equity in Distinctive Displays and/or a share of net profits on Hanson's sales

Sampson's interest: To not assume any responsibility for Environs's debt; he can get one third to one half of Hanson's old clients anyhow, but wants to capitalize on Hanson's reputation

Hanson's position: Some stock, sales commission, and/or profit sharing

Hanson's interest: To be credited for the skills, talents, industry contacts, and former clients she brings to the company

ISSUE 4: COMPENSATION FOR HANSON'S EMPLOYEES

Sampson's position: Same as his current experienced employees ($33,000, 4% bonus)

Sampson's interest: To attract an intact team; he is willing to compensate employees based on their experience

Hanson's position: Same as compensation at Environs ($32,000, 15% bonus)

Hanson's interest: Strong loyalty toward her employees

ISSUE 5: THE EXHIBIT SOURCE

Sampson's position: The Exhibit Source worked into the deal

Sampson's interest: The Exhibit Source represents a conflict of interest, because Distinctive Displays competes in this market already

Hanson's position: The Exhibit Source kept out of the deal

Hanson's interest: She is ahead of Distinctive Displays in this area and does not want to compromise potential opportunities

References

Fisher, R., Ury, W., & Patton, B. (1991). *Getting to yes: Negotiating agreement without giving in*. New York: Penguin.

Lewicki, R. J., Litterer, J. A., Saunders, D. M., & Minton, J. W. (1993). *Negotiation: Readings, exercises, and cases*. Burr Ridge, IL: Irwin.

Whetten, D. A., & Cameron, K. S. (1995). *Developing management skills*. New York: HarperCollins.

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.