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School Tool Box LLC

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Executive Summary

School Tool Box (STB) source and offers pre-packaged school supplies for children in primary and secondary educational institutions through networking with school officials and parents. The company anticipates greater market share through convenient alternative to back-to-school shopping, offer of quality products and exceptional customer service. STB's foundation is influenced by its core Christian values and philanthropic ideas.

The concept of pre-packaged school supplies is hassle free and saves parents time by giving them the option to shop online or through the schools. The school supplies industry has been steadily growing over the last ten years signifying an opportunity for STB to expand. Based on research of this industry the current target market for the pre-packaged school supplies industry is roughly $315 million.

STB offers pre-packaged school supply kits through two primary programs namely; Ship-to-School where orders are shipped to the school for distribution by the school officials and Ship-to-Home for direct delivery of individual, and sometimes customized, packages to parents' homes.

STB's direct competitors include Educational Products, Inc. (EPI) and SchoolKidz, while the indirect competitors are retailers such as Walmart, Menards, Walgreens, and Staples. STB is able to maintain its presence in the market through its core competitive advantage which is its team of officers who offer years of experience in entrepreneurship, sales, marketing and information technology. Supporting this core advantage are resources and capabilities which includes exceptional customer service, customized products, as well as its strong financing relationship in the form of a bank line of credit of $600,000.

In order to spread more awareness and grow sales a recommended marketing strategy has been put together. The key elements of the strategy are: Parent Advocacy program through religious organizations, the Teachers' Wish List program, strategic sales force increase and an enhanced communication strategy that focuses on social media.

After successful implementation of the plan addressed in this document the expected revenue is $6.4 million which doubled from its current sales by September 2013. Based on the financial projections STB would breakeven by the end of 2015 and see positive stockholder equity by 2016.

Additional funding will be necessary in the early years due to STB's seasonal business. In addition to STB's current line of credit, using a credit card will be a suitable option as the funding requirement is expected to be short-term.

Company Overview

School Tool Box™ (STB), a limited liability company, was formed in 2012 as an online, Ship-to-School, and Ship-to-Home provider of pre-packaged school supplies for students in grades K to 12. The company offices are located at 228 West Page Street, Sycamore, IL 60178. STB expects to grow its business through greater marketing efforts to reach more parents and increase their participation.

Vision and Mission Statements

STB's vision is "to be the first choice for pre-packaged school supplies, while living out our core values, and creating a great place to work". While its Mission "is to partner with schools and parents to provide cost effective solutions for equipping children to learn, and to glorify God in our partnerships, practices and performance."

History and Current Status

The company was formerly launched in 2000, under the name Primary School Supply, as a provider of pre-packaged school supplies working with Parent Teacher Organization/Parent Teacher Association (PTO/PTA) as a convenient alternative to the stressful back-to-school shopping experience. After experiencing annual growth in sales for eight years, the company's number of schools sold to and gross revenue saw a decline from 2008 to 2011.

Shortly after, the company was re-organized as a Limited Liability Company and changed its name to School Tool Box in 2012. STB revised its business model to include online and Ship-to-Home program in order to create differentiation from its commoditized position in the pre-packaged school supplies industry.

Objectives

STB's goal is to become a leader in the pre-packaged school supply industry. STB's current annual sales of three million dollars are expected to grow to six million dollars over the next five years. The company has been approached by large corporations such as Target and Office Max to understand its operation as a prelude to a possible merger or acquisition. The owners of STB will consider selling to larger companies when its sales hit the nine million dollars mark.

Product and Service

The Ship-to-School program is organized through a sponsor, such as the PTO/PTA or other school officials, working with STB to provide parents the opportunity to order pre-packaged school supply kits either through the website or the use of a paper form. Then the kits are assembled at STB and delivered to the school where the sponsors organize volunteers to distribute the kits. The sponsor can also choose to have the kits shipped to the parent's home (Ship-to-Home) if the sponsor does not want the kits sent to the school. If this option is chosen then the parent can customize the kit before placing the order online. Another alternative for parents is to order online without going through a sponsor. The supplies are not pre-packaged in this case. Instead the parent will have to select each desired items from the website to be added to an order. While this process is longer, it is still a convenient alternative to going from store to store in hunt for school supplies.

Market and Industry Analysis

Customer Research – Survey

A survey was conducted as a primary research on pre-packaged school supplies (Appendix A). There were a total of 120 participants. Majority of the participants reside in Illinois and consist of mostly parents with children. The questions on the survey addressed areas such as the awareness of pre-packaged school supplies, purchasing online, factors driving the participants' preference and purchasing school supplies, and other demographic questions.

The key takeaways from the survey were that the market for pre-packaged school supplies is fairly small with the target market being parents seeking convenient alternative to the traditional back-to-school shopping experience; the ordinary parent values price more than convenience; awareness of pre-packaged school supplies kits being sold online was very low; and there is opportunity to grow this market once awareness is spread since more than 50% of the participants were at least moderately likely to purchase pre-packaged school supplies kits.

Market Size and Growth

STB is competing in the pre-packaged school supplies industry, a sub-segment of the back-to-school market. According to a 2013 back-to-school survey conducted through the National Retail Federation (NRF), the total spending on back-to-school supplies is expected to be roughly $26.7 billion representing 132,656 schools (K-12 Facts, 2013) .

Families with school-aged children will spend an average of $634.78 on back-to-school supplies which includes apparel, shoes, electronics, accessories, school supplies, and other supplies of which an estimated average of $90.49 was spent on school supplies alone (Brown & Grannis, 2013). This means that out of the $26.7

billion spent on back-to-school only about 14.26% or $3.8 billion actually represents the school supplies industry. The chart to the right shows the average spending by year for back-to-school and back-to-college.

The target market for pre-packaged schools supplies was estimated based on two approaches (see Appendix B for more detail). The first was based on the survey, where the 8.3% of the participants who were extremely likely to purchase pre-packaged school supplies online now or in the future were deemed representational of the target for the segment; this is an estimated $316 million out of the $3.8 billion spent on school supplies. The second approach was based on the proportion of enrolment in private schools to total school enrolment. Private school enrolment is expected to be 9% or 5.2 million students of the total in 2014 (Appendix B). Private schools figures were used because it is assumed that private school parents would more likely favor convenience over price than parents of inner-city students for example. 9% of total school supply spending is about $355 million. This business plan assumes the $316 million target market size from the first approach.

Although according to NRF the 2013 average for total spending by family on back-to-school dropped from last year's total by $52.83, the spending on back-to-school over the last ten years has trended upward (Brown & Grannis, 2013). Therefore, since there is an upward trend in the back-to-school supplies industry, an upward trend is also anticipated for the pre-packaged school supplies industry.

Trends

Research indicates that most parents will typically shop for back-to-school in August. Less than 20% of participant surveyed have bought school supplies online. While most parents prefer to shop in store rather than shop online, majority of shoppers start by conducting research online that will impact their in-store shopping decisions later on (Lee, 2013). The internet provides a more convenient way to compare prices rather than having to compare the separate advertisements that come through the mail.

The survey result showed that price is the number one determining factor for most people when they are shopping for school supplies (Lee, 2013). Parents are looking for promotions and sales to help reduce their overall spending on back-to-school supplies. This mindset is influenced by the hard economic times many consumers have been through and may still be experiencing (Fiona Swerdlow, 2013).
It could be argued that there are three prevailing methods to buying back-to-school supplies - ordering pre-packaged kits, going to individual stores or buying online. The option the parents choose will be dependent on various reasons. Pre-packaged school supplies can provide convenience, cost savings and eliminate impulse buying. There are also some parents who do not like the back-to-school shopping trips and would prefer to buy online or pre-packaged kits (Wagner, 2011). On the other hand, there are the parents who look forward to the shopping trips and

consider it a tradition and do not want to buy online or order a pre-packaged kit (Candy, 2012).

Given that price is the number one driving force according to survey, the back-to-school sales offered by stores makes it the better deal. This is true for the majority of the participant regardless of the gender, household income, education, or age of the parent. Female between the ages of 21 and 39 years old, with a household income of over $50,000 who has earned bachelor's degree or higher is typical of the person who would prefer to buy pre-packaged school supplies online.

Enrolment for elementary and secondary schools is expected to continue to trend upward at an average of 2.7% meaning the market should expect similar growth (Fast Facts, 2013). With the kits offering convenience as the main attraction to parents, it will make sense for STB to target this group of parents.

Industry Structure

The pre-packaged school supplies industry structure generally includes the companies who try to reach the parents (the ultimate customers), mainly through working with school officials, with the help of outside and inside representative and sometimes through the social media. Companies rely greatly on the school officials to encourage parents to place orders for school supplies. The supplies are

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delivered to the school, or sometimes to parents' homes, a date closer to when the new school session starts.

The back-to-school industry in general could be considered a mature market, as there are a lot of players in the market and it has been around for so long. However, recent survey indicate that the pre-packaged school supplies segment, specifically where parents have the option to either have products delivered to their home or the school, is an emerging market. The survey suggested that about 61% of potential customers are aware of this option and 30% surveyed would very likely prefer pre-packaged school supplies over traditional store-to-store 'hunting' for back-to-school supplies.

The competitors in this market range from companies whose business is dedicated to the back-to-school industry to big bucks, and even hardware stores, who offer back-to-school supplies among other things. There are two large direct competitors for pre-packaged school supplies and they compete mainly on price, quality, and exceptional customer support. Several smaller competitors try to capture part of the market through brand-named product offerings and flexible customer support. New companies into the pre-packaged school supplies industry face the barrier of obtaining the cost efficiencies that is available to the major players given their economies of scale. The two larger competitors have been around for over 20 years and have built long-term relationships with schools and some parents making it harder for new entrants to gain those customers. Depending on the chosen business plan, there could be a high capital requirement to maintain the large inventory that is necessary to avoid stock-outs. This is especially true in the case where there is error in forecasting.

School supplies products are commodities. There is not much flexibility in the pricing except where a company is able to substantially reduce its costs and decides to pass the savings unto the customers. Given the wider range of both direct and indirect competitors and how easy it is to compare prices online, customers have greater buying power. STB in particular does not have much flexibility or control over its price unless it is able to provided perceived added value that would induce customers to pay higher prices.

Costs are plagued by the same lack of control or flexibility, especially if STB were to offer brand name products. Brand name is preferred for majority of the products that go into the kits because product failure does not have as high impact on the image of STB as off-brand products would. Brand name suppliers are bigger and more popular and their products account for the majority of STB and its competitors' businesses, giving the suppliers greater bargaining power. This is because while the producers of school supplies may survive by selling to other school supplies retailers, pre-packaged school supplies companies do not have such flexibility in sourcing popular brand products.

Direct Competition: includes the two large competitors, Educational Products, Inc. (EPI) and SchoolKidz, plus several smaller providers.

EPI – a division of Excelligence® Learning Corporation; is the largest pre-packaged school supplies company in the country. It was established in 1979 and according to its website has provided "over 1 million students, parents and teachers with school supplies each year". It offers other school related products, such as apparels and science fair items, to complement its pre-packaged school supplies business. The company offers both brand name and private label products and considers itself as a cost leader. It has a one-year guarantee program which replaces defective items and will match and beat any quote for same items by 2% to 3%. EPI is the only competitor that provides pre-packaged supplies on a consignment basis to PTOs. Parents are given the choice of shipping pre-packaged school supplies orders to their homes or school (Educational Products, Inc.). SchoolKidz – is a business unit of Staples®, Inc. and is the second largest in the country. The company is located in Woodridge, Illinois. It offers both brand names and Staples private label products. All SchoolKidz pre-packaged supplies are shipped to school for distribution. With the exception of a few optional items, pre-packaged kits may not be altered. The company offers free inside delivery for qualifying schools (SchoolKidz.com).

Indirect Competition – includes big general retailers, (Target, Walgreens and Walmart), office supplies stores (OfficeMax, Office Depot and BestBuy) and hardware stores (Menards and Home Depot) who offer promotional school supplies during the back-to-school session. Back-to-school shoppers are most familiar with these competitors and they currently accounts for the majority of the back-to-school activities. Some of these retailers, Walgreens for example, also offer pre-packaged school supplies which includes general products that most schools require.

Potential Direct Competition – Walmart through its Classroom by Walmart is a potential direct competitor. Classroom by Walmart currently operates by providing parents with their school's supplies list online to expedite the online school supplies ordering process. Walmart already has established relationships with schools given that it is able to obtain school supplies list from schools in time for back-to-school shopping. Walmart would have lesser trouble obtaining cost advantage in products procurement as well as kits building processes given its large scale. It appears that all that is needed is for Walmart to become interested in working with schools to pre-package school supplies and it will become a formidable direct competition in the segment (Walmart, 2013).

Opportunity

The survey results revealed that most people (including parents) are not aware of pre-packaged school supplies. 73 out of 120 surveyed answered ‘yes’ to knowing about pre-packaged school supplies offerings. Potential customers could be made aware with the use of extensive education. Of the 47 who were not aware of pre-packaged school supplies, 30% indicated that they would be willing to purchase school supplies online if it is available to them. 51% stated price as the number one driver for shopping online while 28% cited convenience as the number one motivating factor for pre-packaged school supplies.

As the trend in online purchases grows, so would the potential for more online pre-packaged school supplies purchases. Having all supplies pre-packaged so that parents do not have to travel from one store to another to find all items on their list will satisfy the need for convenience that 28% surveyed indicated as being their number one motivator.

Marketing Plan

If it was common knowledge that these could be ordered online with a little cooperation from a school’s PTO for the same price as a general price leader, like Wal-Mart, more schools would participate alleviating many ‘headaches.’

Positioning

STB positions its products and services as a value creator. STB save parents time and adds convenience to the back-to-school-shopping-experience with a simple 'quick-click' shopping method. The customers of STB need to believe that pre-packaged school supplies are convenient and not more expensive than shopping at big box stores. This can be portrayed through some of the new marketing campaigns. Along with providing convenience, STB emphasizes its Christian values in order to be seen as a company that cares about humanity. An example of this is where a donation is made to Feed My Starving children, a charitable organization, for each kit sold (Stice & Howells, 2013).

The position of a value-creator, with quality products, and superior customer care positions STB as the company that cares about its customers and others.

To further position itself as a hassle-free value creator, STB prefers to offer brand names like Crayola, Elmer's and Mead in the products that matter. For products such as zipper bags, wipes, and copy paper the name of the brand is not as important and STB reduces its cost by going with a generic brand instead of paying for a brand name (Stice & Howells, 2013).

Product/Service Strategy

The best option for STB is to offer Ship-to-School and Ship-to-Home. The two programs complement each other and it will be beneficial for STB to continue offering them. Some schools may want to do Ship-to-Home while others may prefer Ship-to-School. With some schools already signed up for the supplies to be delivered to schools and not students' homes, STB could drive customers away and towards their competitors. The Ship-to-School program currently accounts for over 50% of STB sales and sponsors are needed to provide the teacher's school supply lists (Stice & Howells, 2013).

Parent Advocacy Program

While STB has sales representatives reaching out to the schools to inform them about its products, STB does not currently reach out to the parents directly. An option for STB is to reach out to parents through religious groups or community gatherings in order to bring more awareness to its business. Going this route would supplement STB's advertisement in various publications such as the Catholic and Jewish magazines (Stice & Howells, 2013). Using a church as an example, the church would receive a donation of $0.50 for each kit sold if the parent enters a code provided from STB for that church. The benefit to STB is that the church has children coming from different schools, which gives STB the opportunity to broaden its advertising reach. It would list out all of the different schools already signed up with the company and the parents can go to the website and find their school.

If the school is not listed then the parents can still order supplies through the website, but the donation will be reduced to $0.25 per kit. This will serve to motivate parents to go to their PTO to sign up for this program. The additional cost to STB would include flyers and other publications to advertise this program at the outreach organizations.

The impact of this program is an estimated 10% growth in STB sales for the first year of its introduction and 2% thereafter. The donation made to the outreach organizations is another great way to give back to the community and add to STB's philanthropic image.

Teachers Advocacy Program

The introduction of STB's Teachers' Wish List program is another way to motivate PTO into signing up with STB, by becoming more involved with promoting this program to their students and parents. Not only would students have all of the school supplies that the teacher required, but the teacher would also be receiving items from their wish list. Currently, the program provides the parents with option to buy an item from the list and have it sent to the teacher (Stice & Howells, 2013).

Another way the wish list program can be offered is by having parents round up their purchase to the nearest dollar and adding the change to a teacher's "bank". The balance in the "bank" will be used by the teacher to purchase needed items from their list. Teachers on average spend $485 of their own money on materials for their classroom on an annual basis (edublogs.com). This program could ease the financial burden placed on teachers while giving them the tools they need to be effective in the classroom. It is recommended that STB emphasize this program in its marketing to the teachers highlighting the benefits to the teacher and the classroom.

An increase to sales of 5% in the first year and 1% in the following years is the estimated impact from this program because it is believed that most parents like helping out teachers and making sure their children have all of the necessary supplies they need to be educated. There are no significant additional costs to STB to run this program.

Customer Service

Customer service is one of the areas that STB tries to excel and this is reinforced by its 100% guarantee policy where items are replaced free of charge to the customer for any reason for up to 30 days after purchase. Orders can also be cancelled within 30 days of delivery. Currently, shoppers are able to contact STB via phone or email (School Tool Box, 2013).

STB is encouraged to consider additional means of communication on its website such as a chatting with or email messaging (during non-business hours) a customer service representative and a feedback section. With the chatting feature, the customer service representatives are able to communicate with multiple customers at the same time making it more efficient than phone conversations. It is important that STB responds to customer email inquiry within twenty-four business hours to prevent customer dissatisfaction with the process. The feedback section is where customers could tell STB about their shopping experience as well as provide how they heard about STB. This section would help STB stay on track of what works with customers and pinpoint effective marketing efforts. Feedback postcards could be sent out with every delivery as an added means to find out about customers.

Pricing Strategy

As mentioned above, price was ranked as one of the most important factors in purchasing pre-packaged school supplies online. Parents are looking for convenience but they are also shopping for prices. STB's main goal is to provide convenience to parents while offering competitive pricing.

Costs are oftentimes the hardest factor to control in the competitive landscape. Therefore, in selling brand names, especially with commodities, the company must strategically price its products after conducting competitor analysis. STB uses comparable pricing set by the market. For example STB carries same brands as Walmart and stays competitive by offering the same price for almost all of the products. At the same time STB is not concerned with being the price leader and selling the cheapest products. Because STB sells brand names, it cannot have the lowest prices for its products. STB's prices for its kits vary since it offers a variety of kits for the different grade levels and also it offers customizable kits. The average price per kit is roughly $49 (Stice & Howells, 2013).

STB focuses to provide customer added value by providing a greater customer experience. Proving quality service and establishing strong customer loyalty ensures that customers will be willing to keep their business with STB even when the price is slightly higher than the alternatives.

E-commerce

STB revamped its website for shoppers to visit and make purchases. The website can be described in a few words: a one stop shop for school supplies. The home page is an illustration of a desk, which is a nice tie in to the school industry. All of the pages that a shopper would need can be accessed from the home page. Overall, the website is easy to navigate and is interactive with boxes popping up explaining how to navigate the page (School Tool Box, 2013). At bottom of the home page, the shopper is invited to "Like" STB on Facebook. It is recommended that a hyperlink be added to make it easier to direct customers instantly to its Facebook page.

Communication Strategy

In order to build a brand, a strong communication strategy has to be in place that will help spread awareness and build customer relationships. Currently, STB has media advertising in catalogues and small magazines, direct response advertising through email marketing as well as brochures and E-commerce. STB could take its marketing efforts to the next level through the use of social media (Stice & Howells, 2013).

"Social media is an effective way for small businesses to connect with customers and build a brand for the cost of some time and creativity" (HARDING, 2013). Although, STB has a Facebook page, an enhanced management initiative is required to reap the rewards from effective social media marketing. STB should consider taking advantage of Constant Contact's marketing services. Currently STB uses Constant Contact's email marketing service, however adding the social media marketing service called Social Campaigns through Facebook will help grow the audience and keep them interested in STB's business.

There are three simple steps to the process: Create, Promote, Track. The two important types of campaigns STB could create are coupon campaigns and sweepstake campaigns. With the coupon campaign STB could entice users to like its Facebook page and share it with friends by offering a special discount for Facebook fans, like 10% off a next purchase. On the other hand, sweepstake campaigns offer fans a chance to win a special prize whereby Constant Contact emails the list of entrants and randomly selects a winner. The next step is to promote the campaigns where STB can publish the campaign on Facebook and then easily promote it to the other social networks such as Twitter and LinkedIn and existing email lists. Finally, the last step involves tracking. STB can track its social media reach with Constant Contact's easy-to-read reporting and stats where it can measure the number of new fans, email contacts, campaign visitors, conversions, and shares (Constant Contact, 2013).

The pricing set by Constant Contact to utilize its social campaigns practically pays for itself with free coaching plus online and local education from small business experts. For $20 a month STB would get access to contact management tools, free coaching and support, and small business MarketPlace and more. Pre-pay options at a discounted price and free 30-day trial are also available (Constant Contact, 2013).

To manage STB's growing social media campaign it would be beneficial to have a social media savvy part-time intern. The intern would be in charge of utilizing the services provided through Constant Contact in order to administer STB's social media pages. Currently, STB has a Facebook account; however, it also needs to have a presence on the other two leading social media networks, Twitter and LinkedIn. It would be a paid internship position with STB offering $10 per hour. The additional cost would be roughly $10,000 more per year. It would be a great opportunity for the intern as he or she would build work experience.

Having a successful communication strategy in place speaks great volumes. The payback to the company is an estimated 10% growth in revenue in the first year and 2% in the following years.

Sales Strategy

STB's current sales strategy is to target schools across the United States (excluding Hawaii and Alaska). Both parents and the school officials gain awareness through a number of different outlets discussed in the communication strategy section. Getting parents and officials to make and execute the decision to buy from STB is carried out by the combined efforts of the inside and outside sales representatives. The insides sales representatives reach out to customers through cold calling and they also manage inbound customer requests. The outside sales representatives visit schools and work with the school officials who in turn notify the parents of the school’s decision to offer pre-packaged school supplies. Inside sales reps are compensated on a salary plus commission basis. The outside sales reps are compensated on a commission only basis. Commissions are calculated on revenues resulting from schools signed (Stice & Howells, 2013).

Orders are taken primarily though the STB website with the added option of paper ordering for customers who are less likely to use the internet. The school officials can elect to collect all orders from the parents and place a single order with STB (this is more appropriate for Ship-to-School) or have each parent place individual orders with STB (Stice & Howells, 2013).

It is recommended that STB increase its sales force to accommodate the anticipated growth in awareness that will result from the ideas addressed above, by adding one inside and five outside sales representatives. These individuals will ideally be seasoned professionals who would require minimal training to familiarize themselves with STB's product offerings. Their compensation will be along the same lines of the current sales force. Table 1 below details the rate of growth. Additional internal staff may become necessary in the future but it is not recommended at this stage.

Revenue Model

The forecast for STB revenue is depicted in the Table 1 below.

Table 1

	YEARS ENDED DECEMBER 31,				
	2014	**2015**	**2016**	**2016**	**2016**
SALES					
STB - S2S - 63%	2,718,123	3,188,358	3,568,729	3,867,789	4,022,500
STB - S2H - 37%	1,617,897	1,897,793	2,124,200	2,302,208	2,394,296
TOTAL	4,336,020	5,086,151	5,692,929	6,169,997	6,416,797
Estimated Pre-packaged Market Size*	315,912,425	322,230,673	328,675,287	335,248,792	341,953,768
STB Market Share	1.4%	1.6%	1.7%	1.8%	1.9%
Average price per Box - $49.37					

*Market size is based on results from survey and secondary research (see Appendix B for more detail) and is expected to grow 2% each year

Operations Plan

STB imports school supplies from various brands which includes Crayola, MEAD, and Elmer's. These products are packed in pre-labeled boxes for students based on grade and school. Ship-to-Home boxes may be customized based on customer orders. These boxes are purchased by the parents or PTOs of the school through an easy ordering process. The Ship-to-School orders are currently packed at STB's warehouse in Sycamore while the Ship-to-Home orders are packed at a fulfillment center located in Elgin (Stice & Howells, 2013).

Operations Strategy

For the Ship-to-Home program, products arrive from the suppliers at STB's warehouse in Sycamore where the kits are picked and packed by a team of primarily seasonal employees. The kits are sent via freight shipments to the schools at which point the school officials are responsible for organizing distribution, typically with the help of volunteers, to the students. Deliveries are usually timed for a few days before the beginning of the school year so that they are ready for students when classes begin (Stice & Howells, 2013).

The Ship-to-Home orders are fulfilled by a third-party to achieve process efficiencies. The vendor has computer software which enables it to link directly to STB's website and fulfill customized orders.

The orders are guaranteed to ship within 21 calendar days from the date of order (School Tool Box, 2013).

Both the Ship-to-School and Ship-to-Home orders are currently shipped via UPS ground and/or UPS freight where STB receives contract pricing due to volume. STB also works with a small local shipping company for other freight needs at a discounted price. To improve cost efficiency STB is also working with suppliers in order to drop ship orders to the third party facility. With the ability to order the

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supplies directly from the suppliers STB is able to bring in hard-to-find items teachers require (Stice & Howells, 2013).

Ongoing Operations

The facility in Sycamore, which also houses the main offices, is about 80,000 square feet of which STB currently utilize about 69% (55,000 square feet). The company also has relationship with the owners of surrounding warehouse facility in the event it needs to expand (Stice & Howells, 2013). STB is able to achieve cost efficiencies through the low facility cost, as its current rent is at a fraction of the costs of comparable facilities. The cost savings should be tempered with ongoing considerable repair and maintenance of the facility. It is also important to note this facility is in close proximity to the Chicagoland area, the third largest city for commerce in the U.S.

STB's supplier base is strong with working relationships with 81 current vendors including popular brand names such as Texas Instruments, Post-it and Merriam-Webster Inc. STB is also able to achieve improved costs by becoming a part of a buying group to help it reach certain product discount levels and receive manufacturer's rebate (Stice & Howells, 2013).

Management

The organization chart in the appendix lays out the roles and reporting structure of STB. In general, the structure is divided into three main functional areas – Sales/Marketing, Operations/Administration and Information Technology.

Management Team

STB was founded by the President and Chief Executive Officer (CEO), Doug Stice. Two other key contributors to the management team are the Chief Operation Officer (COO), Greg Howells; and Chief Information Officer (CIO), Adam Westphal. All three are seasoned leaders with rich backgrounds in business and their areas of specialty. Ownership of STB is shared among the three officers. With a degree in Public Relations & Speech Communication from Western Kentucky University, Mr. Stice is an avid businessman. He has experience in working for big corporations such as Motorola (Sales Representative), and being a business owner. He has operated in the school supplies market for about fourteen years (Stice & Howells, 2013).

Mr. Westphal joined STB in 2012. He is a well-rounded asset to the company with extended life and work experiences. He earned his degree in Computer Science from the University of Wisconsin La Crosse. His vast experience include being in the US Navy and working as a commercial fisherman in Kodiak Alaska before taking up a career as an IT Solution Architect with IBM for sixteen years (Stice & Howells, 2013).

In late 2012, Mr. Howells came on board. With extensive marketing skills, he was a valuable addition to the team. Before STB, Mr. Howells has held several positions, which include Vice President of Sales at DeKalb Ag, Director of Sales and Business Unit General Manager at Monsanto followed by a VP of Sales and Marketing at Group Grimaud a French Animal Breeding Company (Stice & Howells, 2013).

These men have between them 75 years of marriage and 11 children, which is a solid sign of stability incorporating their Christian value and desire to care for others. After review of each of their profiles, STB currently has all of the essential pieces from a management perspective to run the company. In the future, as the business reaches a mature level, more positions will be needed to alleviate the load borne by the current management team, freeing them to focus on more strategic activities in the company. The future positions that STB should consider are: Chief Financial Officer, Chief Technology Officer, Chief Revenue Officer, and Chief Visionary/Marketing Officer (Wikipedia.org, 2013). The decision to increase staff at any level must be made to directly correlate with the expected impact on the profitability of operations.

Competitive Advantage

For a company to have a sustainable competitive advantage the resource must have four attributes: "it must be valuable, in the sense that it exploit opportunities and/or neutralizes threats in a firm's environment, it must be rare among a firm's current and potential competition, it must be imperfectly inimitable, and there cannot be strategically equivalent substitutes for this resource (Barney, 1991)." The team of officers is a core competitive advantage for STB. It is valuable in that the team brings expertise that would benefit the company. This resource is rare, inimitable and cannot be substituted due to the path to dependence that results from the combination of experience and skills that they bring to STB. Talent turnover is a possibility in any management team; however, it is highly unlikely for this team. This team appears to be settled in at STB with each having a financial stake in the business. Also, given their backgrounds and stage they are in life, they are not likely to be in pursuit of some new adventure.

For the core competitive advantage to be effective and sustainable, it needs supporting resources and capabilities. These are evident in STB's offerings of exceptional customer service, customized products, as well as its strong financing relationship in the form of a bank line of credit of $600,000.

Financial Plan

Summary of Financial Projections

	2014	2015	2016	2017	2018
Summary of Financials ($)					
Revenue	4,336,020	5,086,151	5,692,929	6,169,997	6,416,797
Gross Profit	1,357,975	1,605,526	1,804,610	2,029,853	2,111,047
EBIT	(29,472)	302,437	475,636	680,256	750,257
EBITDA	(24,294)	307,615	480,814	685,434	755,436
Net Earnings	(59,884)	314,601	545,320	793,643	876,360
Net Cash from Operating Activities	(51,195)	321,212	551,660	799,563	882,010
Interest Income/(Expense)	(30,412)	(32,393)	(7,550)	983	1,983
Cash	12,631	11,327	470,095	1,269,658	2,151,668
Total Equity	(488,259)	(173,659)	371,661	1,165,304	2,041,664
Total Debt	561,797	241,386	150,201	151,371	152,064
Growth					
Revenue Growth Rate - CAGR:		17%	12%	8%	4%
Net Earnings Growth Rate - CAGR:		Nil	73%	46%	10%
Ratios					
Current Ratio	0.0	0.1	8.5	22.2	37.1
Debt to Capital (LT Debt + Equity)	0.8	0.8	0.8	0.8	0.8
Debt to Capital (Total Liab. + Equity)	1.0	0.9	0.9	0.9	0.9
Profitability					
Gross Profit %	31%	32%	32%	33%	33%
Operating Expenses %	32%	26%	23%	22%	21%
Net Earnings %	-1%	6%	10%	13%	14%
Returns					
Return on Assets	-81%	465%	104%	60%	40%
Return on Equity	Nil	Nil	147%	68%	43%
Return on Capital (LT Debt + Equity)	-52%	273%	473%	689%	761%
Return on Capital (Total Liab. + Equity)	-10%	120%	318%	460%	506%

Key Assumptions

Working Capital – AR: 7 Days for 30% of sales with payment terms of 'Due upon receipt of goods or invoice'. 70% pay at time of order. The Industry average for specialty retail (Office Max, Home Depot and Staples) in 2012 was 36 days. Projection for STB is conservatively based on 40 days. The 'leaner' projected inventory management resulted in the elimination of the extra storage requirement in previous periods. Historical average AP days for STB is 30days – this was unchanged. There was no provision for bad debt due to the STB's receivable structure – it is expected that all of its customers will pay accordingly. Interest expense includes 30% interest on short-term funding (discussed below). 0.12% interest income is assumed for cash in short-term maturities. This is based on November 2013 90-day CP AA Financial (The Federal Reserve System). Depreciation is taken as 6.56% of Gross PP&E – based on YTD September 2013 ratio.

Cost of Sales – STB's projected cost per box for the Ship-to-School packages and the fulfilment per box for the Ship-to-Home packages are $0.72 and $4.65 respectively. The cost of products in the kits is projected as 51.49% of revenue based on YTD Sep 2013 ratio. Inbound freight is estimated at 0.42% of the cost of products.

Revenue – is based on the impact from additional marketing/sales campaign (25% in year one and 4% thereafter) and strategic increased recruitment in the sales force that is expected to increase sales by 24% in five years. Average price of each package is $49.37, same as it were at the end of September 2013.

Compensation/Selling Expenses – Commission rates, which range from 3.0% to 12.0% of revenue, are weighted based on expected commissionable sales. Salaries are based on 2013 salaries with the addition of a part-time social media intern ($10,000) and one inside sales representative ($25,000). All other salaries expenses such as payroll taxes and Workers' Comp are based on their proportion to YTD September 2013 salaries. Contributions and Donations was increased by $0.50 for every package with average price of $49.37 (1%) through the parent advocacy program. Finally, Advertising and Marketing expenses include an additional $20 per month charge for upgraded subscription to Constant Contact.

Other Expenses – Other Professional Fees are based on YTD September 2013, excluding unusual expenses for Fulfillment, IT and Brand Strategist totaling $52,000. Given the age of the building, repair and maintenance was increased by 5% to accommodate higher expected spending. Taxes are based on 15% for federal returns and 1.5% for the State of Illinois. All other expenses are based on the YTD September 2013 values – either as a proportion of revenue or as constant values.

Business Risks

Certain risks to the successful implementation of this plan were recognized. These risks pertained to the competition's response, the market's response, relationship with suppliers as well as its financial standing.

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The Competition - STB's main competitors, EPI and SchoolKidz, have presumably greater and easier access to the financial funding necessary for major marketing/sales campaigns that could target a large piece of the marketplace and potentially take away STB's anticipated market share. As mentioned above, Wal-Mart, currently an indirect competitor could become a direct one through its Classroom by Walmart and further threaten the success of this plan by whisking away some of STB's targeted customers. STB can lower the impact of these threats by staying vigilant to its competitive environment as well as building meaningful relationships with its customers to achieve deepened loyalty.

The Market - Ideally, revenue growth is the main thrust for this plan. There is a chance that some of the forecasted numbers outlined in this plan may not be achieved. This could result, among other things, from flawed estimated customer interests, inadequate motivation for sales representatives to want to sell STB products and increased unwillingness from the school officials to promote STB products. STB must continually review the business plan and modify as necessary to stay relevant. Continuous incremental updates to its marketing plans would be beneficial too.

The Suppliers - STB must continue to build upon its supplier relationships in order to maintain and improve its cost efficiencies as well as increase profitability through better terms such as lower costs and higher quality products. A potential beneficial venture would involve strategically partnering with manufacturers to create STB private label products in the near future. STB can introduce these products gradually by substituting some popular brands, a few at a time, while testing customer reactions.

Financing – This plan is built on the assumption that STB would be able to procure its additional temporary financing requirements (discussed below). Although the required financing is temporary, failure to obtain it could jeopardize the whole plan. STB must review its ability to obtain such funds realistically and reduce sales projections if it is not attainable.

All of the stated risks have an ability to impair business; however with planning STB has a fair chance to succeed.

Funding Requirements

Due to the seasonality of STB's activities, where sales volume is low but administrative expenses are stable, there are periods where modest funding is required for working capital. STB has a $600,000 bank line of credit; nevertheless this funding will not be sufficient for the months of March through June of 2014 and 2015, as STB requires funding in excess of $600,000 during those months.
It is recommended that STB seek debt funding either through the use of credit card, consumer loans or loans from friends and family. Credit cards such as Chase

Sapphire Preferred, Visa Black Card and American Express offer high and/or unlimited credit lines. This type of funding is suitable only for short-term financing, such as in the case of STB, if the owners are able to get it. It is not recommended for prolonged financing due to the high interest rates compared to traditional debt funding such as bank loans. The average interest rate for credit cards is around 15.06 percent (Kelly Dilworth, 2013).

The financial projection took into account the use of credit card or commercial loan debt with an interest rate of 19.99%. The cash requirement detail, interest expense and repayment schedule is shown in Table 3 below.

Table 3

	Funding Requirements										
	Mar 31 2014	Apr 30 2014	May 31 2014	Jun 30 2014	Jul 31 2014	Mar 31 2015	Apr 30 2015	May 31 2015	Jun 30 2015	Jul 31 2015	Total
Funding Deficit	15,000	95,000	92,000	92,000	-	79,000	92,000	90,000	38,000	-	$593,000
Interest Expense	250	1,832	3,365	4,898	4,898	1,316	2,849	4,348	4,981	4,981	$33,716
Repayment					(294,000)					(299,000)	-$593,000

Appendix A – Prepackaged School Supplies Survey

1. In what ZIP code is your home located? (enter 5-digit ZIP code; for example, 00544 or 94305)

Answer Options	Response Count
	120
answered question	**120**
skipped question	**0**

2. Are you aware of pre-packaged school supplies (e.g. pencils, sharpeners etc. excluding computers, laptops etc.) kits for grades K-12?

Answer Options	Response Percent	Respons e Count
Yes	60.8%	73
No	39.2%	47
answered question		**120**
skipped question		**0**

3. Are you aware of pre-packaged school supplies (e.g. pencils, sharpeners etc. excluding computers, laptops etc.) kits for grades K-12 that can be purchased online based off your child's school supply list and delivered to your home?

Answer Options	Response Percent	Response Count
Yes	26.7%	32
No	73.3%	88
answered question		**120**
skipped question		**0**

4. Have you ever purchased school supplies online?

Answer Options	Response Percent	Response Count
Yes	17.5%	21
No	82.5%	99
answered question		**120**
skipped question		**0**

5. If yes, what was the main factor which influenced you to buy online?

Answer Options	Respons e Percent	Respons e Count
Price	34.3%	12
Quality	0.0%	0
Convenience	37.1%	13
Ease	11.4%	4
Other (please specify)	17.1%	6
answered question		**35**
skipped question		**85**

6. How likely are you to purchase pre-packaged school supplies online now or in the future?

Answer Options	Response Percent	Respo Cou
Extremely likely	8.3%	10
Very likely	21.7%	26
Moderately likely	21.7%	26
Slightly likely	18.3%	22
Not at all likely	30.0%	36
	answered question	
	skipped question	

7. If you are not very likely to purchase school supplies kits online, why not?

Answer Options	Response Percent	Response Count
Do not need a product like this	37.7%	29
Do not want a product like this	3.9%	3
Satisfied with shopping at retail stores or through other channels	51.9%	40
Cannot pay for a product like this	1.3%	1
Not willing to pay for a product like this	10.4%	8
answered question		**77**
skipped question		**43**

8. What is the most you would spend on pre-packaged school supply kits?

Answer Options	Response Percent	Response Count
Not applicable	23.3%	28
Less than $39	30.0%	36
Up to $39	16.7%	20
$40 - $59	20.8%	25
$60 - $79	5.0%	6
$80 or more	4.2%	5
answered question		**120**
skipped question		**0**

9. What factor would drive you most to purchase a pre-packaged school supply kit online versus buying from a retail store? Rank the following (1 being most important and 4 being least important)

Answer Options	1	2	3	4	Rating Avg.	Response Count
Price	61	31	17	11	1.82	120
Quality	19	40	32	29	2.59	120
Convenience	34	31	40	15	2.30	120
Ease	6	18	31	65	3.29	120
answered question						**120**
skipped question						**0**

10. What age group would describe you the best?

Answer Options	Response Percent	Response Count
Under 21	4.2%	5
21 - 29	31.7%	38
30 - 39	31.7%	38
40 - 49	19.2%	23
50 or older	13.3%	16
answered question		**120**
skipped question		**0**

11. What is your gender?

Answer Options	Response Percent	Response Count
Male	31.7%	38
Female	68.3%	82
answered question		**120**
skipped question		**0**

12. What is the highest level of school completed or highest degree received?

Answer Options	Response Percent	Response Count
I do not have a degree	0.8%	1
High school degree or equivalent	3.3%	4
Some college	13.3%	16
Associates degree	7.5%	9
Bachelor's degree	49.2%	59
Graduate/Post-Graduate degree	25.8%	31
answered question		**120**
skipped question		**0**

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13. What is your yearly household income?

Answer Options	Response Percent	Response Count
Less than $20,000	2.5%	3
$20,000 to $34,999	7.5%	9
$35,000 to $49,999	17.5%	21
$50,000 to $74,999	21.7%	26
$75,000 to $99,999	23.3%	28
$100,000 or more	27.5%	33
answered question		**120**
skipped question		**0**

14. Check all that apply (excluding you) to members in your household?

Answer Options	Response Percent	Response Count
Pre-school	15.0%	18
Grades K-12	46.7%	56
Young Adults in College	19.2%	23
Other Adults	47.5%	57
Not applicable	15.0%	18
answered question		**120**
skipped question		**0**

15. For children in Pre-school through 12th grade, please indicate where they attend school:

For children in Pre-school through 12th grade, please indicate where they attend school:		
Answer Options	**Response Percent**	**Response Count**
Private school	22.7%	17
Public school	77.3%	58
answered question		**75**
skipped question		**45**

Appendix B – Analyses of Target Market Size/Revenue

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Analyses of Target Market Size/Revenue	
Target Market	Busy parents who could use the convenience of having a one-source alternative for buying school supplies. PTO looking for avenues to raise funds for the school. These would mainly be from Private Schools and Public Charter Schools
33,366	# of Private Schools in the US: 2009-2010
98,817	# of Public Schools in the US: 2009-2010
	http://nces.ed.gov/fastfacts/display.asp?id=84
Projected Enrolment	
5,192,000	# of Students enrolled in Private Schools: 2014 (9%)
50,407,000	# of Students enrolled in Public Schools: 2014 (91%)
55,599,000	Total # of Students enrolled in Schools: 2014
	http://nces.ed.gov/programs/projections/projections2021/tables/table_01.asp
Projected Spending Breakdown	
$26,700,000,000	Estimated Total of Back-to-School spending in 2014
$635	Average to Spend on Back-to-School
$90	Average to Spend on School Supplies
$3,806,173,792	School Supplies spending - based on % of average spend to total
Prepackaged School Supplies - based on Type of School/# of Students enrolled	
$355,431,830	Private Schools - **Representing the Target** - 9% of total
$3,450,741,962	Public Schools - 91% of total
Prepackaged School Supplies - based on survey of 120 Individuals	
8.30	% - Extremely Likely to purchase Pre-packaged school supplies
$315,912,424.78	Prepackaged spend of total School Supplies spend

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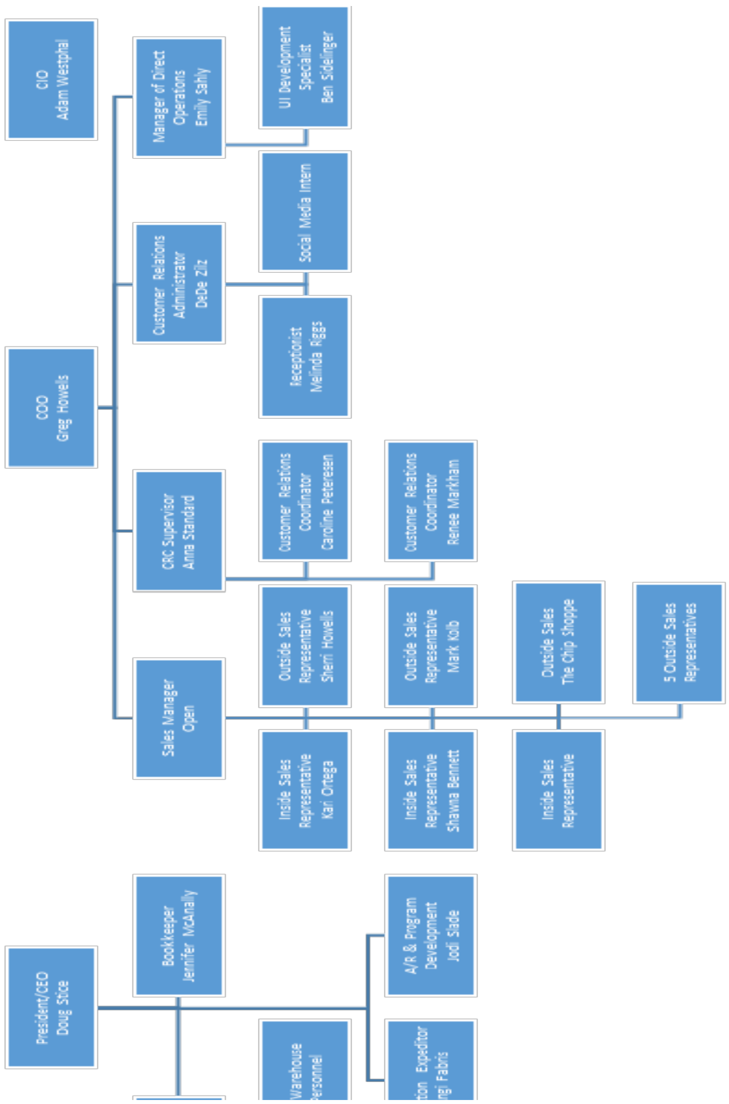
Appendix C – Organization Chart



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Appendix D – Financial Statements – 2014 to 2018

SCHOOL TOOL BOX, LLC.

PROJECTED BALANCE SHEETS

	DECEMBER 31,				
	2014	**2015**	**2016**	**2017**	**2018**
ASSETS					
CURRENT ASSETS					
CASH IN CHECKING	$ 12,631	$ 11,327	$ 470,095	$ 1,269,658	$ 2,151,668
ACCOUNTS RECEIVABLE, NET	1,518	1,780	1,993	2,159	2,246
INVENTORY	2,376	2,787	3,119	3,381	3,516
TOTAL CURRENT ASSETS	16,525	15,894	475,207	1,275,198	2,157,430
PROPERTY, PLANT AND EQUIPMENT, NET	57,013	51,834	46,655	41,477	36,298
TOTAL ASSETS	**$ 73,537**	**$ 67,728**	**$ 521,863**	**$ 1,316,675**	**$ 2,193,728**
LIABILITIES AND STOCKHOLDERS' EQUITY					
CURRENT LIABILITIES					
ACCOUNTS PAYABLE	$ 11,209	$ 13,148	$ 14,717	$ 15,950	$ 16,588
ACCRUED PAYROLL	29,454	29,474	29,493	29,336	29,344
ACRUED EXPENSES	11,746	11,892	12,011	12,104	12,152
BANK LINE OF CREDIT	405,000	92,000	-	-	-
CURRENT PORTION OF LONG-TERM DEBT	9,873	891	-	-	-
TOTAL CURRENT LIABILITIES	467,281	147,406	56,221	57,390	58,084
LONG-TERM DEBT	94,515	93,981	93,981	93,981	93,981
TOTAL LIABILITIES	561,797	241,386	150,201	151,371	152,064
STOCKHOLDERS' EQUITY					
PARTNER/MEMBERS CAPITAL	21,211	21,211	21,211	21,211	21,211
RETAINED EARNINGS (DEFICIT)	(509,470)	(194,869)	350,450	1,144,093	2,020,453
TOTAL STOCKHOLDERS' EQUITY	(488,259)	(173,659)	371,661	1,165,304	2,041,664
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	**$ 73,537**	**$ 67,728**	**$ 521,863**	**$ 1,316,675**	**$ 2,193,728**

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SCHOOL TOOL BOX, LLC.

PROJECTED STATEMENTS OF INCOME AND RETAINED EARNINGS

	YEARS ENDED DECEMBER 31,				
	2014	**2015**	**2016**	**2016**	**2016**
SALES					
STB - S2S	$ 2,718,123	$ 3,188,358	$ 3,568,729	$ 3,867,789	$ 4,022,500
STB - S2H	1,617,897	1,897,793	2,124,200	2,302,208	2,394,296
GROSS SALES	4,336,020	5,086,151	5,692,929	6,169,997	6,416,797
COST OF SALES	(2,978,045)	(3,480,625)	(3,888,319)	(4,140,144)	(4,305,750)
GROSS PROFIT	1,357,975	1,605,526	1,804,610	2,029,853	2,111,047
	31.3%	31.6%	31.7%	32.9%	32.9%
GENERAL AND ADMINISTRATIVE EXPENSES	(1,180,500)	(1,072,980)	(1,079,875)	(1,085,297)	(1,088,102)
SELLING EXPENSES	(206,947)	(230,110)	(249,099)	(264,300)	(272,688)
	(1,387,447)	(1,303,089)	(1,328,975)	(1,349,597)	(1,360,790)
OPERATING INCOME	(29,472)	302,437	475,636	680,256	750,257
OTHER INCOME (EXPENSE)					
INTEREST EXPENSE	(30,513)	(32,582)	(7,995)	-	-
INTEREST INCOME	102	188	445	983	1,983
	(30,412)	(32,393)	(7,550)	983	1,983
INCOME (LOSS) BEFORE TAXES ON INCOME	(59,884)	270,044	468,086	681,239	752,240
TAXES ON INCOME	-	44,557	77,234	112,404	124,120
NET INCOME (LOSS)	(59,884)	314,601	545,320	793,643	876,360
	-1.4%	6.2%	9.6%	12.9%	13.7%
RETAINED EARNINGS					
BEGINNING	(449,586)	(509,470)	(194,869)	350,450	1,144,093
ENDING	**$ (509,470)**	**$ (194,869)**	**$ 350,450**	**$ 1,144,093**	**$ 2,020,453**

SCHOOL TOOL BOX, LLC.

PROJECTED STATEMENTS OF CASH FLOWS

	YEARS ENDED DECEMBER 31,				
	2014	**2015**	**2016**	**2016**	**2016**
OPERATING ACTIVITIES					
NET INCOME (LOSS)	$ (59,884)	$ 314,601	$ 545,320	$ 793,643	$ 876,360
ADJUSTMENT TO RECONCILE NET INCOME (LOSS)					
TO CASH PROVIDED (USED) BY OPERATING ACTIVITIES:					
DEPRECIATION & AMORTIZATION	5,179	5,179	5,179	5,179	5,179
ACCOUNTS RECEIVABLE	(391)	(263)	(212)	(167)	(86)
INVENTORY	(612)	(411)	(332)	(261)	(135)
ACCOUNTS PAYABLE, ACCRUED EXPENSES AND OTHER	4,513	2,106	1,706	1,170	693
CASH PROVIDED (USED) BY OPERATING ACTIVITIES	(51,195)	321,212	551,660	799,563	882,010
FINANCING ACTIVITIES					
PROCEEDS (REPAYMENTS) OF BANK LINE OF CREDIT	62,000	(313,000)	(92,000)	-	-
PROCEEDS FROM ADDITIONAL LONG-TERM DEBT	294,000	299,000	-	-	-
PRINCIPAL PAYMENTS OF LONG-TERM DEBT	(303,516)	(308,516)	(891)	-	-
CASH PROVIDED (USED) BY FINANCING ACTIVITIES	52,484	(322,516)	(92,891)	-	-
INCREASE (DECREASE) IN CASH	1,289	(1,304)	458,768	799,563	882,010
CASH					
BEGINNING	11,342	12,631	11,327	470,095	1,269,658
ENDING	**$ 12,631**	**$ 11,327**	**$ 470,095**	**$ 1,269,658**	**$ 2,151,668**

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SCHOOL TOOL BOX, LLC.

SUPPLEMENTAL MATERIAL
ANALYSES OF PROJECTED COST OF SALES

	YEARS ENDED DECEMBER 31,				
	2014	**2015**	**2016**	**2016**	**2016**
COST OF MATERIALS					
PRODUCT	$ 2,232,446	$ 2,618,659	$ 2,931,066	$ 3,176,689	$ 3,303,756
INBOUND FREIGHT	9,398	11,023	12,338	13,372	13,907
TOTAL COST OF MATERIALS	2,241,844	2,629,683	2,943,404	3,190,061	3,317,664
COMMISSIONS	119,784	127,885	135,597	72,943	75,861
TOTAL LABOR	119,784	127,885	135,597	72,943	75,861
OUTBOUND FREIGHT	445,575	522,659	585,012	634,036	659,398
FULFILLMENT	152,393	178,757	200,082	216,849	225,523
OTHER COSTS	18,450	21,642	24,224	26,254	27,304
	616,417	723,058	809,318	877,139	912,225
	$ 2,978,045	**$ 3,480,625**	**$ 3,888,319**	**$ 4,140,144**	**$ 4,305,750**

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SCHOOL TOOL BOX, LLC.

SUPPLEMENTAL MATERIAL

ANALYSES OF PROJECTED GENERAL AND ADMINISTRATIVE EXPENSES

	YEARS ENDED DECEMBER 31,				
	2014	**2015**	**2016**	**2016**	**2016**
SALARIES - ADMINISTRATIVE	$ 801,962	$ 699,697	$ 699,697	$ 699,697	$ 699,697
PAYROLL TAXES	62,716	54,719	54,719	54,719	54,719
LIABILITY INSURANCE	5,863	5,115	5,115	5,115	5,115
WORKMANS COMP INSURANCE	3,082	2,689	2,689	2,689	2,689
INSURANCE - OFFICERS	27,899	24,342	24,342	24,342	24,342
OFFICE EQUIPMENT RENTAL	667	667	667	667	667
DUES AND SUBSCRIPTIONS	14,440	14,440	14,440	14,440	14,440
LEGAL - GENERAL	17,245	17,245	17,245	17,245	17,245
ACCOUNTING & TAX	19,687	19,687	19,687	19,687	19,687
OTHER PROFESSIONAL FEES	59,575	59,575	59,575	59,575	59,575
401K EMPLOYER'S CONTRIBUTION	8,511	7,426	7,426	7,426	7,426
OFFICE SUPPLIES & EXPENSE	15,087	17,697	19,808	21,468	22,327
COMPUTER EXP. & SOFTWARE MAINTENANCE	11,694	13,717	15,354	16,640	17,306
TELEPHONE	13,595	13,595	13,595	13,595	13,595
UTILITIES	12,130	12,130	12,130	12,130	12,130
POSTAGE, DELIVERY AND EXPRESS	17,376	20,382	22,813	24,725	25,714
OTHER ADMINISTRATIVE EXPENSES	1,136	1,136	1,136	1,136	1,136
STATIONERY & PRINTING	1,261	1,479	1,656	1,794	1,866
MEALS & ENTERTAINMENT	3,860	4,528	5,069	5,493	5,713
RENT	74,400	74,400	74,400	74,400	74,400
DEPRECIATION - FURNITURE AND EQUIPMENT	5,179	5,179	5,179	5,179	5,179
REPAIR & MAINTENANCE	3,136	3,136	3,136	3,136	3,136
	$ 1,180,500	**$ 1,072,980**	**$ 1,079,875**	**$ 1,085,297**	**$ 1,088,102**

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SUPPLEMENTAL MATERIAL
ANALYSES OF PROJECTED SELLING EXPENSES

	YEARS ENDED DECEMBER 31, 2014	2015	2016	2016	2016
BANK CHARGES - CREDIT CARDS	105,390	123,622	138,370	149,966	155,964
CONTRIBUTIONS/DONATIONS	23,707	27,938	31,613	34,773	36,932
CASH DISCOUNTS	4,045	4,745	5,311	5,756	5,987
TRADE SHOWS	12,424	12,424	12,424	12,424	12,424
TRADE ASSOCIATION DUES	1,867	1,867	1,867	1,867	1,867
TRAVEL	28,383	28,383	28,383	28,383	28,383
LODGING	4,754	4,754	4,754	4,754	4,754
CAR FARE/RENTAL	1,069	1,069	1,069	1,069	1,069
ADVERTISING & MARKETING	25,040	25,040	25,040	25,040	25,040
MEALS & ENTERTAINMENT	268	268	268	268	268
	$ 206,947	**$ 230,110**	**$ 249,099**	**$ 264,300**	**$ 272,688**

ANALYSES OF PROJECTED BUSINESS VALUATION

INCOME (LOSS) FROM OPERATIONS	$ (29,472)	$ 302,437	$ 475,636	$ 680,256	$ 750,257
DEPRECIATION	5,179	5,179	5,179	5,179	5,179
EBITDA	$ (24,294)	$ 307,615	$ 480,814	$ 685,434	$ 755,436
VALUATION AT 5x EBITDA	**$ (121,469)**	**$ 1,538,077**	**$ 2,404,071**	**$ 3,427,171**	**$ 3,777,179**

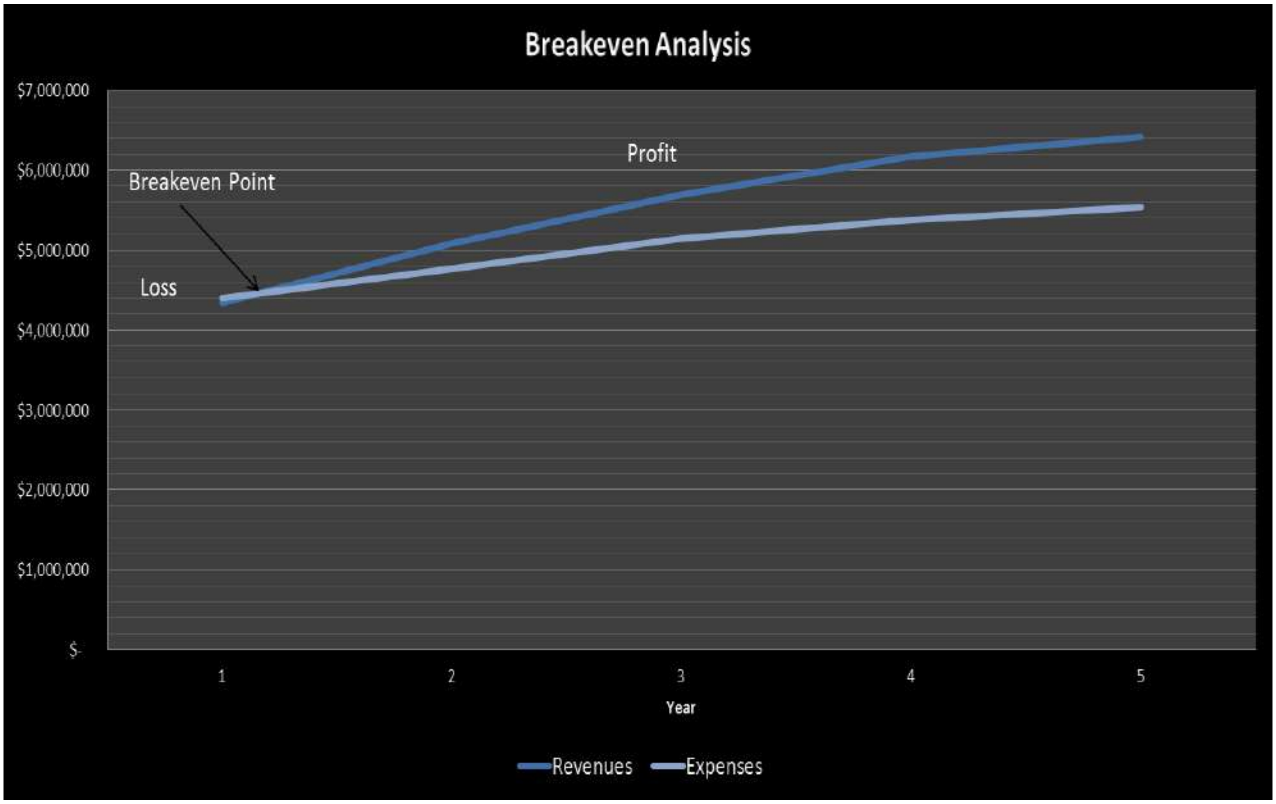
DETAILED MONTHLY PROJECTIONS, INCLUDING VARIOUS ANALYSES AND ASSUMPTIONS, ARE AVAILABLE UPON REQUEST

SCHOOL TOOL BOX, LLC.

SUPPLEMENTAL MATERIAL

RATIO ANALYSES

	2014	*2015*	*2016*	*2017*	*2018*
CURRENT RATIO	**0.0**	**0.1**	**8.5**	**22.2**	**37.1**
DEBT TO EQUITY RATIO	**-1.2**	**-1.4**	**0.4**	**0.1**	**0.1**
RETURN ON ASSETS	**-81%**	**465%**	**104%**	**60%**	**40%**
RETURN ON EQUITY	**Nil**	**Nil**	**147%**	**68%**	**43%**


Breakeven Analysis
$7,000,000
$6,000,000
$5,000,000
$4,000,000
$3,000,000
$2,000,000
$1,000,000
$-
Profit
Breakeven Point
Loss
1
2
3
4
5
Year
Revenues
Expenses

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Applicability of Jim Collins's Good to Great Framework for Enactus China

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Abstract

Purpose:

This paper aims to evaluate the applicability of Jim Collins's *Good to Great* model for Enactus China and assess it became a burgeoning non-profit organization in China.

Design/methodology/approach:

This paper applies a qualitative approach to review relative literatures, and integrates information from Enactus China websites, annual reports on excellent projects and certain internal data provided by interviewees. This article also interviews several past and current top leaders of Enactus China to collect deeper analysis and various perceptions towards Enactus China.

Findings:

In the framework of *Good to Great,* Enactus China is found to be a potentially great non-profit organization and maintains a good momentum of development. Both the management and students members show disciplined traits in individual

capability and the professional will on promoting Enactus' value. The positive operation system contributes to the benign development, while the challenges of local companies' relation development and capability management might hinder its process to greatness.

Practical Implications:

Leaders should notice the threats and focus on strengthening its partnerships with Chinese corporations and reform the succession system within the organizations.

Originality/value:

The papers attempts to understand how Enactus China operates and become a burgeoning non-profit organization, and provides reasonable suggestions for the future development of Enactus China.

Literature Review:

References and E-References were explored from Jim Collins' *Good to Great* framework, resources from Enactus China website and several commentaries written by management scholars.

I. Introduction

Since the reform and opening policy, international non-profit organizations have grown rapidly in China[1]. According to Professor Wang Ming, director of Tsinghua University NGOs research institute, there are around 10 thousands International

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[1] Peng Jianmei, Liu Youping, *Report of the Phianthropy Study On International NGOs(USA Section) in China*, China Charity Information Center, 2012

NGO in China.[2] They served as "the third sector" which addresses social issues that are not-for-profit and non-governmental. Issues covered vary from environment degradation, poverty, gender inequality, to fundamental education. Nick Young, the founding editor of *China Development Brief*, recognized that "International NGO programmes in China are a significant part of the story of the country's growing internationalization and opening up to the world."[3]

In spite of the increasing development, Chinese NGOs have confronted abundant external obstacles and internal drawbacks, including restrictive government policies, investment, talent recruitment and sustainability of operations. Few of them achieve success in fulfilling their mission. Enactus China, an international non-profit organization which is dedicated to education through social entrepreneurial projects, expanded rapidly from 2 student teams to over 200 within a decade, and has an extensive popularity among Chinese universities, students, and business entrepreneurs. The annual national competition it holds attracts great attention from media and higher educational institutions. When searching for the related research, we can hardly find any paper written about Enactus China. This article tries to fill the gap by studying Enactus China with the use of the "*Good to Great"* framework

[2] Tsinghua University NGO Research Institute, *China Non-profit Review*, Social Science Academic Press (China), 2011, p28
[3] *200 International NGOs in China*, China Development Brief, 2005, p35

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The "Good to Great" framework was established by Jim Collins, a famous managerialist, in his bestseller *Good to Great: why some companies make the leap and others don't,*[4] which draws a great interest among entrepreneurs. In 2005, he released *Good to Great and the social sector*, to respond to those who work in social sectors[5]. People who engaged in social work use this framework as reference to lead their organization towards greatness.

This article aims to take Enactus China as an example, and use the *Good to Great* model to evaluate its operation system, to examine how Enactus China operates and become a burgeoning non-profit organization. By integrating relative information and interviewing Enactus China managers, this paper will try to discuss the organization structure and understand those who play an important part in the development of Enactus China as well as those who contribute themselves to fulfill the mission by looking at their similarities. In the fourth part of the chapter three, we will discuss the operation system of Enactus China by applying the hedgehog concept[6]. In the last section of this article, we examine what challenges and difficulties Enactus China faces and how it can improve to get closer to achieve greatness.

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[4] Jim Collins, *Good to Great: why some companies make the leap and others don't,* New York, HarperCollins Publisher, 2001

[5] Jim Collins, *Good to Great and the social sectors: A Monograph to Accompany Good to Great*, HarperCollins Publisher, 2005

[6] Ibid, p17. According to Collins, "the pivot point in *Good to Great* is the Hedgehog Concept."

II. Jim Collins' Good to Great framework

The *Good to Great* framework was initially targeted at the distinctions between good companies and great companies. Over a 15-year-research, Collins came up with a framework that illustrates the transformation from good to great, based on the detailed financial analyses, executive interviews and comparisons. Although the challenges that social sectors have are more complicated than the business in performance measurement and funding raising, the process to transit from good to great is rather the same as the *Good to Great* framework. As Collins mentioned in his book *Good to Great and the social sector,* the critical distinction is not between business and social, but between great and good[7]. We should embrace the language of greatness instead of language of business.

2.1 Features of the Good to Great Framework

Under the model Jim Collins suggests, there are four main stages: defining great, disciplined people, disciplined thought and disciplined action.

A. Defining Great

Different from business, the measure of greatness in social services sector is not money but the effectiveness and efficiency to deliver their mission. The importance lies in the rigorous process to select indicators to monitor the results,

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[7] Jim Collins, *Good to Great and the social sectors: A Monograph to Accompany Good to Great,* HarperCollins Publisher, 2005, p2.

regardless of qualitative or quantitative method. “Greatness is an inherently dynamic process, not an end point.” [8]

B. Disciplined People

In search of the appropriate people, Jim Collins believes both the organization leaders and regular members of a great company needs possess certain characteristics.

a. Level 5 Leadership within a Diffuse Power Structure

Collins use the example of Girl Scout councils to show that the executive style is impractical in social sector, and came up with that the authority in a social sector is from genuine leadership instead of power.

The level 5’s compelling combination of personal humility and professional will is a key factor in creating legitimacy and influence.[9] The best future leaders possess a blend of both executive and legislative skills, and know when to use properly.

[8] Ibid, p14
[9] Ibid, p16

(Chart 2-1 Collins' Level 5 Leadership Hierarchy)

b. First who Principle—Getting the Right People on the Bus

Greatness comes from the right people in the key position. In social sectors where economic incentives are not sufficient or even possible, the decision of finding employees is much more important. The organization should look for self-motivated and self-disciplined people who desperately craving for meaning in their lives. Teach for America is a good example to show how passions encouragement and rigorous selective process work in NPO recruitment. Selectivity brings credibility, which help to generate more funding from the sponsors, and make it even possible to attract talents. "The right people can often attract money, but money by itself can never attract the right people."[10]

[10] Jim Collins, *Good to Great and the social sectors: A Monograph to Accompany Good to Great*, HarperCollins Publisher, 2005, p22

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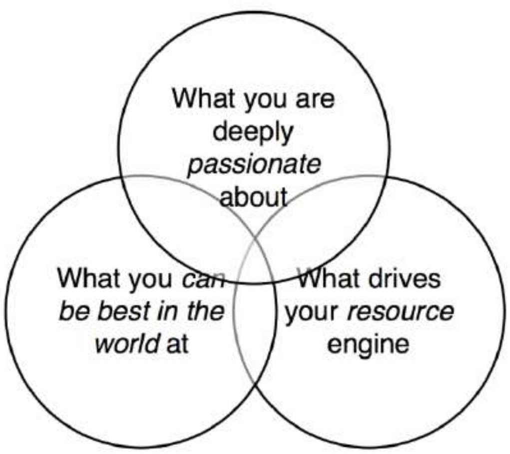
C. Disciplined Thoughts

Hedgehog concept is created to produce the best long-term results and distinguish the key chances from the unqualified opportunities. Three intersecting circles are included: what you are deeply passionate about; what you can be the best in the world at and what best drives your economic engine[11]. Nevertheless, this theory confront dilemma when apply to social sectors as money is neither the ultimate goal nor the motivation engine in non-profit organizations. Collins replaces economic engine with resource engine composing of time, money and brand. He points out that the complexity of social sectors economic fabric makes the Hedgehog principle more important to well connect all three circles.



(Chart 2-2 The Hedgehog Concept)

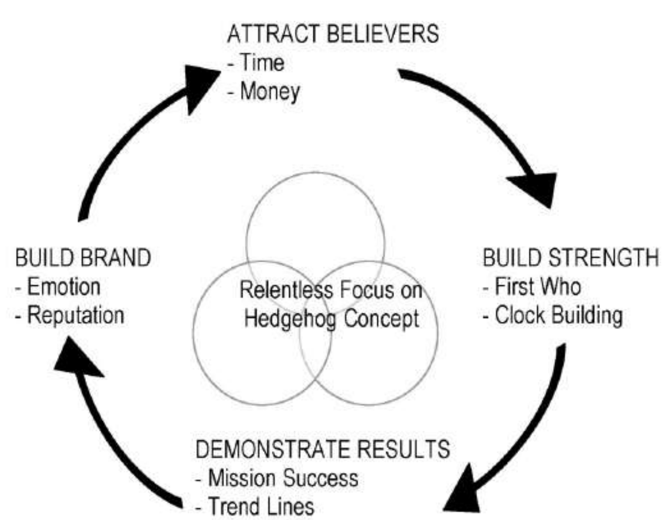
[11] Ibid, p19

D. Disciplined Action---Turn the Flywheel

By turning the principles into practice, efforts will lead to progress and finally pushing the organization moving forward. Success breeds support and commitment, which breeds greater success, which bring further support and commitment, improvement is making just like turning the flywheel. Collins especially points out that, different from the business, the key driver in the flywheel for social sectors is brand reputation, which is built upon tangible results and emotional connection, instead of financial success and capital resources. Consistency with the Hedgehog concept and core values help distinguish the truly great, and push the organization to the greatness.

THE FLYWHEEL

IN THE SOCIAL SECTORS



(Chart 2-3 The Flywheel in the Social Sectors)

2.2 Commentaries on *Good to Great*

Jim Collins's *Good to Great* (GTG) has become the bestseller after it published, and was regarded as one of the best management books and recommended by many scholars and managers. Meanwhile, the *Good to Great* framework earned its fame with dissident voices on questioning the reliability of the methodology and general applicability can be found in academics.

Professor Gordon Walker from Southern Methodist University commented that among the six steps that Collins put forward, two of the unusual findings in GTG impressed him. Firstly, the great companies were led by modest men instead of showmen of any stripe. The second is that these admirable, likeable plodders focused on choosing their teams before they chose where to take the company. [12]

While Robert H. Gertner, a professor of economics and strategy at the University of Chicago, Graduate School of Business, disagreed on those two points. He questioned whether the result that Collins concluded on leadership types have broader applicability to social service organizations, by mentioning his experience with charismatic leaders who are important for funding and attract best employees.

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[12] Gordon Walker ,*A close look at business bestsellers, Good to Great, why some companies make the leap and others don't*, Academy of Management Perspective, 2006

He commented that the discussion about hiring the right people is risky because we only observe the winners and fail to see those mismatched examples. Similarly, he pointed out that the measurement for output that Collins' put forward "does not allow a direct comparison across social organizations, so it cannot form the basis for selecting a sample of good-to-great social organizations."[13]

In the discussion with Diane Ragsdale who is the senior program associate of the Andrew W. Mellon Foundation, Bruce Sievers, a visiting scholar of Stanford University, said even though Collins pointed out the differences between business and social sectors, but the assessment process is still based in the framework of business performance. "The inter-subjective nature of the social world does not easily conform to the constraints and desired ends of the business world."[14] In his opinion, when applying the performance model of business to nonprofits, it will encounter technical problems such as innumerable variables and absence of a single bottom-line test, and the philosophical problem of the imposition of one framework upon another, which distort or miss essential features of the translated framework. Diane Ragsdale thinks Collins is chastising nonprofits for measuring things that have little or no correlation to the actual value that an organization is created to provide. She uses the example of art to prove the measurement of

[13] Robert Gertner, in Stanford Social Innovation Review; Summer 2006; 4, 2; ProQuest Research Library, p68.
[14] Diane Ragsdale, Bruce Sievers, *Good to great in the arts? A conversation on assessing results*, Grantmakers in the Arts Reader, 2006, p4

emotional impact on audiences is much more important than talking about the amount of press or free tickets.

In the article *Good to great, or just good?*, Bruce Niendof and Kristine Beck said data mining and mistaking association for causation are the two fatal errors in GTG.

Data mining depend on specific time period and dataset gathered, and provide no legitimate evidence of applicability outside the sample firms or time period.[15] Collins used data mining to identify the five principles, which show no evidence that whether these principles are applicable for other businesses in other time period. Also, they argued that Collins has identified association between great firms and the five characteristics but he never proved these characteristics can lead to greatness instead of the commonalities the 11 companies shared.

III. Enactus China

3.1 The Development of Enactus China

Enactus, a global non-profit organization which was founded in 1975 in the USA, aims at bringing businesses and education together, and empower students to social entrepreneurship by applying business concepts to projects in their local communities. It was named SIFE (Students in Free Enterprise) when it was first established and used that name for three decades. In 2012, it changed its name to

[15] Bruce Niendorf, Kristine Beck, *Good to Great, or just good?,* Academy of Management, 2008

RossiSmith Academic Publications, Oxford/UK, www.publicationsales.com

Enactus, which represents "Entrepreneurial", "Action" and "Us", reaffirming the organization's long-standing commitment to enable progress through entrepreneurial actions.

Enactus establishes student teams in universities. These teams are guided by faculty advisors and are encouraged to set up projects in the local community to help to improve the local economy. The criteria to evaluate the projects include market economics, entrepreneurship, success skills, financial literacy, environmental sustainability and business ethics. A worldwide competition (the Enactus World Cup) will be held each year to select the best project which creates sustainable economic benefits to their community. Judges are invited from different business sections varying from CEO, general managers, marketing executives to human resource and finance departments. Enactus has built partnerships with Walmart, KPMG, Cargill, PepsiCo, Unilever, Microsoft, HP and other leading enterprises.

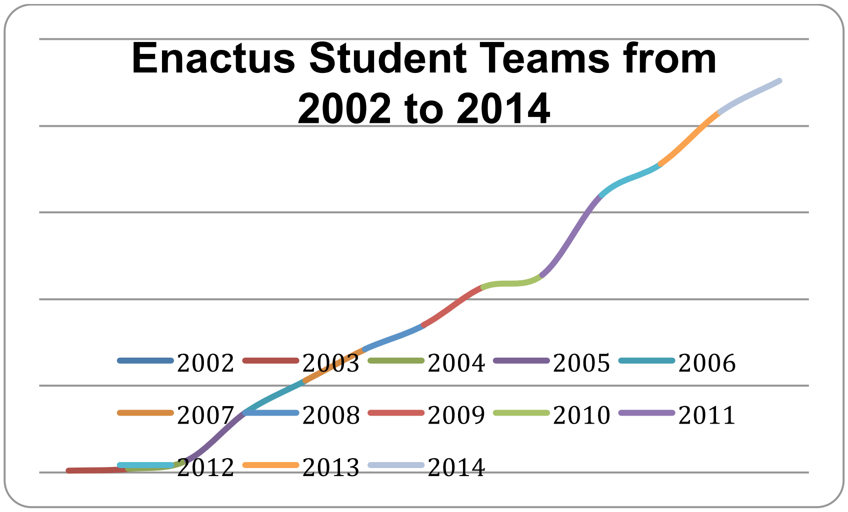
Enactus now has been launched in 36 countries, with more than 1700 universities, with more than 70,500 students, and the projects has impacted more than 1,950,000 people.

A. The Bottom-up Development in China

The development of Enactus in China is a bottom-up process. According to Cathy Ren, the current General Manager of Enactus China, it was the teachers in University of Shanghai for Science and Technology and Fudan University who initiated the Enactus projects on campus in 2002. In 2003, KMPG, one of the earliest global business partners of Enactus sponsored the competition and expanded its popularity in Shanghai. The teachers decided to promote and introduce Enactus into more universities, and helped to set up teams in 7 universities. Cathy became a member of the SIFE team in Shanghai Jiao Tong University at that time.[16]

In 2004, Jens Mueller, the first Regional Vice President of Asia, released recruitment for a part-time project manager in China. Cathy applied for it and got that position. Her responsibility was to popularize Enactus among Chinese universities all over China. In 2006, Dennis Lee was appointed as Regional Vice President of Asia, and Cathy became a full-time manager. The team from Shanghai Institute of Foreign Trade won the SIFE China National Competition and represented China at the SIFE World Cup in Paris. They then won the SIFE World Cup and became the first world champion team from China to do so. By 2007, there were 71 student teams, and regional competitions were held in Northeast China, West China, South China and Beijing, Tianjin and Shanghai areas.

[16] Interview with Cathy Ren



(Chart 3-1 The Number of Enactus Student Teams from 2002 to 2014)

The incorporation process of Enactus China is rather laborious. . In 2007, several students helped to register a private company for Enactus China. However, it was only for operational expediency and not a long-term solution. It was necessary to establish a non-profit organization to truly reflect the nature and mission of Enactus. Therefore, a company limited by guarantee was established in Hong Kong in 2009, and Dennis and Cathy were dedicated to found the wholly owned foreign enterprise in Shanghai in 2010. After eight years' efforts, Enactus eventually has become an acknowledged non-profit organization.

Enactus China has expanded rapidly nationwide and grew to 227 teams with over 14000 participating students in 2015. Its presence is located in six districts including the South, North, Middle West, East and Hong Kong, Beijing and

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Tianjin. Over 800 projects are implemented and impacted more than 600 thousand people.

3.2 Performance Measurement in Enactus

Mission defines an organization, and the way and the capability to achieve mission defines a good organization. Peter Drucker wrote in his book, *Managing the non-profit organization*, that "Performance in the non-profit institution must be planned, and this starts out with the mission."[17] The mission of Enactus is *to bring together the top leaders of today and tomorrow to create a better, more sustainable world through the positive power of business*. Values can be presented through community programs, leadership connection and career development. Enactus connects entrepreneurs, faculty advisors and universities students, to promote sustainable economic projects for targeted communities.

[17] Peter F. Drucker, *Managing The Non-profit Organization*, 2005, HarperCollins Publishers, P109

(Chart 3-2 Value Proposition of Enactus China)

In order to achieve the mission, indicators are needed to monitor the results, evaluate performances and supervise the organization for effectiveness. Enactus use the number of its enrolled participants and the quality of the projects to measure its outcome. An annual report is released, which includes the number of the enrolled schools, corporate partners, faculty advisors and corporate volunteers. Excellent projects are included in annual casebook, with a summary on how many project were launched in a year, what categories the projects covered, how many people were impacted by those projects, and how many hours did Enactus students devote themselves to the projects, etc. Comparing the Enactus China Casebook 2012, 2013 and 2014, we can see the general grow trend in student number and teams. 62 excellent projects are selected in 2012 and the number is up to 74 in 2014.[18]

[18] Enactus China Casebook 2012, 2013,2014, Enactus China

Growth At-A-Glance:

	2012		2013		2014	
Student Participation 学生人数	9916	▲ 28.6%	12355	▲ 24.60%	14167	▲ 12.74%
College & University Members 高校数量	178	▲ 11.3%	208	▲ 16.80%	227	▲ 9.13%
Average Students Number per Team 团队平均学生人数	56	▲ 27.3%	60	▲ 5.30%	63	▲ 5.00%

(Chart 3-3 Growth Rate from 2012 to 2014)

While the evaluation on the projects outcome is not enough, regular assessment on management level is necessary on the way to greatness. A Country Index is introduced to evaluate the country performance as a whole, which evaluates the country's performance from the perspectives of governance, board of directors, organizational capacity, program management, financial sustainability and country management. The regional vice president will give score to each country based on these six standards, and give feedback to the board chairman in each country to help them improve. During Dennis Lee's tenure from 2006 to 2010, he witnessed a steady improvement in Enactus China's performance. In 2006 and 2007, the total country index of Enactus China was relatively low for the lack of governance and board, with 2.0 and 2.7 respectively and both lower than the subtotal Asia-pacific average score. With the completion of the incorporation and the setting of the advisory board, country performance has been improved and over passed the average score since 2008.[19]

(Table 3-1 Country Index Score of Enactus China from 2006 to 2010)

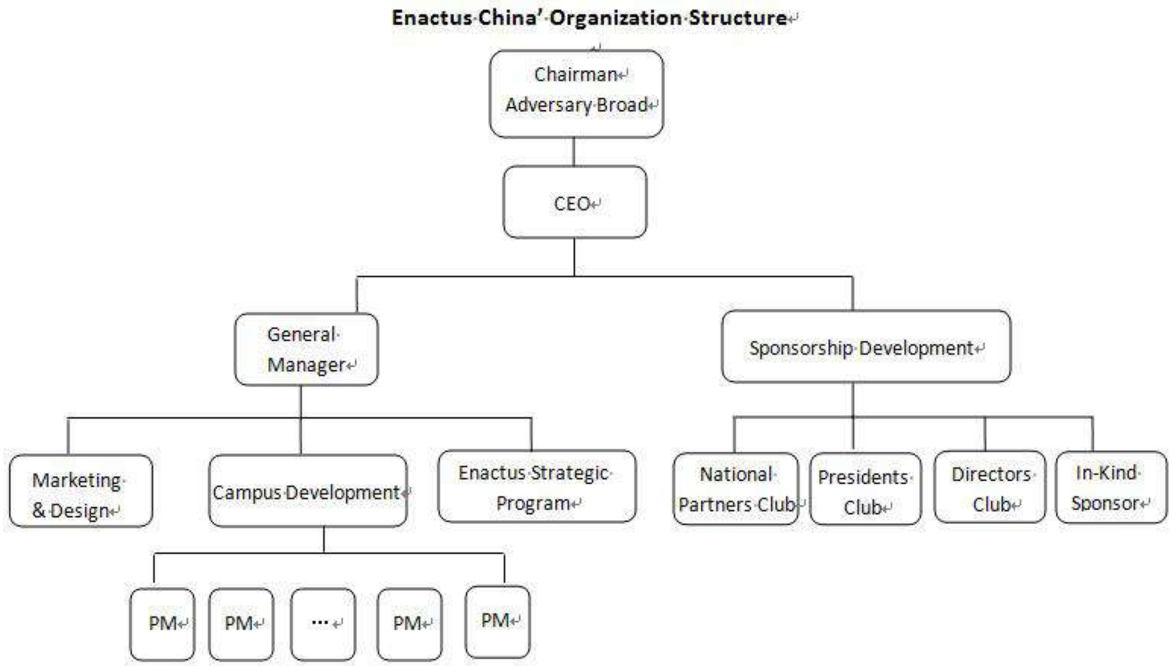
Year	**Total Country Index score**	**Subtotal Asia-pacific Average score**
2006	2.0	2.5
2007	2.7	3.1
2008	4.0	3.3
2009	4.6	3.1
2010	4.7	3.5

By the use of country index and casebook collection, Enactus China supervises its performance from both internally and externally. The Country index indicates what can be improved within the organization structure and management, helps the board members and leaders to plan the future strategy. In comparison with other countries, Enactus China can also learn and absorb experience from the excellent. The release of selected cases offers information to both the participants and the public, which demonstrates the progresses and helps to accumulate recognition from the public.

[19] Country Index Scorecard 2006, 2007, 2008, 2009, Enactus China

3.3 Who are They? — Enactus China's Personnel Structure

Enactus China's organization structure is clear and tight with only ten full-time employees and thirteen part-time program managers. The CEO is in charge of the board members and looks for funding, while the main executive work lay with the general manager. There are three departments including Marketing and Design, Campus Development, and Enactus Strategic Program. Each reports to their respective superior separately. The responsibility of the Marketing section is to manage the media relations, update Wechat and Microblog information and advertisement design. Campus development mainly deals with the relations with faculty advisors and Enactus students. Enactus Strategic program is dedicated to develop customized projects with certain companies, such as, for example, the BP Foundation-Enactus Youth Environmental Sustainability Initiative that is aimed at enhancing Chinese students' awareness on sustainable development, and to participate in environmental innovation practices. Thirteen part-time project managers are selected from the regional team leaders, to coordinate the regional affairs and manage student teams.



(Chart 3-4 The Organization Structure of Enactus China)

The organization structure is rather diffused since Enactus grants autonomy to different sections and allows them to govern in their own ways. Enactus provides basic training for new employees and supervises through direct reports. Training happens everywhere, varying from board member management to students' team building. Enactus provides materials and personnel to make sure people who get involved understand Enactus's vision and mission.

A. Similarities among Top Leaders

In terms of recruitment, it is essential to put the right people in the right position, especially at the beginning of the development for an organization. Those who play an important part in the growth of Enactus either has direct or indirect experience in governing non-profit organizations, or has came to know Enactus quite well before becoming part of the management team.

Dennis Lee, who worked as the regional vice president for Enactus Asia from 2006 to 2010, is one of the key persons who were dedicated to the development of Enactus China. He helped to form the broad and provided guidance to them to enlarge Enactus' influence. He started with the position of a part-time, volunteer country leader of Enactus Singapore. When Jens Mueller resigned from Enactus, he recommended Dennis to Enactus headquarters as his successor. After that, Dennis became the full-time regional vice president for Enactus Asia.

Before joining Enactus, Dennis served as deputy executive director for Singapore International Foundation for five years. Prior to that, he also had five years of service experience in a worldwide NGO, YMCA. His knowledge in managing non-profit organization equipped him the skills to introduce Enactus into the Chinese market and built a sustainable operation team. He selected board members, developed country leaders, and taught them how to develop business plans, be familiar with fundraising and understand the Enactus business model. He also got involved with the incorporation process which paved the way for the growth of Enactus China.

Cathy Ren, the current general manager, also played a key role in the growth of Enactus China. She was the one who popularize Enactus to universities around China by travelling to different cities, liaised with the universities professional associations, organized teach-in and helped students to establish Enactus teams from scratch. She was one of the students who actively got involved with Enactus projects in Enactus China's early days. The three years part-time experience offered her a chance to participate in the development of Enactus China and became familiar with Enactus at the management level. At the time she finished her master program in university, a position of full-time Asia Pacific project manager was opened for application. Attracted by the overseas working opportunities, Cathy decided to become a full-time staff with Enactus. She said, it was a good chance to be involved with different countries development on a larger scale, and the opportunity to go abroad was attractive to a fresh graduate.

Cathy is not the only typical example who makes her way to Enactus through student teams. In fact, eight of the ten full-time employees were Enactus student members before they officially became an Enactus staff. Xia Yifei, the Enactus World Cup project manager, was the team leader of Shanghai Ocean University in 2010. He joined Enactus China right after he graduated from school. Their experience in managing projects and participating competitions help them better understand the mechanism of Enactus and commit themselves to Enactus's mission.

Similarly, the way Norwell Coquillard became president for Enactus China is a gradual process. As president of Cargill China, which is one of the earlier global partners with Enactus, Norwell was first invited to be a judge for the final round competition in 2004, and was impressed by the student projects which related to rural development. "I personally participated in different philanthropic projects before I came to Cargill, Enactus' philosophy resonates with my values, that using the power of business to think and act, and bring solutions and social progress."[20] He continually served as judge for Enactus competitions, and asked to be non-executive chairman in 2008. In 2009, Enactus headquarter decided to appoint a full-time president for Enactus China. Dennis recommended Norwell. His decision was based on the following reasons. Firstly, what they are looking for is not merely the experience related to non-profit organization management, but the leadership skills and experience in managing business at the highest level. Funding, governance and strategy are the most significant capabilities that a president should have. Having been CEO for Cargill China for years, Norwell has abundant experience in business management. Secondly, Cargill are one of the few biggest

[20] Kou Jianping, *Use the Power of Business, To Inspire the Sustainability of Public Service Activities*, Chinaweekly, 2014， http://www.chinaweekly.cn/bencandy.php?fid=63&id=7390

global sponsors of Enactus, and are actively involved with different Enactus competitions in China and other countries. Norwell got to know China and Enactus quite well. Thirdly, Norwell retired from Cargill at that time and made up his mind to stay in China. Attracted by Enactus's values and mission, Norwell presented his willingness to take on the role of president of Enactus China.

Time has proven it was a wise decision for Enactus. The number of sponsors has tripled to 60, and the funding has increased by five times.[21] With all forms of cooperation and partnerships, Dennis believes Norwell has brought in at least USD 1 million a year from all his contacts for Enactus.[22]

In the growth stage of an organization, the choice of people for key positions in the key period is essential, every decision they make lay down the foundation for an organization base. For Enactus China, people in the management level all share some similarities. They all have direct experience with Enactus before they become the significant part of Enactus, they recognize Enactus's values and support the spread of entrepreneurial spirit, and they know Chinese and Chinese market well. All these characteristics provided a strong foundation to devote themselves to the development of the organization.

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[21] Kou Jianping, Every Creation of the Youth is the Passion Towards Future, Chinaweekly, 2014, http://www.chinaweekly.cn/bencandy.php?fid=63&id=7388
[22] Interview with Dennis Lee

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Collins wrote in his book that "The key ingredient that allows a company to become great is having a Level 5 leader: an executive in whom genuine personal humility blends with intense professional will."[23]They demonstrate compelling modesty and willful determine, shyness and fearlessness at the same time. It is hard to prove Cathy and Norwell are simultaneously humble and ambitious, but when we look into their personal traits, they indeed have some shining points. In the speech he delivered in a college forum, Norwell said he is a risk-taking person who welcomes fresh ideas and challenges. During his backpacker experience he received lots of help and support from people who struggled with their lives, and determined to improve those people's living standard in the future. He realized the positive business power can bring positive influence and is willing to convey this value through Enactus. Cathy also strongly believes in the power of entrepreneurship. She was the only staff of Enactus China in 2004, and traveled to different cities to promote and set up Enactus teams. In 2011, Cathy was awarded the Marilyn Page Prize, which is given to the best Enactus employee by Enactus headquarters. But she credited this award to everybody.

B. Characteristics of the Capable Members

Outside of the management level, contributing team members and capable individuals also helped the organization to thrive. Enactus aimed at cultivating the

[23] Jim Collins, *Level 5 Leadership The Triumph of Humility and Fierce Resolve,* Harvard Business Review, 2005, p2

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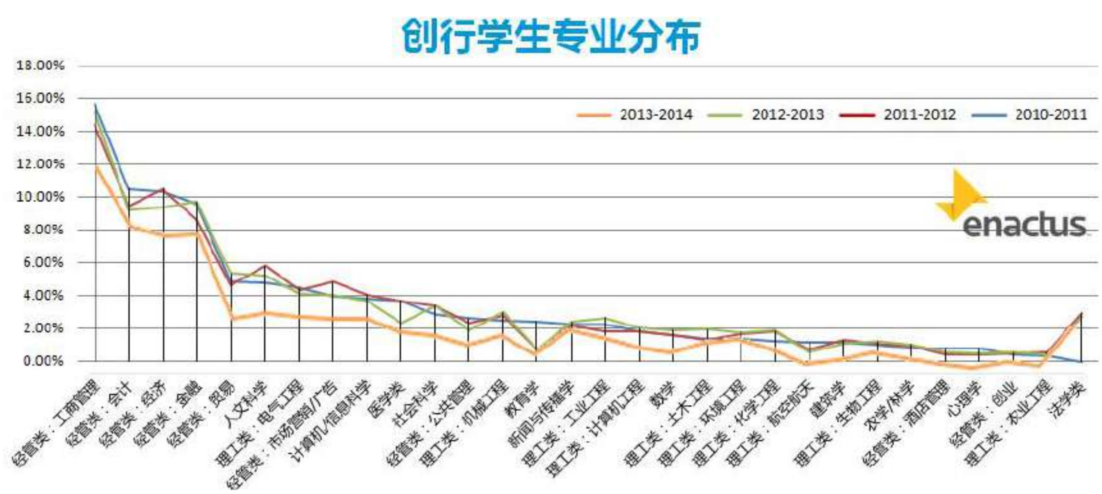
future entrepreneurs by creating profitable projects to empower the local communities. The quality of the students decide the quality of the projects, and how well the mission be achieved. The majority of Enactus students are those who are passionate about voluntary service, capable of manage interdisciplinary cooperation and excel in both academic study and social practices.

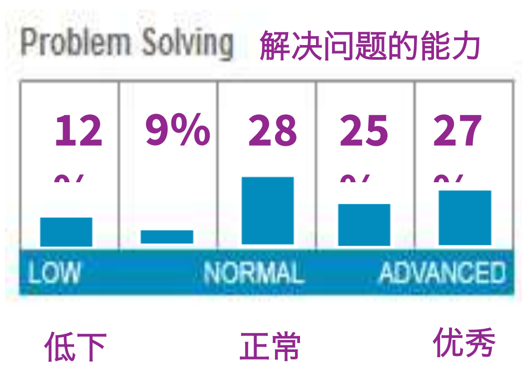
Enactus students come from different majors, varies from business related majors to law, journalism, education and language. A survey conducted by Enactus shows that the majority of team members are from management and business administration majors, with 15.60%, 14.34%, 15.19% and 12.03% respectively from 2010 to 2014. 75% of them are freshman and sophomore in universities.[24]



(Chart 3-5 Enactus Students' Majors)

[24] Data Analysis on Enactus Active Teams 2011~2014, Enactus China, 2014

In a professional competence evaluation in 2012 to 2013, over 6000 Enactus students from 210 universities around China took the assessment. The research indicates that 43% of the students' academic ranking is in the top 15%, those who rank in the top 20% is up to 62%. 52% students' problem solving ability is above the average.[25] When commenting on Enactus China, Norwell believes Enactus students are ambitious and action oriented, they can solve problems and won't give up until they come up with a good solution.

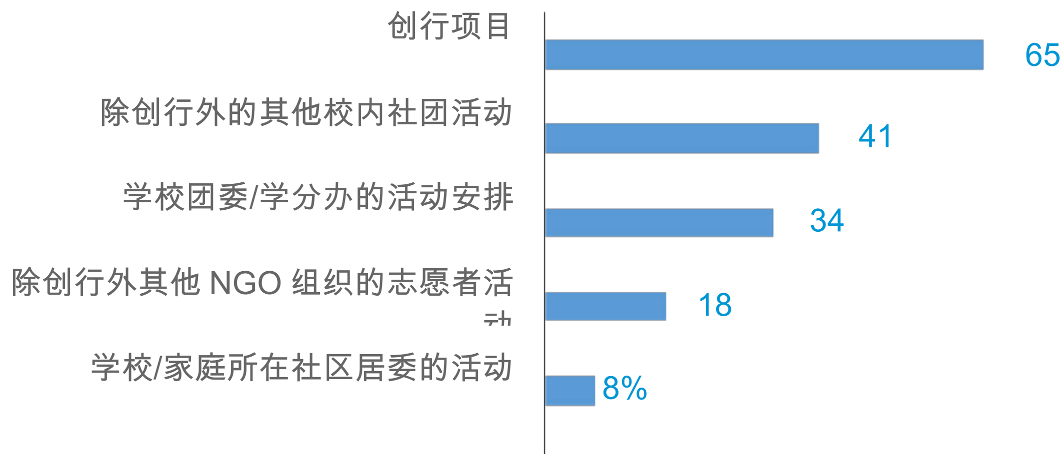


(Chart 3-7 Enactus Students' Problem Solving Ability)

Enactus students have a great passion towards voluntary service. In 2014, Enactus released a questionnaire about university students' volunteer programs, among the students who fill out the questionnaire, 65% of them have the experience in

[25] Report on Enactus Students' Professional Development, Ajinga.com, 2013

Enactus projects, and 41% actively took part in other voluntary activities organized by school organizations.[26]



(Chart 3-8 Voluntary Programs Channels for University Students)

More than 60% of the interviewees believe the fulfillment of moral obligation, as well as the motivation to improve the abilities of team management and interpersonal communication are the reasons why they participate in voluntary activities

People determine the performance capacity of an organization.[27] Getting the right people involve with a non-profit organization is essential for its sustainability. It is

[26] Report on University Students' Voluntary Activity Participation, Enactus China, 2014
[27] Peter F Drucker, *Managing the Non-profit Organization*, HarperCollins Publisher, 2005, P145

hard to use the unclear standards provided by Collins to distinguish self-motivated and self-disciplined people, but commonalities can be seen in both Enactus management and students members. They have the capabilities and willingness to fulfill their responsibilities in their corresponding positions, and bring progress for the whole organization.

3.4 Understand Enactus China's Operation with the Hedgehog Concept

The hedgehog concept is the pivot point in *Good to Great*, which essence is to produce the best long-term results. Using the hedgehog concept to examine Enactus, we can found out how Enactus operate its organization. The three intersecting circles includes what are you deeply passionate about, what you can be the best in the world at, and what drives your resource engine[28].

Enactus is passionate about connecting universities students and businessmen, to improve the quality of life, standard of living, and the development of communities by applying business concepts. One feature that distinguishes Enactus from other non-profit organizations is that it seeks to create sustainable projects which can generate profits and improve the quality of life of those served even without the management of Enactus team. In China, most of the voluntary activities are implemented in the way of direct donation. When there is natural crisis or social

[28] Jim Collins, *Good to Great and the social sectors: A Monograph to Accompany Good to Great*, HarperCollins Publisher, 2005, p19

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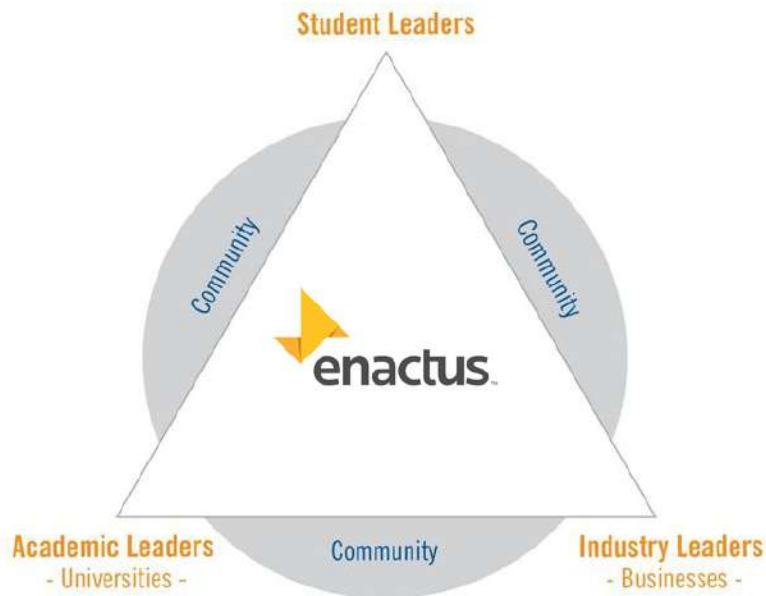
problem, people and companies donate money and goods to victims, or offer short-term assistance. The concept of establishing sustaining programs is rather creative in most areas. Enactus is devoted to helping people with long-term sustainable solutions, and cultivate students' leadership and problem solving abilities at the same time.

So what is Enactus best at? According to Collins, it means what your organization can uniquely contribute to the people it touches better than any other organization on the planet[29]. For Enactus, we can do so by evaluating stakeholders' costs and benefits.

Among the stakeholders who got involved in Enactus, there are four groups, namely, the sponsors, students, universities, and community.

[29] Jim Collins, *Good to Great and the social sectors: A Monograph to Accompany Good to Great*, HarperCollins Publisher, 2005, p28



(Chart 3-9 Operational Approach of Enactus China)

For the sponsors, what do they get if they support Enactus? According to Norwell, four factors motivate businesses to build partnerships with Enactus. Firstly, because Enactus contributes to the community, companies support Enactus as part of their corporate social responsibility programs. Secondly, Enactus provide companies with good corporate branding among highly motivated students – in order to perhaps hire the students in the future or to capture them as consumers. For example, Unilever supports Enactus to raise the company's profile on campus while companies like Ali Pay and No No Bank want to create consumers for their products. Thirdly, companies can use Enactus platform to recruit fresh graduates. Last but not least, Enactus competitions provide a chance to bring top leaders together, since some companies be sponsors simply to be present at our events. Based on the main reasons, companies are willing to spend money or time to cultivate the better members of the workforce in the future.[30]

For students, Enactus provide a platform for them to put professional knowledge into practice, foster their leadership and capabilities in cooperation communication, finance management and presentation. Trainings include team building, project development and soft skills enhancement will be provided for each school teams. Annual training will be held three times a year in different regions. In regional or national competitions, they can meet and communicate with experienced CEO and other excellent students, which help to enlarge their social circle and better prepare for their careers.

For universities, Enactus works as a feedback system to evaluate what do students learns from the courses, and motivates them to pursuit deeper study and research. Enactus also brings jobs opportunities for graduates. Universities can build up relations with companies.

For those who directly benefited from the projects, they not only gain economic benefits, but also improved the quality of life of the whole community in certain way. For example, the Fenghuang Tea Promotion Project proposed by Shantou

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[30] Interview with Norwell Coquillard

University, found solutions for low-altitude tea farmers to establish their own tea growers' alliance and diversified their own products. Salaries of the tea growers have increased by 26%, and stimulated the local tourism industry. The Shining Future project in South China Agricultural University taught 78 deaf workers to assemble and solder flashing doorbells and distributed these doorbells to over 1500 deaf families. Help the deaf workers gained a sense of worth and independence.

Enactus has established a mutually beneficial system within the stakeholders. The system helps to convert the sponsor and universities into contributors and beneficiaries. Business partners no long just donate money, they are invited as judges and business advisors to help to better students' projects, and look for the potential employees at the same time.

Collins' resource engine can be broken into three parts: time, money, and brand. How does Enactus employ the resource to maintain its operation? The strategy is holding competitions. Sponsors donate money in exchange of the naming rights for particular competitions, and reinforce their brand among universities students. And by holding competitions, Enactus creates a stage for student teams to present their projects, to collect feedback from the professionals and show their individual talents. In order to perform better and gain recognition in the competition, they have to invest time and energy to improve on their projects. The higher the quality of the projects and the competitions, the better the reputation Enactus gains from the business partners and universities leaders. Meanwhile, competitions also offer opportunities for entrepreneurs to understand Enactus' values, and motivate the continuous supports. "Enactus build connection among government, business, audience and the media, and changes the world by the use of the entrepreneurship, that is exactly what Hershey's believes in."[31] John P Bilbrey, the CEO of the biggest chocolate and candy manufacturer said in an interview.

A virtuous circle is created in Enactus' operation: Students create good projects, good projects attract good sponsors, good sponsors support competitions, competitions provide platform for students to show their talents, motivating them to further develop good projects and set up the good brand image for Enactus, and so on. This positive circulation makes the flywheel keep turning on and on, and generate improvement for Enactus China.

3.5 Challenges and Suggestions

The journey towards greatness is a tough process. In order to get to a prosperous future, Enactus China has to tackle down two big challenges.

The first one is resource limitation. Most of the sponsors are overseas-funded enterprises. However, considering the long-term development for Enactus China,

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[31] Song Mei, *Hershey's : Good Deeds to Good Business*, Chinaweekly, 2014, http://www.chinaweekly.cn/bencandy.php?fid=63&id=7394

more Chinese companies should be targeted as potential business partners to create more opportunities for Enactus students and their local projects.

Cathy's experience tells that the most effective way to build up partnership is to connect with the CEOs. If the CEO of a company recognizes the mission of Enactus, the possibility to reach cooperation will be greater. In the early years of sponsorship building, Cathy found it is more difficult to cooperate with state-owned enterprises and private companies than the international corporations. In most of the cases, the budget of the state-owned enterprises are controlled by the party committee, youth league committee or the labor union that generally invest into the government-initiated projects, such as the Red Cross, and hardly donate to non-governmental projects. As for the private enterprises, it is hard to approach to its CEO or management. More importantly, compared with the overseas-founded companies, Chinese companies pay less attention to corporate social responsibility. They focus on expansion and business development and lack the awareness to contribute to communities. And the concept of helping people through entrepreneurship is a fresh idea which has not been easily accepted in the last decade. Recently, more and more influential private enterprises begin to participate in social responsibility related activities. Companies such as Lenovo, Chow Tai Fook and Alipay have begun to collaborate with Enactus China.

One problem Norwell observed is that Chinese companies have often supported Enactus on specific tasks basis. For instance, an internship program was carried out with China Unicom in 2012, and the marketing competition sponsored by Master Kong. But once the projects are finished, the companies stop their association with Enactus. Enactus China has realized the importance to get more acceptances by Chinese companies, and has successfully connected with Yu Foundation, Vantone Foundation, Ali Pay and other local Chinese companies in recent years. Even though Enactus China are being recognized and supported by more and more Chinese firms, the relations and cooperation with Chinese companies needs to be strengthened in the following years to come. In order to tackle down the problem, Dennis's suggestion is to make the local companies realize the added value that Enactus China can bring, which is the main reason why the multi-national companies are willing to maintain the regular financial giving. Enactus China should helps its local business partners to see the benefits they can get in branding, human resource recruitment, and entrepreneurs social networking and corporate social responsibility.

The second obstacle is capacity building and sustainability. Enactus expanded rapidly in the past decade. However, a systematic succession structure has not been well construct within regional project managers and the universities teams. Thirteen regional managers are part-time and do not pay enough attention to help the teams to grow. With 227 universities teams to manage, the workload of the part-time project managers is rather great. The limited time and energy restrict the effectiveness on implement and supervision. Even though regular trainings are provided for universities students leaders, but there are no systematic trainings for the faculty advisors. Also, with so many universities, project managers can hardly help each individual team on specific subjects such as projects development, team building and team management. Problems arise when the team leaders or the senior member graduate from the universities, the successor could not well take care of the team affairs because they have no experience in team management. And the handover of the regional project managers threatened the sustainability of the organization and its programs. Although the cost of hiring part-time managers is lower, but after investing a lot of training to make them effective, the part-time managers resign when they finish their university life. This brings more work to Enactus China to have to invest time to look for the right person and train them. This becomes a vicious cycle: the lack of sustainability and capability of the regional project managers harms the development of each university team, the lack of professional training and sustainable managing system lead to the unsustainability of teams and the incapability to manage new members and develop projects, and finally harms the quality of projects.

Now serving as the faculty advisor for Enactus STU, Dennis already aware of this problem and has set out to fix it. He requires the senior members of Enactus STU to serve as student advisor for six months in order to mentor the new team leaders.

A project development department has also been established for the development and evaluation of the potential projects. But this is not adequate. In consideration of the whole Enactus China organization, he believes an inner stable structure should be built in each Enactus team. Enactus China should recruit more full-time project managers to assist the team growth by providing sufficient training to both the team leaders and faculty advisors, and offer guidance to team building and project development.

Ⅳ. Limitation of This Research

This article applies Collins' *Good to Great* framework to evaluate the personnel characteristics, the operation structure and the performance evaluation of Enactus China. Several limitations of this study should be noticed.

To begin with, this paper is focus on Enactus China, while the applicability on the development in other countries is not as strong as the application in China. Due to the difference of the cultural background and economy structure, public acceptance and recognition of Enactus projects is quite different, the problems threaten Enactus China might not be a great concern in some western countries.

Secondly, the study is based on the information released by Enactus China website and certain internal data provided by interviewees. But most of the materials are inaccessible which increases the burden on information collection. Due to the limitation of time length, the interviewees are mainly focus on the core leaders, voices from regional project managers and university team leaders has not been considered.

Thirdly, when using the *Good to Great* framework to evaluate Enactus China, we found the majority of the finding within the framework is empirical description which provides no clear standard to assess the organization. And the lack of specific index makes the research more difficult to identify certain concepts such as the personal humility and professional will for the level 5 leaders. The disciplined culture proposed by Collins is a flexible concept and fails to furnish unambiguous guidance in organization management.

Further research on the comparison of the development of Enactus in different regions, and a deeper analysis of Enactus China should be considered in the future.

IV. Conclusions

When applying Jim Collins' *Good to Great* framework to evaluate Enactus China, it is hard to match all the elements one by one. But we do see some similarities at the operational level and employees' qualities.

Enactus China does not have a rigorous and complicated structure. People at different management levels have certain autonomy to perform their tasks, and mutual communication and reports serves well in this system.

Enactus China has disciplined people in both the management and students members, and they share some similarities. People who play a part in the growth of Enactus and the current management position have direct experience with Enactus before they become the significant part of Enactus. They recognize Enactus's values, support the spread of entrepreneurial spirit, and they know Chinese and the Chinese market well. The majority of Enactus students is passionate about voluntary service, capable of managing interdisciplinary cooperation and excels in both academic study and social practices. All these characteristics they share, no matter in management or in individuals, generate self-motivation among employees and volunteers to devote themselves to the development of the organization to fulfill the mission of Enactus.

The hedgehog concept gives us a clear picture about Enactus China's operation including how the competitions generate resources to keep the organization running and what do universities institutions, students, business partners and communities benefit from Enactus. The mutually beneficial system among different groups keeps the organization running in a progressive way.

Challenges exist in the development of Enactus China. On the way to greatness, Enactus China should introduce more cooperation with Chinese companies and enlarge its influence in Chinese market. It also needs to tackle the critical issue of capacity building and come up with a better solution to achieve sustainability.

Enactus China is a potentially great non-profit organization and maintains a good momentum of development. If Enactus China can overcome its two critical challenges and rigorously evaluate its performance, it will get closer to getting from good to great in the social sector.

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Horizontal Cooperation In The New Zealand Road Transport Industry

Can sharing the load deliver efficiency, profitability, and sustainability?

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Abstract

The New Zealand road transport industry faces a significant challenge. How can we meet future transport demands, forecast to increase by 58% over the next 30 years, on an already congested and expensive to maintain, road network. Data from NZTA weigh in motion scales and a survey of transport operators indicate that between 27% and 36% of truck capacity is currently unused. Prior research indicates that many European transport companies fall below a minimum economic size and that inter-company cooperation is undertaken to achieve improved customer service and profitability. Potential benefits are seen as: reduced inefficiencies, sharing information, increased scale, delivering win-win solutions. These relationships take many different forms from informal, ad-hoc arrangements, to formal mergers and strategic alliances. Cooperation can also have risks that

must be identified, acknowledged and controlled if the arrangement is to be effective and sustainable. Qualitative research carried out found that cooperation does occur horizontally between transport operators and between transport operators and freight forwarders within the New Zealand road transport industry. Transport operators however do not value freight forwarders presence in the market and see them as removing, rather than creating, value. They trusted other transport operators slightly more than freight forwarders. Freight forwarders were far more positive about the potential outcome of cooperation than transport operators. Based on interviews with industry participants a model was created suggesting a connection between beliefs, behaviours and outcomes of cooperation. Analysis showed some correlation between; a belief that cooperation would have positive outcomes for customers, planning for cooperation, management attitude towards cooperation, and cooperative behaviours occurring, but no correlation between cooperative activities and profitability or use of resources. It is recommended that further research be carried out to determine how the transport industry should be structured to deliver economic sustainability for transport operators, maximise the efficient use of transport resources, and minimise negative environmental impacts.

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Introduction

The purpose of this research is to understand whether horizontal cooperation between transport operators can assist the transport industry to meet future transport needs and improve operator profitability.

In 2012, 236 million tonnes of freight were moved in New Zealand (N Z Government , 2014). While this figure comprises of coastal shipping, rail and road, the vast majority, 91%, was moved by road. These movements come at a significant cost to supply chains, and ultimately the consumer, with Gurav (2004) noting that as production becomes more efficient transport costs make up an increasing percentage of the costs paid by a consumer. Creating the infrastructure for all of these movements is also a significant cost. This volume is forecast to increase by 58% over the next 30 years (Stephenson & Zheng, 2013). To help the transport industry to meet this demand the New Zealand government is planning to invest $36 billion, over the next 10 years, in land transport infrastructure via the national land transport fund (Ministry of Transport, 2011). If we add the environmental impact of carrying out these movements we begin to see the importance of having an efficient transport system.

To improve their efficiency, and sustainability, operators can either reduce the costs of operating their vehicles, or earn more from each kilometre travelled.

Significant investment has been made in technology to track and monitor driver and vehicle performance to reduce costs. This research does not consider the impact of that technology but looks instead at how operators might seek to increase the return per kilometre travelled through working more closely with other organisations, either transport operators of freight forwarders. The use of more sophisticated methods of product distribution such as the use of distribution centres, online inventory management, and the development of integrated transport solutions is increasing (Ministry of Transport, 2014). Many of these initiatives require a new set of skills, and intercompany relationships, moving away from more competitive models. These networks of relationships can form vertically up and down supply chains or horizontally between them.

It is the horizontal relationships that are the focus of this research. The goal is to determine the extent to which horizontal cooperation between companies in the road transport industry occurs, identify factors that allow or prevent cooperation from occurring, and whether cooperation can lead to increased profitability for transport operators. This will be achieved firstly by reviewing the research that has already been undertaken in the area of horizontal network relationships. Semi-structured interviews with transport operators and freight forwarders are then used to gain some insight into the type of cooperation that is currently occurring in the industry. Finally a survey was carried out with transport operators to test a model and set of hypotheses which were created as a result of analysis of the literature and interviews.

Literature Review

This literature review firstly considers research into relationships generally, including how and why they form, before separating several types of relationship along a continuum from a purely competitive situation, where there is no cooperation, to fully integrated models where organisations operate as one.

A supply chain, by its very nature requires effective coordination between its parts. This system acts like a chain, in that if one of the links fails to perform its function the chain fails. Transport has a very important function linking the source of raw materials with processing, and finished goods with markets. At each point along the chain there is a relationship between either separate functions within an organisation or between separate organisations. This network requires managers to connect their resources with those of others either within or external to their organisation (Ritter, Wilkinson, & Johnston, 2004). Pagell (2004) proposes that in order to be efficient these relationships must work together to provide the highest level of customer service. Mason, Lalwani and Broughton (2007) agree that the goal of supply chain improvement must be to improve the performance of the chain overall and not one part in isolation. It follows therefore that, considering transport's key position within supply chains (Coyle, Langley, Gibson, Novack, &

Bardi, 2008) it would be unwise to seek to optimise transport, or focus only on increasing profitability of transport operators without considering the impact that would have on the supply chain as a whole. Likewise freight owners must take a collaborative approach with carriers (Coyle, Langley, Gibson, Novack, & Bardi, 2008) because if transport is not as efficient as it can be the value of the whole chain is reduced (Cox, 2004).

The scale of organisations will impact the way in which relationships form and are managed. Cox (2004) found that where there is an imbalance of power between organisations and this is not managed correctly the relationship can fail, or the adversarial qualities of the relationship could cause the parties to act in an opportunistic way which removes value from the supply chain. Small companies can suffer at the hands of their larger partners. Every company has a choice whether or not they choose to cooperate. Cooperation can be a means of achieving greater scale, which Cruijssen, Dullaert and Joro (2010) found was a significant factor in achieving acceptable efficiency levels.

There is also some support for companies choosing to go it alone. Barney (1991) suggested that a firm's competitive advantage comes from exploiting their internal strengths, and neutralising threats, and that cooperation could put that advantage at risk. Opening the resources of your company up to competitors creates the opportunity for them to learn your secrets (Nooteboom, 2004) and significantly increase the risk of competitive advantage being lost (Barney J. , 1991), increasing vulnerability (Tidstrom, 2008). Barney (1991) also argued that greater advantage is gained from having superior resources concentrated in organisations that are able to exploit them efficiently than having them held by and transferred between many organisations. Cruijssen et al (2010) rejected cooperation as a means to increase efficiency in the Flemish transport network, finding no significant difference in efficiency levels between cooperating and non-cooperating transport companies.

If an organisation chooses to cooperate there are many factors that must be considered if the cooperation is to be successful. Cooperation will not naturally occur in ways that enhance business growth (Perry, 2005) and brings with it a risk that either party will not remain loyal under pressure (Nooteboom, 2004)or will exploit a power imbalance (Cox, 2004). These risks will be reduced if there is a structure or process to the arrangement and parties stick to it (Ford & Mouzas, 2008) including outcomes and how profits will be shared (Dai & Chen, 2011). Documenting the agreement (Giannoccaro & Pontrandolfo, 2004) and having regular structured interactions to build trust and interdependence (Ford & Mouzas, 2008) will help to make the cooperative arrangement more sustainable. If the agreement sets out where cooperation will occur and where the parties will remain competitive the parties can form a coopetitive arrangement (Bengtsson & Kock, 2000). Bengston and Kock (2000) found that coopetition was more likely to occur when competitors cooperated in activities that take place away from customers and compete in activities that occur close to customers. This reduces the risk of a

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partner's poor performance affecting the company's reputation (Nooteboom, 2004) or them acting against the spirit of the agreement by attempting to take that customer's business.

Competitors may choose to go a step further and combine to form a single entity in the eyes of their customer. Since the mid 1990's there has been a worldwide trend towards an increasing number of strategic alliances between competitors (Kupke & Latteman, 2008). In their study of Flemish transport companies Cruijssen et al (2010) found over 50 cooperative horizontal arrangements in existence. Likewise Tavasszy, Ruijgrok, and Thissen (2003) found over 50 formally articulated horizontal logistics partnerships in Belgium and the Netherlands. Maintaining these relationships is difficult as evidenced by a high failure rate of up to 70% in manufacturing industries (Zinelden & Bredenlow, 2003) (Schmoltzi & Wallenburg, 2011). In contrast research regarding logistics service providers showed the upper limit of cooperation failures to be 18.6% (Schmoltzi & Wallenburg, 2011).

The extent to which competitors can cooperate is limited by legislation. The Commerce Commission in New Zealand enforces legislation such as the Commerce Act 1986 which prohibits conduct that restricts competition in the market (N Z Government , 2014). Prohibited practises include collusion between competitors to set pricing. Fortunately the law does not prohibit cooperative

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relationships entirely as many have internal benefits such as cost reductions and productivity increases (Cruijssen, Cools, & Dullaert, 2010) or external benefits such as quality improvement and market share (Schmoltzi & Wallenburg, 2011). As a result cooperative relationships are reasonably common with 57% of logistics service providers being involved in some sort of cooperative arrangement (Schmoltzi & Wallenburg, 2011).

In summary there are many benefits that can be gained through horizontal cooperation but there are also risks that must be acknowledged and managed if the cooperation is to be successful. These are summarised in table 1 below.

Table 1: Summary of benefits and risks of horizontal cooperation.

Positive outcomes of horizontal cooperation
Reduce inefficiencies.
Sharing of information.
Clustering has historically supported efficiency and innovation.
Can achieve a more economic scale.
Successful in airline and shipping industries.
Small size of NZ economy makes sanctioning of opportunistic behaviour more likely.
Able to share rewards.

Rules of engagement can be agreed and documented.
Risks can be effectively managed by agreement.
Can benefit from own specific abilities without detracting from the other.
Opportunity for win-win solutions.
Can occur directly between transport companies or be facilitated by a third party Freight Forwarder.

Negative outcomes of horizontal cooperation
Potential breach of Commerce Act 1986 if cooperation in price fixing.
Loss of sustainable competitive advantage through passing of sensitive information.
Reduce innovation and differentiation.
Mergers and acquisitions effective means to achieve scale
Opportunity for more powerful organisations to exploit their position.
High failure rate.
Cooperation at customer service level creates risk of substitution, or poor service.
Competition more fierce horizontally than vertically.
Cooperation can be a trap if effects are not foreseen.
Can reduce sources of variety necessary for learning and innovation.

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Opportunity

The first task undertaken by this research was to determine whether there were efficiency gains that could be made in New Zealand's road transport industry. This was completed firstly be surveying transport operators using an online survey, to determine the percentage of kilometres travelled by trucks when empty, and the percentage of loads carried that are half the unit's capacity or less. A link to the survey was sent to transport operators listed in the yellow pages and 21 responses were recorded.

The responses highlighted significant variation between operators, however with an average of 27% of kilometres travelled when empty, and 26% of loads being half the unit's capacity or less, they also suggest a significant opportunity for increasing efficiency.

The results of this survey were then validated using analysis of data obtained from the New Zealand Transport Agency (NZTA) Annual Weigh in Motion Report (N Z Transport Agency, 2013). The NZTA have set up six sites across New Zealand to capture weight information from vehicles operating on these roads. These weigh in motion (WIM) sites record weight data from heavy vehicles as they travel across a set of scales embedded in the road.

The locations of these sites are:

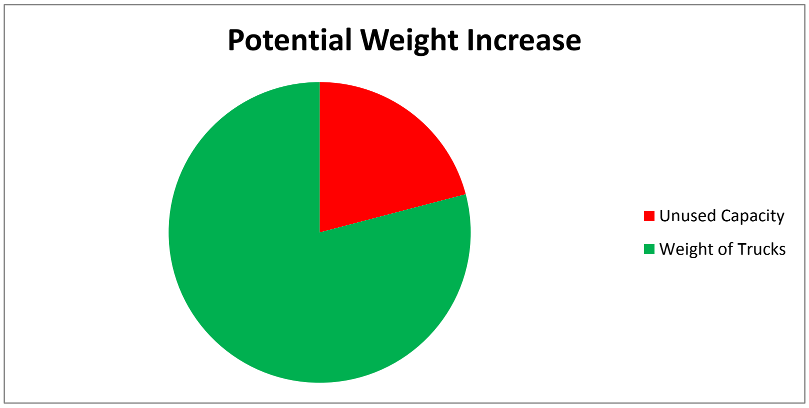
- Drury (Auckland).
- Eskdale (Hawkes Bay).
- Hamanatua Bridge (Poverty Bay).
- Te Puke (Bay of Plenty).
- Tokoroa (Waikato).
- Waipara (North Canterbury).

During 2012 a total of 2.98 million heavy vehicles were weighed using the WIM scales. For each vehicle the following data is recorded:

- Time and date of the weigh.
- Group: Type of vehicle, whether rigid, truck and trailer, articulated, or B train.
- PAT class: The vehicle's configuration in terms of length and number of axles. This is used to determine the maximum weight a vehicle can legally carry.
- Weight.

For the purposes of this report the researcher selected data relating only to vehicles that are able to carry 44 tonne, the maximum gross weight for any vehicle without special permits. The graph below indicates the actual average weight of those vehicles compared to the 44 tonne maximum.

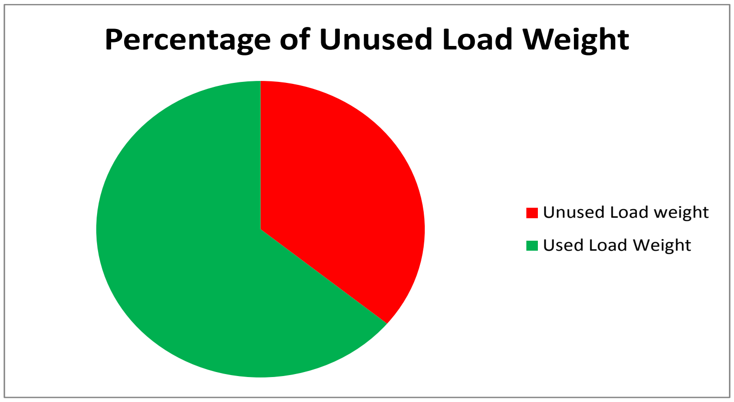
Figure 1: Unused load capacity percentage as indicated by WIM data.



Source: N Z Transport Agency, 2013.

This data shows an average weight of only 34.1 tonnes. Further analysis was carried out after subtracting the tare weight of vehicles to show the percentage of loading that was not being utilised. For this an average tare weight of 27 tonnes for a truck and trailer unit was used. This analysis shows that 36% of the potential maximum load across 1,176,923 vehicle trips was not utilised.

Figure 2: Percentage of load capacity not utilised.



Source: N Z Transport Agency, 2013.

These survey results and WIM data support each other in suggesting that there is a considerable opportunity to increase the loads carried by trucks on New Zealand roads. Utilising this currently unused capacity could allow us to move increased volumes of freight without increasing the number of vehicles on the road. This could allow us to meet future freight volume challenges in a more sustainable way than simply increasing truck numbers, avoiding increased congestion and environmental impacts such as emissions and noise, and draining an already limited pool of drivers. Recruiting drivers is already seen as a significant issue for transport operators, and increasing loading will allow transport operators to gain more productivity from the drivers they have.

Having determined that there is an opportunity for improved efficiency within the New Zealand road transport industry the next question to be answered is how that can be achieved. Previous research, reviewed in the literature review above, indicates that transport companies require a certain scale to be economically sustainable and that many fall short of the scale required. One way to achieve scale, while retaining some independence, is to form a partnership, alliance, or other form of cooperative arrangement with another business for the purposes of combining resources.

This research intends to add to existing research and illustrate how these arrangements form and operate within the New Zealand Transport industry by answering the following questions:

- What factors impact transport organisations' willingness to enter into horizontally cooperative arrangements?
- How do horizontally cooperative arrangements occur within the New Zealand transport industry?
- What impact do horizontal cooperative arrangements have on the performance of companies in the New Zealand transport industry?

Method

To answer these questions this research has applied a mixed methods approach, beginning with a qualitative method, using semi-structured interviews, to enable a

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model to be created which is then tested using quantative surveys. This is an exploratory sequential design, identified by Creswell and Piano-Clarke (2011) and follows the four steps identified by them. The qualitative research was designed and implemented, and the data analysed, in order to identify what is occurring and what is important in relation to the formation and implementation of horizontally cooperative relationships. In the second step a model and set of hypotheses, based on the results of the qualitative phase, were created and tested using an online survey and the results analysed in a third step. The final step was interpreting and discussing the ways in which the quantative results generalise or test the qualitative results (Creswell & Pianco-Clarke, 2011).

In the qualitative phase of this research four transport operators and three freight forwarders were interviewed. Whilst both groups have agreements with customers to move goods the distinction is that the transport operators own trucks and freight forwarders do not, relying on transport operators to move their customers' freight for them. I have included freight forwarders as part of the horizontal cooperation landscape because they do not own freight and occupy the same space within the supply chain as transport operators, in that they are engaged to move goods from point A to point B. They can either be the means or structure through which transport operators cooperate or a third party who can facilitate that cooperation, either for their own benefit, or that of the freight owner.

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This phase of the research utilised semi structured interviews. Researchers have found this to be the most useful format for this type of research (Zorn, 2011). This method allowed the interviewer to give the interviews some direction, while still giving the interviewee scope to talk in depth about ideas or concepts that were of particular interest to them. Interviews were recorded and transcribed later. This analysis was completed by reconstituting the information into categories and subcategories to enable patterns and themes relating to horizontal cooperation to be filtered out for further analysis and comparison. Other researchers (Miles & Huberman, 1984)(Lindlof and Taylor, 2011) use and recommend this type of approach for qualitative analysis.

The following categories and sub categories were chosen:

- Cooperation: The comment refers to the interviewee's organisations cooperation with another organisation.
  - Horizontal (cooperation with another transport operator or freight forwarder)
    - Belief: Relate to an internal belief, state of mind or process that impacts upon cooperation but is not visible from outside of the organisation. Perceptions of trust and fairness.
    - Behaviour: Relate to an action, or transaction that is visible and indicative of an interaction between two parties.
    - Outcome: Something that results from the interaction between two parties.

- Vertical (cooperation with a customer): Disregarded.

- Other categories such as technology were discarded as not being relevant. Any comments relating to sharing of data, or technology for sharing data were classified as cooperation.

Findings

Of 196 comments categorised, 173 related to cooperation, and 111 of those related to horizontal cooperation. This provides sufficient data for further analysis. Analysis of responses was carried out to identify what was particularly important to interviewees; identifying those beliefs, behaviours, or outcomes that were emphasised through repetition or heightened emotions, or established a particular theme throughout the interview. These are summarised in the table below.

Table 2: Factors identified as important due to emphasis, response or theme.

Transport Operator (TO) or Freight forwarder (FF)	Emphasis / Repetition	Emotion	Themes
TO A	Customers know working together		Cooperation with customers will

	will result in a better rate x2 (Outcome): Rapport really, vitally, absolutely important x 3 (Belief)		benefit everyone (Outcome)
TO B	You have to be careful who you work with x 2 (Belief) Biggest concern is trust, trust in number 1 x 2 (Belief) Loyalty x 3 (Belief) There isn't enough money	Aggressive, negative, response to freight forwarders (Behaviour)	People stealing your customers x 7 (Belief) rates too low (Outcome)

	in this game x 2 (Outcome) Level playing field is good x 3 (Belief)		
TO C	Trust is no 1 a big thing huge x 9 (Belief)	Fear of the authorities using data against you (Belief)	Need to have own contracts or there is too much risk (Belief)
TO D	Relationships x 5 (Belief) Need to be a price giver not a price taker (Outcome) Cloud for exchanging loads x 2 (Behaviour)	Very negative about freight forwarders, they're ruthless against the interests of the transport operator (Belief)	Sub-contractors pose two risks, they can be too good or too bad (Behaviour) Rates need to be reasonable, maybe a guide as to a reasonable minimum (Outcome) Need our own

			contracts not become a sub-contractor (Belief)
FF A			There can be benefits to working together (Outcome) High expectations but a fair rate (Outcome)
FF B			Alignment with the freight owner is a position of strength (Behaviour) There are greater margins for freight owners in using a freight forwarder (Outcome)

FF C	The system is inherently inefficient and people like it like that as they make money from it x 2: Cargo owners need to be in control x 2.		Cargo owners: Optimisation on behalf of cargo owners (Behaviour/Outcome) Can get a more economic rate by a freight forwarder controlling it than transport operators managing it with back load pricing (Outcome) Many advantages in cooperating for customers and carriers (Behaviour)

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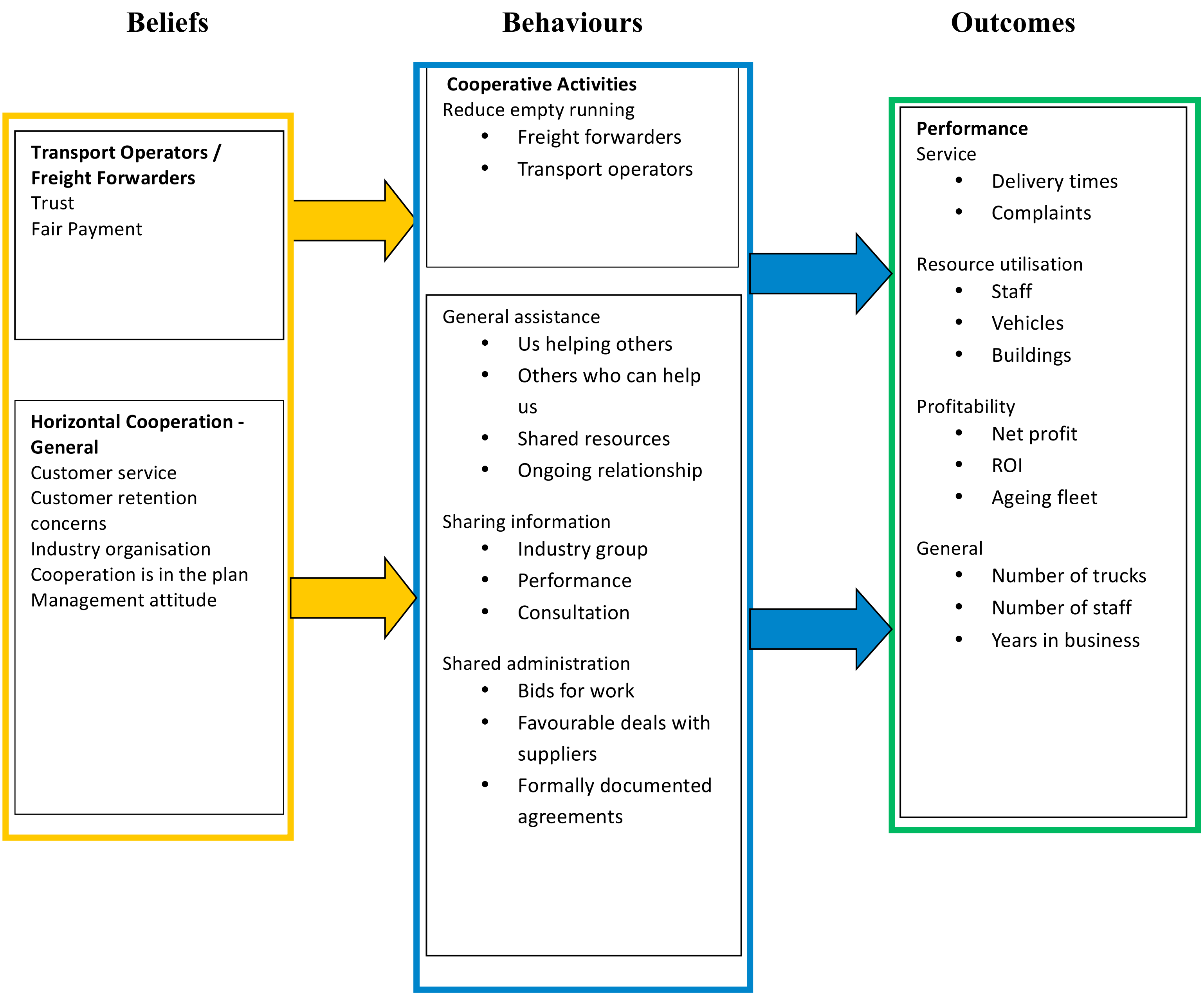
These responses indicate a very strong belief in the need for trust, and strong relationships between parties, to create and maintain an effective cooperative relationship. The items that were emphasised through repetition by transport operators were predominantly in the areas of trust and risk. Emotional responses were confined to negative comments about the presence of freight forwarders in the industry, and authorities using data against operators. Both of these indicate a strong sense of wanting to be in control of their businesses and not being taken advantage of by someone else. The general themes from transport operators were that while they could see some advantages to horizontal cooperation it was a risky undertaking which was done reluctantly. Freight Forwarders were generally much more positive about horizontal cooperation (76%), than transport operators (26%). When the comments were categorised into pre-cooperative beliefs, cooperative behaviour, and post-cooperative outcomes transport operators were found to be less positive about the outcomes of cooperation than they were about cooperative behaviours, while freight forwarders were most positive about the outcomes. Based on the literature review and the assumptions listed above resulting from the qualitative research, the following model, shown in figure 3, is proposed. It sets out: internal factors, such as beliefs, which impact on cooperation; behaviours that indicate that a cooperative relationship is taking place; and outcomes in the form of performance indicators which show that a company is successful and sustainable.

Figure 3: Horizontal Cooperation Beliefs, Behaviours, and Outcomes.



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Hypotheses

Based on this model the following hypotheses are proposed:

Trust

Trust is a necessary part of cooperative relationships. It can be both an antecedent and an outcome of relationships. Cooperation introduces risk and parties must trust that those risks can be managed and they will not be taken advantage of.

Hypothesis 1: Trust

Transport operators with a higher level of trust will cooperate more frequently with other transport operators and freight forwarders to reduce empty running.

Fair Payment

When a cooperative relationship is implemented, value can be created beyond what the parties can achieve on their own. A belief that this value will be shared fairly is an important factor for the cooperating parties.

Hypothesis 2:

When transport operators believe that the value created by the cooperative relationship will be shared fairly they will cooperate with transport operators and freight forwarders more frequently.

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Customer Service

The level of service provided to customers by transport operators can be enhanced by gaining access to resources beyond their own. However, other operators may not take as much care of customers who are not their own.

Hypothesis 3:

Transport operators who believe that horizontal cooperation can improve the level of service that they provide their customers are more likely to engage in cooperative relationships.

Customer Retention

Cooperative interactions can be visible to customers. In the transport industry cooperation frequently involves carrying goods for another transport operator's customer. This introduces an opportunity for customers to interact with competitors.

Hypothesis 4:

Transport operators with higher concerns about losing their customers to a competitor will engage in less cooperative relationships.

Industry Organisations

Industry organisations provide opportunities for transport operators to cooperate in areas removed from customers, for example purchasing agreements with suppliers. Participation in industry organisations creates opportunities for networking and relationship building and horizontally cooperative relationships that retain competitive elements (coopetition).

Hypothesis 5:

Members of industry groups will engage in a greater number of horizontal cooperative relationships than non-members.

Planning for Cooperation

Relationships between competitors, whether through a network or cluster, will not organically form in a way that improves business outcomes. Cooperation that occurs as a result of a thoughtful, deliberate strategy that has been documented will more likely be effective.

Hypothesis 6:

Transport operators who have included cooperative relationships in their strategy and documented them in their business plan will have more cooperative relationships.

Management attitude

Management have an important role to play in setting the culture and direction of an organisation. Through their words and actions managers influence the activities of their staff.

Hypothesis 7:

Transport operators whose managers display positive attitudes towards cooperative relationships will cooperate with transport operators and freight forwarders more frequently.

Value of Cooperative Relationships

By working together transport companies are able to create greater value than they could alone. This value results in reduced supply chain costs but also improved profitability for transport operators.

Hypothesis 8:

Greater participation in cooperative activities will have a positive impact on profitability.

Hypothesis 9:

Greater participation in cooperative activities will increase utilisation of transport resources.

Method

These hypotheses were tested using quantative research, in the form of an on line survey. Due to the strong response indicated by the transport operators regarding freight forwarders, the two groups have been separated in some analysis to allow any differences in cooperative relationships between transport operators and between transport operators and freight forwarders to be identified. This assists in answering the second research question regarding how horizontally cooperative relationships occur.

The survey was prepared using the Qualtrics online tool. An invitation to complete the survey, and a link to it, were distributed to transport companies by the Road Transport Association through email distribution to their members, and inclusion in their newsletter to members. The Road Transport Association has 1900 members. The respondents were asked to read a statement and indicate whether they agreed or disagreed with it. A seven stage Likert scale was used with a score of 7 indicating that the respondent strongly agreed with the statement, and 1 indicating that they strongly disagreed with the statement. A score of 4 is neutral. A total of 32 responses were received which is very low. 2 were incomplete and have been removed. 26 provided demographic data which shows that respondents were predominantly in the small to medium sized businesses.

The responses were analysed to identify the extent to which beliefs relating to cooperation impact on the level of cooperation between transport companies, and whether carrying out cooperative activities has any impact on profitability or resource utilisation. To achieve this Pearson's correlation coefficient and Student's T-test were used to test the relationship between variables identified in the 10 hypotheses which were constructed following the qualitative research. Two statistical methods of analysis have been used.

Pearson's correlation coefficient (r)

- This is used to determine the strength of any relationship between the two sets of variables.
  - 0.80 to 1.0 A highly dependable relationship exists.
  - 0.60 to 0.79 Moderate to marked relationship
  - 0.40 to 0.59 Fair degree of relationship
  - 0.20 to 0.39 Slight relationship
  - 0.00 to 0.19 Negligible or chance relationship.

Student's T-test (p)

- This is used to test the significance of the relationship between the two sets of variables.
  - $p > 0.05$ There is no statistically significant difference between the two data sets.

Findings

Prior to testing the hypotheses analysis was carried out regarding any differences in beliefs relating to cooperation with transport operators or freight forwarders. The reason for this was the strong attitudes expressed by interviewees during the qualitative research. Separating and comparing the two groups allows the research to identify any significant differences that could skew the result for cooperative beliefs in general. Table 3 below shows the scores for beliefs indicating trust. The results show some variation in levels of trust, with other transport operators being seen as slightly more trustworthy.

Table 3: Mean scores for questions regarding beliefs.

	Transport Operators	Freight forwarders	Combined
When we work for another company we receive fair payment from:	5.18	4.74	4.96
I am very concerned about having customers taken from my company by:	6.11	4.56	5.34
If my company does work for another company we probably won't get paid by:	1.18	1.19	1.19

Further analysis was carried out using the Student's T-test. The purpose of this test is to determine whether there is a significant difference between the two sets of responses. The nul hypothesis being tested is that there is no statistically significant difference between the sets of data relating to trust in respect of freight forwarders or transport operators. The T-test result of p=0.96 indicates that there is no statistically significant difference between the two sets of data. This analysis is performed to test whether a significant difference exists in beliefs regarding freight forwarders and transport operators that would create a false result when the results were combined for correlation analysis. Comments made during the qualitative research phase revealed strong negative beliefs regarding freight forwarders however comparison of the means and T-test show that this is not reflected in the quantative results.

Having analysed the responses in terms of structural differences, that is transport operator with transport operator, or transport operator with freight forwarder, and finding no significant differences, the next level of analysis tested cooperative relationships generally. Table 4 below shows the result of analysis testing each of the hypotheses proposed above.

Table 4: Summary of quantative research analysis.

Hypothesis	Variable 1	Variable 2	Pearson's correlation coefficient	Proven?
Hypothesis 1	Trust	Cooperation to reduce empty running	r=0.09	No
Hypothesis 2	Fair payment	Cooperative activities	r=.058	No
Hypothesis 3	Belief that cooperation will improve customer service	Cooperative activities	r=0.61	Yes (moderate)
Hypothesis 4	Concern about losing customers	Cooperative activities	r=-0.34	Yes (slight)
Hypothesis 5	Membership of industry groups	Cooperative activities	r=0.00	No*

Hypothesis 6	Cooperation included in documented plan	Cooperative activities	r=0.54	Yes(fair)
Hypothesis 7	Positive management attitude towards cooperation	Cooperative activities	r=0.51 Transport operators r=0.62 freight forwarders.	Yes (fair) Yes (moderate)
Hypothesis 8	Cooperative activities	Profitability	r=0.28 net profit r=.09 return on investment	Yes (slight) No
Hypothesis 9	Cooperative activities	Utilisation of resources	r=0.16 vehicles r=0.16 staff	No

* Hypothesis 5 cannot be tested as all responses gave very high scores for industry group membership.

Results indicate that there is a positive correlation between a belief that cooperation will improve customer service, formal planning, and a positive management attitude towards cooperation, and cooperation taking place. There is also a negative correlation between a belief that cooperation can result in customers being lost, and cooperative activities. There is slight correlation between cooperative activities and net profit and no correlation between cooperative activities and other profitability or resource utilisation measures.

Conclusions and Recommendations

This research has shown that there is a significant opportunity to improve the efficiency of road transport within New Zealand. Approximately 30% of capacity is not currently being utilised, and as a result unnecessary cost is being incurred, removing value from supply chains and creating unnecessary environmental impacts. Existing research proposes several different strategies for improving efficiency, including cooperative relationships, and identifies benefits resulting from cooperation but also risks, and factors that the cooperating parties must consider when engaging in cooperative relationships. Provided they are carefully set up and managed cooperative relationships can enable smaller companies to achieve the benefits of scale and retain their independence.

This research found that having an existing positive relationship with the other party is a significant factor for transport operators in deciding whether they will cooperate or not. Other factors identified in quantative research as being positively correlated to a transport operator's willingness to cooperate were: a belief that cooperation would improve customer service, having cooperation included in the business plan and a positive management attitude towards cooperation. Concern regarding the risk of losing customers was negatively correlated with cooperation. Horizontally cooperative relationships were found to occur between individual transport operators and between transport operators and freight forwarders, despite some strongly expressed negative attitudes held by transport operators towards freight forwarders. However survey results indicated no significant difference between attitudes towards other transport operators, or freight forwarders in the areas of trust and fair distribution of value. While quantative research indicated that having cooperation included in business planning was positively correlated with cooperative activities occurring there was no evidence of the setting up of formal, integrated, cooperative arrangements. There is little evidence of cooperation extending beyond ringing around known, friendly, transport operators or freight forwarders, in an attempt to subcontract freight requirements. This is a risky practise in terms of exposing customers to competitors, but is seen as part of doing business.

Slight correlation was found between cooperation and net profit but no correlation was found between cooperation and return on investment or utilisation of resources. It is possible that this is because of the ad hoc nature of current cooperative arrangements. Transport operators accept backloads that pay at least some of the return cost. Unfortunately in the current environment other transport companies and freight forwarders often give this work to the lowest bidder in order to maximise their own return. This gets the truck home, but does not add a lot to the bottom line. Other research suggests that benefits can be gained from horizontal cooperation but this does not appear to be being achieved within the New Zealand transport industry.

This research supports some parts of the proposed model relating to beliefs that influence cooperative behaviour, but not that cooperative behaviour will improve profitability. This is consistent with the results of some previous research indicating that horizontal cooperation is risky and not always in an organisation's best interests. An alternative model could be proposed whereby integration and consolidation of transport companies, rather than cooperation, is required to achieve more economic scale and improve profitability. The impact of these changes on profitability could then be tested.

Previous research suggests that benefits can be achieved through horizontal cooperation, provided it is structured and managed in a way that controls the risks it creates. There is no significant evidence, however, that it will be able to deliver the efficiency improvements that are necessary to meet future freight demands, or enable transport companies to operate more profitably. Therefore the transport industry would benefit from further research into how the network of transport organisations can be configured to reduce the waste that is currently occurring. Alternatively market forces and the survival of the fittest, or most able to adapt, will determine the future industry structure. This is likely to be an industry dominated by large organisations with the size and scale necessary to route resources efficiently. Smaller companies without that scale may be unable to compete and either fail or become subcontractors to their larger competitors. This research is constrained by a very small sample size and further research is needed before any firm conclusions can be made. Focusing that research on the outcomes of different organisational structures would help guide the industry to set up arrangements that best suit them individually and as an industry.

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Business Plan for UniCarriers Americas Corporation

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Executive Summary

UniCarriers Americas Corporation (UniCarriers) is the fifth largest truck manufacturer in the United States. The company is looking to further expand its American presence by entering the used truck market. The following business proposal will outline three mediums in which to enter the used truck market: launch a new website, create a Certified Used Truck Program, and acquire additional factory-owned dealerships.

The forklift industry in the United States has grown at an average annual growth rate of 7.0% between 2009 and 2014. This growth is higher than the larger materials handling industry, which has grown at an average annual rate of 1.6% over the same period. The industry is expected to continue to grow over the next five years, showing the potential for success in a new business line. The used truck market in the U.S. is estimated to be $4 billion.

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The target market in used truck sales are owners of smaller, private businesses looking to purchase one to two forklifts at a time. These buyers usually purchase more impulsively than new truck buyers and are more concerned about warranties. Compared to its competition (Toyota, Crown, Mitsubishi Caterpillar, and Hyster-Yale), UniCarriers has no clear competitive advantage.

The first medium suggested to enter the used truck market is to launch a new website. The new UniCarriers website will allow the company to establish stronger relationships between its customers and dealerships and increase the speed of sales. The website will have customized search features, dealer-to-dealer buying capability, and a live chat function. Customer inquiries will have a guaranteed response time of 24 hours, which helps build customer satisfaction.

In addition to launching a new website, it is recommended that UniCarriers develop a Certified Used Truck Program. Following the example of the industry leader, the certification process will include a 100+ point inspection and a factory-backed warranty. This program will drive higher margins and profits to both the dealer and UniCarriers through increased parts sales and higher price points. The certification program will also improve brand value.

UniCarriers entered the used truck market with the purchase of New England Industrial Truck (NEIT) in 2014. It is recommended that the company build on this by acquiring three dealerships per year over the next five years. Factory-owned dealerships allow UniCarriers to control its products, customer interactions, and better plan for the future. Finally, increased sales and margins will have a positive impact on the company's bottom line. Dealership acquisition is the most capital intensive component of the business strategy. Each acquisition will cost approximately $5.0 million. Cash generated from initial acquisitions will help fund future acquisitions, so the estimated total net required investment is $39.2 million over the next five years. It is recommended that the acquisitions are paid for with cash rather than outside financing, saving UniCarriers $6.3 million in interest expense over the next five years.

Dealership acquisitions are expected to increase sales by 80.0% to $799.4 million by fiscal 2019. In addition, the website is expected to generate $3.5 million in average annual incremental sales and the Certified Used Truck Program is expected to generate incremental OEM part sales of $4.9 million. The dealership acquisition strategy is projected to generate a return on investment (ROI) of 16.6% and 137.0% over the next five and ten years, respectively. The website and Certified Used Truck Program are projected to generate an ROI of 893.3% and 256.9%, respectively, over the next five years, exceeding UniCarriers' cost of capital of 15.0%.

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While there are risks to any new business strategy, this strategy is designed to generate positive returns for UniCarriers, increase its relationships with both dealers and customers, and increase its brand presence and value in the United States.

Business Summary

Toyo Carriers Manufacturing Co., Ltd. was founded in 1949. The company produced the first Japanese forklift and looked to capitalize on the rebuilding efforts following World War II. In 1976, the company entered into a joint venture and created TCM America, Inc. and was later renamed TCM Corporation (TCM) in 1999. TCM entered into another joint venture to manufacture wheel loaders with Hitachi Construction Machinery Co., Ltd. Separately, Nissan Forklift Co., Ltd. was founded in 1957 as a subsidiary of Nissan Corporation and began exporting to the United States in 1965. In 1993, Nissan Forklift Corporation, North America was established in the United States. (1)

In 2013, TCM merged with Nissan Forklift Co., Ltd. to become UniCarriers Americas Corporation (UniCarriers). Following this merger, UniCarriers acquired New England Industrial Truck (NEIT) in August 2014, which was the organization’s first corporate-owned dealership. Currently, UniCarriers is the fifth largest truck (forklift) manufacturer in the United States, with approximately 7% of the new truck market share. (18)

Mission Statement and Objectives

UniCarriers is a "Global creator of systems for material flow. Toward true excellence as a company, with a spirit of innovation and challenge". The company's objectives are to maximize return on investment, balance aggressive growth with operational efficiency and cost of capital, develop a marketing strategy that includes a specific social media model and accomplishes an aggressive growth strategy that maximizes the return to shareholders. (1)

Industry and Market Analysis

Industry Analysis

UniCarriers operates in the material handling industry. According to IBISWorld, this industry "distributes material handling equipment, usually on a wholesale basis. Products include conveying equipment, hoists, cranes, forklifts, and industrial trucks and tractors. Some of the larger firms are vertically integrated, from production through distribution."

Within the material handling equipment distributors industry, UniCarriers is a part of the forklift manufacturing industry. According to IBISWorld, this industry "primarily manufactures forklifts, which are also known as industrial trucks. Forklifts include truck-type and hand-type pallet movers, skid jacks, and portable stackers. Forklifts can load material and transport it over short distances and are used heavily in the construction, manufacturing, and freight logistics sectors. This industry's operations also include the manufacture and sale of parts and attachments for forklifts."

Although the material handling equipment distributors industry is highly fragmented, it has become more consolidated over the last five years. According to the annual Business Trends Survey by the Industrial Truck Association, 68% of those surveyed expect the number of forklift dealers in North America to decrease over the next three years. The material handling equipment industry is estimated to be $22 billion in size, employs 59,487 people, and consists of 2,523 businesses. It has grown at an average annual rate of 1.6% between 2009 and 2014. The materials handling industry consists of firms that provide some of the products within the industry category, but very few provide all industry-related products. Therefore, the market is open to new entrants, especially in niche areas. Overall, the industry has a low concentration where the largest three firms generate less than 10% of industry revenue. Industry demand is dependent on "industrial production (i.e. capacity utilization), the age of existing machinery, and business confidence." (13)

Within the material handling industry, UniCarriers operates within the forklift manufacturing industry. This industry is estimated to be $12 billion in size, employing 22,807 people, and consisting of 328 businesses. The $12 billion in size represents revenue in 2013 for the United States only. This segment of the

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materials handling industry has experienced a much higher growth rate than the overall industry—7.0% average annual growth between 2009 and 2014. According to IBISWorld, the industry "relies on demand from the construction, manufacturing, and freight-handling industries." Due to the forklift industry's reliance on these other industries, it suffered during the recent economic recession. However, the industry has been growing since the recession and is expected to continue to grow over the next five years. Falling material costs and increased automation in the industry is leading to higher profit margins. These higher profit margins make the industry attractive to new entrants, but there are some barriers to entry in the form of government regulations, licensing requirements, and market maturity. In this mature industry, existing companies are well-known and possess strong distribution networks. Although the concentration level of the industry is medium, the competition between companies is high, which limits the chances of success for a new entrant. (13)

While it is difficult to quantify the used forklift market on its own, the size of the market can be inferred. It is estimated that for every two new trucks sold in the industry, one used truck is sold. (12) Based on this data, the size of the used truck industry would be approximately one-third of the overall forklift industry, or $4 billion.

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Target Market

UniCarriers currently operates in the new forklift segment of the material handling industry. With the recent acquisition of NEIT, UniCarriers has now entered into the used forklift sales segment in the United States. This segment of the industry has a different customer base than the new truck market, which generally sells to fleet customers or larger corporations.

In the used market, the customer is typically a smaller private business purchasing one to two trucks, typically without financing. Market research indicates that these are usually impulse buys in which price is not the top priority, as consumers are more focused on other factors such as the truck warranty and reliability. Due to the nature of the impulse purchase, sales are generally completed quickly, so inquiries need to be followed up immediately.

At times, customers purchase used trucks around the calendar year-end to take advantage of potential tax benefits. In addition, there is an increase in the number of used forklift sales around the start of corporate fiscal years, when new budgets are allocated. While many organizations typically purchase forklifts with cash, less financially secure companies may require financing. Select customers may elect to include a warranty on their used forklift purchase to minimize the cost of ownership and protect against the cost of repairs in the future. (12)

Competitor Analysis

Toyota Material Handling, U.S.A., Inc.

Toyota Material Handling, U.S.A., Inc. (Toyota) was established in Columbus, Indiana, in 1969. Over the past 45 years, Toyota has established itself on the principles of high-quality, reliability, and durability. Toyota designs, manufacturers, and distributes forklifts through an industry-leading dealer network. Currently, Toyota has 73 authorized dealers within the United States that operate out of 224 locations, of which 12 are company-owned. One of Toyota's greatest strengths is its dealer network, which provides a wide variety of products and services, including Toyota Genuine Parts, financing options through Toyota Financial Services, and Toyota Certified Used Equipment. (2)

Another key strength of Toyota's business model is their Certified Used Forklift program. The program revolves around trucks undergoing a rigorous 103-point inspection process before receiving certification. The certification process is completed by certified technicians at any one of Toyota's dealers. A Certified Used Forklift also comes with a 1-year/2,000-hour limited warranty to ensure the customers of a high quality product. (3)

Crown Equipment Corporation

Crown Equipment Corporation (Crown) established itself as a material handling company in 1956. Crown designs, manufactures, distributes, services, and supports material handling products. The company has prided itself on exceptional product design, and unique vertical integration approach to provide customers with superior value and the most efficient lift trucks possible. Currently, the organization has over 500 retail locations in 84 countries, including 172 in the United States. The company currently owns 57 retail locations in the United States which represents 33% of its total dealer network in the country. (4)

While the company is focused on being a complete material handling equipment solution for its customers, a major part of the Crown business model revolves around used lift trucks. Offering fully re-manufactured lift trucks, selling under the name of Encore, Crown has capitalized on a previously untapped market. Encore lift trucks are fully re-manufactured and guaranteed by an industry leading warranty. (5)

Mitsubishi Caterpillar Forklift America Inc.

In 1992, Mitsubishi Heavy Industries, Ltd. and Caterpillar Industrial Inc. formed a joint venture to create Mitsubishi Caterpillar Forklift America Inc. (MCFA). Jungheinrich Forklifts was added to the partnership in 2010. Headquartered in Houston, Texas, MCFA is a manufacturer and distributor of forklifts in the United States, Canada, Mexico, and Latin America. Currently, the company has a sales network of 178 forklift dealers (six company-owned stores) and the capacity to build over 25,000 units per year. MCFA provides fleet management services and currently has over 250 national accounts. The Mitsubishi Heavy Industries, Ltd.

and Caterpillar Industrial Inc. brand is composed of the Cat Lift Trucks, Mitsubishi Forklift Trucks, and Jungheinrich. (6)

Hyster-Yale Materials Handling

Since its inception in the 1840's, Yale Lock Shop has combined with numerous companies to form Hyster-Yale Materials Handling. The company is currently publicly traded as an independent subsidiary of NACCO Materials Handling Group. In 1919, the company developed the industry's first battery-powered low-lift platform trucks. Over the years the company developed numerous products for the material handling industry. The company provides lift trucks with capacity ranging from 1.5 to 52 tons. Today, Hyster-Yale Materials Handling is composed of the Hyster, Yale, and UTILEV brands. Aftermarket parts sales represented approximately 13% of the company's revenue in 2013. (7)

Additional Channels

In addition to the manufacturers' dealerships mentioned above, there are various other channels in which a customer can acquire a used truck. One of the other key competitors in the used forklift market is non-branded dealerships. These dealerships are typically smaller in size and service local markets, selling and servicing used trucks. An emerging channel in used truck acquisition is online platforms in which a customer can purchase forklifts remotely, ranging from online auctions to web-listing platforms.

Competitive Advantage

UniCarriers does not currently possess a distinct competitive advantage in the market. The company lags behind key competitors in the areas outlined in this business plan; web presence, corporate-owned dealerships, and used truck certification. As designed, this strategy will provide a roadmap for UniCarriers to be more competitive. The basis of the strategy is to gain traction in the marketplace over the next five years and if implemented successfully, the company will be better positioned to succeed in the future.

Marketing Plan

Since UniCarriers has already entered the used forklift market through the recent acquisition of NEIT, it is recommended to expand its presence in this segment. In order to do so, UniCarriers should initiate a Certified Used Truck Program with a factory-backed warranty in order to meet the needs of the target market outlined above. This strategy would expand the product offering available to consumers, further improving the organization's position in the market. In addition to the expanded product offering, it is the recommendation of the group to acquire more dealerships to improve the customer experience and allow UniCarriers to gain customer insight. This strategy would also allow the company to increase revenue in all of its five profit centers (New, Rental, Used, Service, and Parts).

Product and Service Strategy

There are numerous ways in which UniCarriers could enter the used truck market. Under the plan outlined throughout this paper, UniCarriers would utilize off-lease forklifts as a source of inventory, introduce an improved consumer website to locate and source used forklifts, implement a Certified Used Truck Program, and acquire additional dealerships. This strategy will provide both a service and product to the dealer network, as well as the end consumer, and act as a long-term strategy for the organization. By offering certified and non-certified used forklifts to all consumers, UniCarriers will increase its overall market share in the forklift industry. Currently, UniCarriers does not offer these products or services in the marketplace.

Given the assumption that UniCarriers will enter into the leasing market at the recommendation of the NIU One-Year MBA class, there will be a need for the company to dispose of units at the termination point of the lease. Upon completion of the lease, the customer would have the option to purchase the used truck directly from UniCarriers. If the customer ultimately decides not to purchase the forklift, the customer would be able to return the truck to the dealership. At this point, UniCarriers will need a medium in which to dispose of these returned forklifts. In order to carry out this action, enhancements to the current UniCarriers dealer website are proposed. Once the customer has opted not to purchase the used truck, it is recommended to make the off-lease, used forklifts available to the dealer network for purchase via an online portal or website. The truck will be available for a short period of time only to the dealer in which the customer turned in the truck. If no decision is made by the dealer during that timeframe, the forklift would then be available through the website for all dealers in the country to purchase. If for some reason UniCarriers cannot dispose of the forklift through this medium, the organization can then do one of two things: send the truck to a UniCarriers-owned dealership for sale or keep the unit on the website until it sells. In order to secure dealer engagement in the process, the returned trucks would be priced very competitively and at market value. Each dealer would also be assigned a purchase objective on a quarterly basis, with monetary incentives if the objective is achieved.

The next portion of the business plan is focused on the Certified Used Truck Program discussed previously. The certification program would involve an inspection process similar to Toyota's 103-point inspection and would make UniCarriers more competitive in the marketplace. Repairs would be required for any truck that did not meet the inspection standards, utilizing UniCarriers branded parts. This would drive higher margins and profits to both the dealer and UniCarriers. Dealers would be able to command a higher price for the certified trucks and UniCarriers would see an increase in the number of original equipment manufacturer (OEM) parts sales. The process would be handled at the dealership level and proof of certification would be submitted to UniCarriers. Once completed, the forklift could be sold as a UniCarriers Certified Pre-owned Forklift, with a Certified Pre-owned Warranty comparable to that of the company's competitors. The certification program would align UniCarriers with the competition already in the market with both certified used forklifts and warranties. The program would also improve the brand value in the long-term due to higher perceived value and quality of UniCarriers' used trucks.

The last portion of the strategy calls for UniCarriers to acquire three dealerships each year over the next five years. Currently, UniCarriers drastically lags behind the competition with only one factory-owned dealership, which was acquired on August 1, 2014 for $7.7 million. (10) Several of UniCarriers' key competitors own numerous dealerships, which allows complete control over customer interactions and life cycle. Dealership acquisition would not only enable UniCarriers to control the customer interactions, but it would also enable the organization to collect customer and market information to better meet customer needs in the future. While this long-term plan is capital intensive at approximately $5.0 million per dealership (based on UniCarriers' previous acquisition of NEIT, which is located in a major market), it would provide significant returns to the company as outlined in the Financial Plan. Our strategy focuses primarily on acquiring dealerships with owners that are looking to exit the business and are having a difficult time finding a buyer. As discussed with UniCarriers representatives, there are numerous dealers that are looking to sell. Also, since UniCarriers' recent acquisition of NEIT is located on the east coast, it is recommended that future acquisitions are spread throughout other geographic locations in the United States.

Pricing

According to *The Forklift Center*, brand new forklifts are priced between $15,000 and $30,000, without including the battery and charger (if applicable), which are priced between $2,000 and $5,000. In contrast, used trucks that have been refurbished are priced between $5,000 and $15,000, depending on the type of engine. This leads to the conclusion that used trucks are priced at 30% to 50% less than the price of new trucks. (17)

An August 2014 article published in *Modern Materials Handling* explains that the concept of "total cost of ownership" is becoming more and more important to truck buyers. (16) Total cost of ownership not only includes the initial cost of a truck, but also the cost of maintenance over its life (parts and service) and the cost of the staff that operates it. This concept has caused potential truck buyers to alter buying habits in order to lower the total cost of ownership versus just the initial purchase price. The Industrial Truck Association indicates that the average life of a truck in the market is seven to ten years. As such, most truck owners in the past have planned to keep trucks for about seven years. However, research is showing that keeping a truck for only five years may prove to have a lower total cost of ownership. (15)

It is recommended that UniCarriers structure its pricing to align with the industry. Used trucks will be priced 30% to 50% below their new truck counterparts. It is recommended that certified used trucks are priced at the higher end of the range, while non-certified used trucks fall toward to lower end of the spectrum. This pricing strategy will keep UniCarriers in line with its competitors, so the company can focus on implementing cost efficiencies to maintain an acceptable margin. Given the assumption that UniCarriers will enter the leasing market, it is also recommended that UniCarriers consider structuring leases using a pay-by-hour program. The Modern Materials Handling article recommends this structure so operators only pay for the hours used. A cap is set, and operators can choose to use the truck over or under the cap which results in savings or additional costs. This is an attractive structure for potential buyers. Lastly, Jill Comer, Vice President for the east region of Yale Materials Handling, recommends that "Dealers should notify customers at least six months in advance that a lift truck will be coming off a lease." Notifying customers early that trucks are coming off of lease will help UniCarriers plan ahead for a future used truck sale, whether to the same customer or otherwise. (15)

Promotion and Sales Strategy

NEIT is currently UniCarriers' only conduit for directly selling used trucks to consumers. The company acquired as a strategy in "strengthening the distribution network and diversifying into direct sales through business acquisitions," said

Satoru Omori, president and CEO, UniCarriers. He continued by saying, "direct sales networks allow us to communicate more closely with our customers, and enable us to develop our products with the demands of the market in mind." (9) To achieve desired growth while gaining customer insight, UniCarriers should implement a strategy to continue the acquisition of dealers as a conduit to directly reach customers through repair service and the sale or lease of new and used lift trucks.

UniCarriers should initiate a web platform to provide a conduit to communicate closely with customers, showcasing the various products and services offered by UniCarriers and its partner dealer network. Customers would then have a single access point to view and purchase trucks available across the entire UniCarriers dealer network. In addition, the company should begin to strategically partner with dealerships while providing incentives and the ability to become an authorized UniCarriers Certified dealer. Technicians at UniCarriers Certified dealers would inspect and certify used lift trucks.

Social Media

Currently, UniCarriers utilizes four social media platforms: Facebook, Instagram, YouTube, and Twitter. Even though these platforms are being utilized, they are not being leveraged to their fullest potential. The largest following and account usage is on Twitter, where UniCarriers has 764 tweets and 1,196 followers, as of

November 10, 2014. On the other platforms, UniCarriers had 89 likes on its Facebook page, 17 followers on Instagram, and 108 subscribers on YouTube. These statistics are extremely low in comparison to CAT, an industry leader in social media. CAT has approximately 59,000 followers on Twitter, 31,000 subscribers on YouTube, 380,000 likes on Facebook, but does not currently have an Instagram account. A recent survey from the Industrial Truck Association, as shown in Appendix A, indicates the industry leans towards Facebook and YouTube to reach its customers. (14)

One of the main benefits of social media is that it provides a free marketing channel to directly communicate with customers. UniCarriers should work to increase its presence across each of these social media platforms when launching their used truck business. This will allow the company to post photos of recently acquired trucks, which would directly reach potential customers. In addition to the truck photos, the used truck specifications should be detailed below each picture. This would provide the potential customer with immediate information and potentially lead to a call or e-mail inquiring about the truck.

E-Commerce

In launching its used truck business, UniCarriers will need to refresh its website to improve the user experience for potential used truck buyers. The used truck business should generate more traffic on UniCarriers website, as the new website

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would provide the potential customer with the ability to access all UniCarriers certified and non-certified used trucks for sale by dealer. Customers would be able to enter the website, select a dealer near their area to view the available trucks or search for a specific truck across all of the used truck dealers. Upon selecting a truck, the customer would be prompted to fill out an inquiry form which would be routed to the dealer holding the truck. A response from the dealer would be guaranteed within 24 hours. This timing is critical to avoid losing business, as customers looking for used trucks tend to make impulse decisions.

UniCarriers new website should function as a two part system, which would include a section for customer interaction as outlined above and a section for dealer interaction. Dealers looking to increase their inventory would be able to browse UniCarriers inventory of used trucks that would not be placed at a corporate-owned dealership. The dealers would be able to select the desired trucks and have them delivered directly to their location. As discussed previously, trucks coming off of lease would be listed on the website as available for sale to the dealers.

Communications

Advertising used trucks available for sale by the dealerships would consist of digital marketing and traditional marketing. Customers would be able to view trucks available for sale on the UniCarriers website. Social media platforms such as Facebook, Twitter, and YouTube would be used to direct the customer to the

UniCarriers website. As an example of this future vision, potential customers on Facebook could see a picture of a used truck that sparks their interest. A link near the picture of the used truck would direct the potential customer to the UniCarriers website, so he or she could contact the dealer. In the case of a UniCarriers certified used truck, there would also be a link to YouTube where the customer could view a video demonstrating the inspection process for each certified used truck. This would help assure the potential customer of the truck's reliability.

UniCarriers should also focus its advertising on spreading the word of the company's used truck business across other digital platforms. E-mail bursts to current customers should be used once a month and potentially more frequently around the key buying times of the year such as tax season. Other methods of advertising should include paid advertisement based on certain search criteria. If for example a customer searches for the term "used forklift", UniCarriers needs to be one of the first companies to show up in the paid advertisement area.

UniCarriers can also market its new strategy using traditional advertising. The Certified Used Truck Program and the new website can be communicated through print ads in industry magazines and at trade shows. It is not recommended to use television or billboard traditional advertising mediums.

Management Plan

In the next five years, UniCarriers should continue to acquire three dealerships each year. The company should utilize the same team that successfully acquired the New England Industrial Truck dealership. Utilizing the same team will allow the company to leverage the knowledge and lessons learned from the previous acquisition. As UniCarriers acquires additional dealerships, the team will become more efficient at analyzing and vetting potential opportunities.

UniCarriers should also create a cross-functional team to implement the strategy of partnering with existing dealerships. The group would be led by James J. Radous III, Executive Vice President of Sales-Americas, who would lead the strategic implementation across the dealer network. This would ensure consistent sales and marketing strategies throughout the dealer network. Dan Domberg, Vice President-Aftermarket Customer Satisfaction, would also lead the implementation. Domberg is currently focused on establishing a cohesive and reliable customer service process. Additionally, his responsibilities include parts sales, technical support, training, and overall customer satisfaction, which will be critical to the success of the program. (8) Their executive biographies are shown in Appendix B.

The website would be hosted and managed by a company such as Dealer E Process, which provides custom built web hosting for dealerships. A mock redesigned page was built by the company for NEIT and is displayed in Appendix A. Additionally, the company provides manufacturer complaint websites, automated specials or rebates, and chat features along with a variety of tracking tools, all available via their web hosting service. Utilizing a third party provider will allow UniCarriers to focus on its core competency of manufacturing and selling lift trucks. Additionally, this would minimize the initial capital expenditure of acquiring the server equipment needed to host the website and an individual to manage the web presence.

Operations Plan

Strategy

UniCarriers' used truck business should focus on quality and reliability. The company should strive to be the industry leader in used truck sales and become a household name for top quality with a Certified Used Truck Program. This would be accomplished by implementing and executing a rigorous inspection process on each truck before it reaches the customer. The inspection process must be a standard process across all UniCarriers Certified Used Truck dealers, similar to Toyota's 103-point inspection process.

Flexibility and timeliness would be the next key differentiator for UniCarriers. Not only would the company offer certified used trucks, but it would also offer non-certified used trucks for customers with more limited budgets and for dealers who choose not to certify their trucks. These non-certified used truck customers need a forklift, but are not willing to pay for the quality and reliability offered by a

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certified truck. The next differentiator for UniCarriers would be timeliness, with a company guaranteed response within 24 hours after receipt of a customer inquiry through UniCarriers' website. The responses would generally come from the dealers who currently carry the truck desired by the customer. UniCarriers should emphasize the importance of timeliness, as the lack thereof could result in lost sales.

Development Plan

Based on our assumptions and discussions with the NIU One-Year MBA groups focused on the leasing side of the business, the assumption is that UniCarriers will enter the leased truck business. In doing so, UniCarriers should create a web-based portal where potential customers can view the company's truck inventory which would primarily consist of trucks returned off of lease. The website will serve as a centralized location for customers to view models and types of used truck fleets in stock for purchase. In addition, UniCarriers should utilize a live chat service through the web portal, which will provide a mechanism for full customer service and enable customers to receive real time answers to their inquiries and have access to a sales representative available to create appointments and to close deals on purchases.

UniCarriers will primarily continue to grow its market share through dealership acquisitions. In doing so, the company will vertically integrate, take on new retail customers and continue to build brand recognition. This will also provide UniCarriers with the ability to own the entire customer relationship. It is recommended that the company space out its dealership acquisitions over the next five years as discussed previously.

In addition, the company can also leverage its brand by developing a Certified Used Truck Program. This type of strategy is prevalent in the used automobile market and could be imitated with similar success. The Certified Used Truck Program would also allow UniCarriers customers to take advantage of a truck warranty to protect against the risk of significant repair expenses. This program would be maintenanced by UniCarriers trained and certified mechanics who will administer a 100+ point inspection. The company can gain a competitive advantage by implementing this program, which will allow it to command a higher price for its used trucks. This Certified Used Truck Program will increase customer satisfaction and loyalty. It is expected that the website and Certified Used Truck Program will be developed in fiscal 2015 and rolled out in fiscal 2016.

Scope and Ongoing Operations

As suggested in the Marketing Plan, there are three major portions of the strategy: a dealership acquisition strategy, a dealer and customer facing website and a Certified Used Truck Program. When assessing each of the major components of the plan and ways in which to most efficiently and effectively implement the

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strategy, perhaps the most important question is whether to manage the tasks in-house or to outsource. After reviewing UniCarriers' current website, it is recommended that the company outsource the development and hosting of the project to a third party. However, it is recommended that UniCarriers creates a Dealer Liaison role to encourage dealers in the network to use the new website.

The next portion of the strategy is to assess the Certified Used Truck Program. This process should also be managed internally. While there are vendors and various organizations that will offer a certification program, the intention of the Certified Used Truck Program is to be a UniCarriers branded certification process. By managing the certification process internally, the company could offer a factory-backed warranty on the certified forklifts. This would make UniCarriers competitive with Toyota and Crown, who already offer certified used forklifts with warranties. The forklift certification verification can easily be managed through one of the company's various website portals connected with the dealer network and would require UniCarriers resources to manage the process.

The last portion of the strategy is to acquire dealerships in order to increase customer touch points and better manage the customer relationship from start to finish. The dealership acquisition process cannot be carried out by an outside vendor, as UniCarriers would be purchasing the dealerships. While portions of this process, such as legal services, could be outsourced, the majority of the process would be managed in-house. This portion of the strategy should not require additional internal resources as this strategy will be spread over the next five years

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and the company has already acquired one dealership. This part of the strategy would be capital intensive and discussed in more detail in the Financial Plan.

Financial Plan

UniCarriers will seek to grow its position in the used truck market by acquiring fifteen forklift dealerships, or three each year, from fiscal 2015 through fiscal 2019. Network dealerships where the respective owners are looking to exit the business will be targeted. UniCarriers currently owns one dealership, NEIT, which resides on the east coast, so future acquisitions will be pursued in other geographical areas of the United States.

While dealership acquisitions are the quickest way to grow the company's used truck business, this strategy is also the most capital intensive. Each acquisition will cost approximately $5.0 million, with fifteen dealerships costing approximately $75.0 million over the next five years. However, the total net required investment is reduced to $39.2 million under the assumption that the $35.8 million of projected net cash flow from the dealerships acquired between fiscal 2015 and fiscal 2019 is reinvested in future acquisitions. The total net required investment by year is as follows: $13.8 million for fiscal 2015, $11.7 million for fiscal 2016, $8.9 million for fiscal 2017, $4.8 million for fiscal 2018 and zero for fiscal 2019. (Appendix I)

Unless UniCarriers elects to invest large sums of cash on other initiatives over the next five years, this proposal calls for the acquisition of each dealership with cash. The total projected cash provided by operating activities over each of the next five years is projected to cover each of the following year's acquisitions while saving approximately $6.3 million in interest expense, based on borrowing the total net required investment of $39.2 million from a bank over five years at 6.0% interest. In addition to acquiring dealerships, UniCarriers will look to drive incremental truck and OEM parts sales by initiating two additional strategic initiatives: the enhancement of the company's website and the implementation of a new Certified Used Truck Program. The one-time upfront investment associated with each of these two initiatives during fiscal 2015 is relatively low at approximately $0.2 million and $0.5 million, respectively.

The pro forma financial statements for fiscal 2015 through fiscal 2019, as shown in Appendices C, D, and E, have been generated to understand the financial impact and support the logic for these three investments. The projected financial statements are prepared based on the assumptions detailed in Appendix G, which assumes the completion of the dealership acquisition strategy, the enhancement of UniCarriers' website and the implementation of the new Certified Used Truck Program over the next five years.

UniCarriers is projected to generate sales of $799.4 million and net income of $39.4 million by fiscal 2019, representing an 80.0% increase from the projected sales of $444.2 million for fiscal 2015 and a 106.3% increase from the projected net income of $19.1 million for fiscal 2015. The key financial indicators including projected sales, gross profit, net income, cash flow and company valuation that support these investments are discussed in the following sections.

Sales and Gross Profit Growth

The highly fragmented used truck market, UniCarriers' desire to forward integrate to directly reach the end consumer, the higher price point at retail vs. wholesale, and the expected material handling industry growth rate of 7.0% (13) makes this an attractive investment opportunity. Each dealership acquisition is projected to deliver average annual sales of approximately $15.0 million, which amounts to annual sales of approximately $225.0 million upon completion of the dealership acquisition strategy in fiscal 2019, bolstering UniCarriers' share of the used truck market.

In addition to the sales growth provided by the dealership acquisitions, the website enhancement will improve UniCarriers' web presence and the customer experience. The website is projected to deliver average annual incremental sales of approximately $3.5 million. The new Certified Used Truck Program, which is designed to ensure the reliability of UniCarriers trucks, maintain truck value, and drive higher retail pricing, is expected to deliver average annual incremental OEM parts sales of approximately $4.9 million. The expected sales and gross profit growth over the next five years, assuming the completion of these initiatives, is shown below.

$ in Thousands

	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019
Retail Sales	$ 49,532	$ 94,899	$ 147,623	$ 205,986	$ 274,293
Retail Gross Profit	17,421	32,232	48,433	65,541	84,209
Retail Gross Profit %	35.2%	34.0%	32.8%	31.8%	30.7%

	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019
Wholesale Sales	$ 394,664	$ 428,633	$ 458,638	$ 490,742	$ 525,094
Wholesale Gross Profit	55,500	59,925	64,120	68,608	73,410
Wholesale Gross Profit %	14.1%	14.0%	14.0%	14.0%	14.0%

As displayed above, retail sales are expected to increase at a much higher rate than wholesale sales, primarily due to the dealership acquisitions. The average retail gross profit rate of 32.9% over the next five years more than doubles the wholesale gross profit rate of 14.0%, explaining the projected increase in UniCarriers' consolidated gross profit rate from 16.4% for fiscal 2015 to 19.7% for fiscal 2019. Retail gross profit dollars are expected to exceed wholesale by fiscal 2019, which would represent a significant shift in UniCarriers' business model.

Net Income and Cash Flow

Although the dealership acquisition strategy requires a total net investment of $39.2 million to acquire fifteen dealerships in total, or three dealerships each year, from fiscal 2015 through fiscal 2019, the 16.6% estimated return on investment (ROI) over the next five years based on bottom line net income exceeds UniCarriers' weighted average cost of capital of 15.0%. In addition, the ROI on this long-term investment strategy is projected to increase to 137.0% by fiscal 2024 based on bottom line net income. As such, this investment is expected to add significant shareholder value to the company. The detailed ROI calculations, along with a breakdown of the projected ROI for each of the next ten years are shown in Appendix H.

The website enhancement initiative requires an upfront investment of $0.2 million, is projected to pay back in one year and deliver an ROI of 893.3% over the next five years based on bottom line net income. The Certified Used Truck Program will require an upfront investment of $0.5 million, is projected to pay back in three years and deliver an ROI of 256.9% over the next five years based on bottom line net income. The ROI calculations including a breakdown of the projected ROI for each of the next five years are shown in Appendix H. Based on this analysis, each of these two initiatives is expected to create significant shareholder value.

The table below shows UniCarriers' projected consolidated net income, cash provided by operating activities, and cash used for investing activities over the next five years.

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$ in Thousands

	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019
Net Income	$ 19,125	$ 23,405	$ 27,797	$ 33,126	$ 39,377
% Increase		22.4%	18.8%	19.2%	18.9%
Cash Provided by Operating Activities	18,466	22,206	26,954	31,949	37,728
Cash Used for Investing Activities	(15,000)	(15,000)	(15,000)	(15,000)	(15,000)

As displayed above, consolidated net income and cash provided by operating activities is projected to double by fiscal 2019, with the expected annual increase in net income expected to closely follow the projected annual increase in cash provided by operating activities. In addition, the cash provided by operating activities in each year is projected to significantly exceed the following year's proposed $15.0 million total investment in three dealerships.

Company Valuation

Based primarily on the fifteen dealership acquisitions over the next five years and the projected consolidated financial statements for fiscal 2015 through fiscal 2019, the value of the UniCarriers business is estimated to increase by $159.6 million, or 101.3%, from $157.5 million at the end of fiscal 2015 to $317.1 million at the end of fiscal 2019. This calculation is shown in Appendix F and further supports the dealership acquisition strategy over the next five years.

Risks and Contingency Plan

Inherently, every new venture comes with risk. The risks must be outlined in the initial plan to ensure that an educated decision can be made to determine whether to invest in the proposed plan. The key risks of this business plan are as follows:

- UniCarriers may not be able to identify satisfactory dealerships to acquire within the timeline outlined in this plan.
- If financial projections are not met, the company may not generate enough cash from operating activities to complete this dealership acquisition plan.
- If the initial dealership acquisitions do not meet the financial projections, the company may not possess the necessary capital to complete the acquisition plan.
- The dealerships acquired by UniCarriers may sell other forklift brands and the associated manufacturers may decide to pull their business if UniCarriers purchases the dealership.
- Non-corporate owned dealerships may not see the benefit of the Certified Used Truck Program or the benefit of using the enhanced website. This would result in lower website traffic, which would potentially reduce truck and parts sales.

The upfront investment associated with the website enhancement and implementing the Certified Used Truck Program is relatively low, so the primary risk relates to the dealership acquisition strategy. If UniCarriers is unable to meet the financial projections outlined in this plan, the dealership acquisition strategy may need to be delayed based on the cash flow available for investment.

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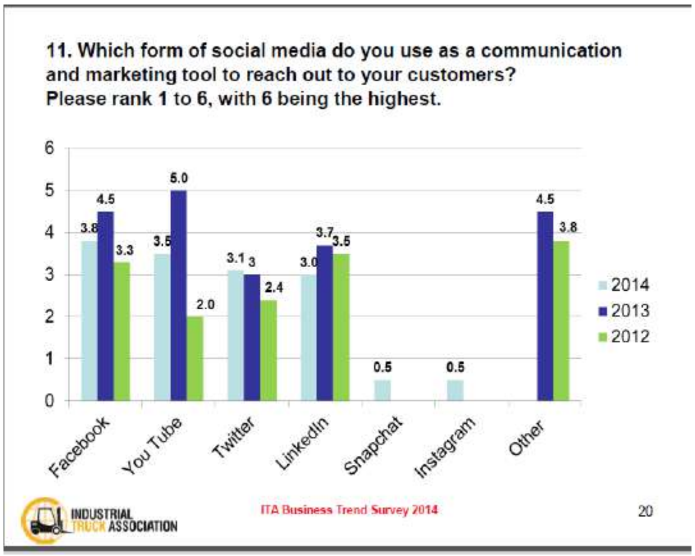
Appendix A – ITA Business Trend Survey & Website Redesign



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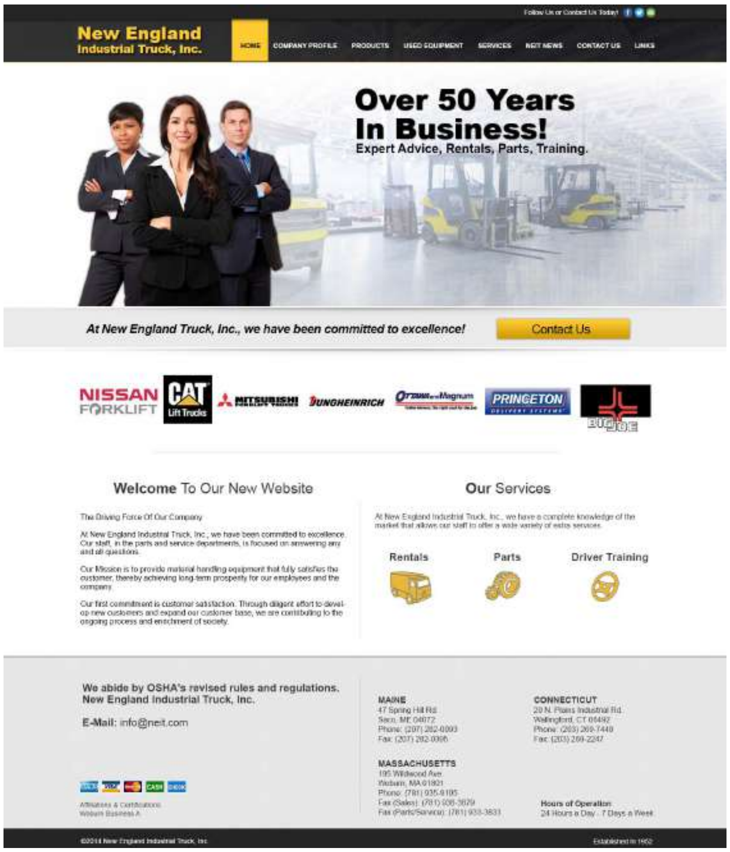

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Appendix B – Executive Biographies

James J. Radous III

Executive Vice President, Sales - Americas

Appointed executive vice president of sales, Americas, by the UniCarriers Americas board of directors in October 2013, James J. Radous III has been with UniCarriers Americas since 2009 where he served as vice president, sales and marketing. Radous has played a critical role in the growth of UniCarriers Americas through the increasing of sales and profitability.

Prior to joining UniCarriers Americas, Radous gained global marketing and sales managerial experience from several positions including vice president, sales at Knaack LLC, a division of Emerson; vice president of global marketing at Klein Tools; director, sales and marketing at Wen Products; and sales and marketing manager at The Chamberlain Group.

Radous has a B.A. degree in Communications from Northern Illinois University and his MBA in Marketing from Roosevelt University. He and his wife Donna have two grown children; Kyle and Austin.

Dan Domberg

Vice President, Aftermarket Customer Satisfaction

Appointed vice president of aftermarket customer satisfaction by the UniCarriers Americas board of directors in October 2013, Dan Domberg has been with UniCarriers Americas since 2006 with progressively increasing responsibilities, and previously served as director of customer quality and satisfaction. Domberg is focused on establishing cohesive and reliable customer service processes and his responsibilities include parts sales, technical support, training, fleet service management, inside sales, customer quality, warranty and overall customer satisfaction.

Prior to joining UniCarriers Americas, Domberg spent 13 years working in the aerospace industry, most recently serving as general manager of customer service for a multibillion-dollar company.

Domberg received his Bachelors Degree in Engineering from Northern Illinois University and his Masters of Science in Management from Cardinal Stritch University. He's been married to his wife Julie since 1996 and has 3 children, Zachary, Lucas and Sophia. He is also a Six-Sigma black belt in continuous improvement

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Appendix C – Pro Forma Balance Sheets

UNICARRIERS AMERCAS CORPORATION
PROJECTED BALANCE SHEETS

$ in Thousands

	MARCH 31,				
	2016	2017	2018	2019	2020
ASSETS					
CURRENT ASSETS					
CASH AND CASH EQUIVALENTS	$ 44,172	$ 51,378	$ 63,332	$ 80,282	$ 103,009
ACCOUNTS RECEIVABLE	23,970	27,347	30,807	34,721	39,092
NOTES RECEIVABLE	55,063	55,063	55,063	55,063	55,063
INVENTORY	54,146	62,850	71,740	81,858	93,330
OTHER CURRENT ASSETS	4,185	4,185	4,185	4,185	4,185
TOTAL CURRENT ASSETS	181,537	200,823	225,127	256,108	294,678
PROPERTY, PLANT AND EQUIPMENT, NET	25,041	28,554	31,603	34,248	36,543
GOODWILL	12,120	19,620	27,120	34,620	42,120
OTHER ASSETS	7,270	7,270	7,270	7,270	7,270
TOTAL ASSETS	**$ 225,968**	**$ 256,267**	**$ 291,120**	**$ 332,246**	**$ 380,611**
CURRENT LIABILITIES					
ACCOUNTS PAYABLE	$ 30,855	$ 33,596	$ 36,397	$ 39,584	$ 43,198
ACCRUED EXPENSES	23,540	27,692	31,947	36,760	42,135
TOTAL CURRENT LIABILITIES	54,394	61,288	68,344	76,344	85,332
OTHER NON-CURRENT LIABILITIES	4,838	4,838	4,838	4,838	4,838
TOTAL LIABILITIES	59,232	66,126	73,182	81,182	90,170
STOCKHOLDERS' EQUITY					
COMMON STOCK	30,474	30,474	30,474	30,474	30,474
PREFERRED STOCK	19,500	19,500	19,500	19,500	19,500
RETAINED EARNINGS (DEFICIT)	116,762	140,167	167,964	201,090	240,467
TOTAL STOCKHOLDERS' EQUITY	166,736	190,141	217,938	251,064	290,441
TOTAL LIABILITIES AND STOCKHOLDERS EQUITY	**$ 225,968**	**$ 256,267**	**$ 291,120**	**$ 332,246**	**$ 380,611**

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Appendix D – Pro Forma Statements of Income and Retained Earnings

UNICARRIERS AMERCAS CORPORATION
PROJECTED STATEMENTS OF INCOME AND RETAINED EARNINGS

$ in Thousands

	MARCH 31,				
	2016	**2017**	**2018**	**2019**	**2020**
SALES					
WHOLESALE	$ 394,664	$ 428,633	$ 458,638	$ 490,742	$ 525,094
RETAIL	49,532	94,899	147,623	205,986	274,293
TOTAL SALES	444,196	523,533	606,261	696,729	799,388
COST OF SALES	(371,276)	(431,376)	(493,708)	(562,579)	(641,768)
GROSS PROFIT	72,921	92,157	112,553	134,149	157,620
	16.4%	17.6%	18.6%	19.3%	19.7%
GENERAL AND ADMINISTRATIVE EXPENSES	(31,024)	(39,745)	(49,305)	(58,766)	(68,602)
SELLING EXPENSES	(13,840)	(17,885)	(22,157)	(26,384)	(30,801)
	(44,864)	(57,630)	(71,462)	(85,150)	(99,403)
OPERATING INCOME (LOSS)	28,057	34,527	41,091	48,999	58,217
OTHER INCOME (EXPENSE)					
INTEREST INCOME	824	939	1,132	1,422	1,820
MISCELLANEOUS INCOME	542	542	542	542	542
	1,366	1,481	1,674	1,964	2,362
INCOME (LOSS) BEFORE TAXES ON INCOME	29,423	36,008	42,764	50,963	60,579
TAXES ON INCOME (35%)	(10,298)	(12,603)	(14,968)	(17,837)	(21,203)
NET INCOME (LOSS)	19,125	23,405	27,797	33,126	39,377
	4.3%	4.5%	4.6%	4.8%	4.9%
RETAINED EARNINGS (DEFICIT)					
BEGINNING	97,637	116,762	140,167	167,964	201,090
ENDING	**$ 116,762**	**$ 140,167**	**$ 167,964**	**$ 201,090**	**$ 240,467**

Appendix E – Pro Forma Statements of Cash Flows

UNICARRIERS AMERCAS CORPORATION
PROJECTED STATEMENTS OF CASH FLOWS

$ in Thousands

	MARCH 31,				
	2016	2017	2018	2019	2020
OPERATING ACTIVITIES					
NET INCOME (LOSS)	$ 19,125	$ 23,405	$ 27,797	$ 33,126	$ 39,377
ADJUSTMENT TO RECONCILE NET INCOME (LOSS)					
TO CASH PROVIDED (USED) BY OPERATING ACTIVITIES:					
DEPRECIATION & AMORTIZATION	3,451	3,987	4,452	4,855	5,205
ACCOUNTS RECEIVABLE	(2,778)	(3,376)	(3,460)	(3,914)	(4,371)
INVENTORY	(6,932)	(8,704)	(8,890)	(10,118)	(11,472)
OTHER ASSETS	-	-	-	-	-
ACCOUNTS PAYABLE AND ACCRUED EXPENSES	5,600	6,894	7,055	8,000	8,989
CASH PROVIDED (USED) BY OPERATING ACTIVITIES	18,466	22,206	26,954	31,949	37,728
INVESTING ACTIVITIES					
PURCHASE OF FIXED ASSETS, NET	-	-	-	-	-
INVESTMENT IN SUBSIDIARY	(15,000)	(15,000)	(15,000)	(15,000)	(15,000)
PROCEEDS FROM SALE OF PROPERTY AND EQUIPMENT	-	-	-	-	-
CASH PROVIDED (USED) BY INVESTING ACTIVITIES	(15,000)	(15,000)	(15,000)	(15,000)	(15,000)
FINANCING ACTIVITIES					
PROCEEDS FROM (REPAYMENT OF) BORROWINGS	-	-	-	-	-
CASH PROVIDED (USED) BY FINANCING ACTIVITIES	-	-	-	-	-
INCREASE (DECREASE) IN CASH	3,466	7,206	11,954	16,949	22,728
CASH					
BEGINNING	40,706	44,172	51,378	63,332	80,282
ENDING	**$ 44,172**	**$ 51,378**	**$ 63,332**	**$ 80,282**	**$ 103,009**

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Appendix F – Pro Forma Financial Statement Analysis

UNICARRIERS AMERCAS CORPORATION
ANALYSES OF PROJECTED BUSINESS VALUATION

$ in Thousands

	MARCH 31,				
	2016	**2017**	**2018**	**2019**	**2020**
INCOME (LOSS) FROM OPERATIONS	$ 28,057	$ 34,527	$ 41,091	$ 48,999	$ 58,217
DEPRECIATION	3,451	3,987	4,452	4,855	5,205
EBITDA	31,509	38,514	45,543	53,854	63,422
VALUATION AT 5x EBITDA	**$ 157,543**	**$ 192,570**	**$ 227,713**	**$ 269,272**	**$ 317,110**

UNICARRIERS AMERCAS CORPORATION
RATIO ANALYSES

	MARCH 31,				
	2016	**2017**	**2018**	**2019**	**2020**
CURRENT RATIO	**3.3**	**3.3**	**3.3**	**3.4**	**3.5**
DEBT TO EQUITY RATIO	**0.4**	**0.3**	**0.3**	**0.3**	**0.3**
RETURN ON ASSETS	**8%**	**9%**	**10%**	**10%**	**10%**
RETURN ON EQUITY	**11%**	**12%**	**13%**	**13%**	**14%**

DETAILED MONTHLY PROJECTIONS, INCLUDING VARIOUS ANALYSES AND ASSUMPTIONS, ARE AVAILABLE UPON REQUEST

Appendix G – Pro Forma Financial Statement Assumptions

Statement of Income Assumptions

- Fiscal year (FY) begins on April 1 and ends on March 31 (FY 2014 ends on March 31, 2015)
- FY 2014 projected financial statements used as the starting point to project UniCarriers Americas (UCA) financial statements for the next five full years (FY 2015 through FY 2019)
- Sales – FY 2014 projected sales of $383,368,000 calculated as follows:
  - Wholesale sales of $368,845,000 (FY 2013 UCA total net sales with a 7% increase)
  - Retail sales of $14,523,000 (2014 projected sales for New England Industrial Truck (NEIT) reflected on the "Forklift OEM Factory Store Proxy P&L" (NEIT projection) with a pro rata share based on the NEIT acquisition date of August 1, 2014)
- Sales – FY 2015 through FY 2019 based on the following:
  - Wholesale – Prior year projected UCA total sales with a 7% increase; 0.5% incremental increase in sales attributable to the website development initiative; 7.5% incremental increase in OEM parts sales to dealers each year for FY 2016 through FY 2019 attributable to the Certified Truck Program

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○ Retail – Projected NEIT sales for FY 2015 through FY 2019 used to project sales for each dealership acquisition based on the anticipated acquisition date; 0.5% incremental increase in sales attributable to the website development initiative

• Anticipate 15 dealership acquisitions (three each year) between FY 2015 and FY 2019:

○ One acquisition at the beginning of each April, one at the beginning of each July and one at the beginning of each October

○ Average purchase price of $5,000,000 (NEIT purchased for $7,700,000; considered a large dealership with 3 locations; lower price assumed for the average dealership)

• Cost of sales:

○ Wholesale – 85.9% of net sales for the foreseeable future (FY 2013 UCA total cost of sales as a percentage of total net sales); 85.9% of incremental increase in sales for FY 2016 through FY 2019 attributable to the website development initiative; 52.6% of incremental OEM part sales and 0.5% incremental increase in warranty costs for FY 2016 through FY 2019 attributable to the Certified Truck Program

○ Retail – 63.8%, 64.8%, 66.0%, 67.2%, 68.2% and 69.3% of sales for FY 2014, 2015, 2016, 2017, 2018 and 2019, respectively, based on the NEIT projection

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- Intercompany sales & cost of sales elimination – 25% of all future dealership new truck sales are assumed to be attributable to UniCarriers' brands (NEIT currently carries seven different manufacturers), so these sales and the associated cost of sales (93% of sales for new trucks based on the NEIT projection) have been eliminated

- General & administrative expenses:
  - Wholesale – 5.2% of net sales for the foreseeable future (FY 2013 UCA total operating expenses excluding sales expenses as a percentage of total net sales); $500,000 of incremental expense for FY 2015 attributable to the Certified Truck Program (includes mechanic training, mechanic travel expenses and training materials)
  - Retail – 21.1%, 19.9%, 18.6%, 17.4%, 16.3% and 15.2% of sales for FY 2014, 2015, 2016, 2017, 2018 and 2019, respectively (allocated 69.1% of total operating expense excluding depreciation for the respective year reflected on the NEIT projection)
- Selling expenses:
  - Wholesale – 2.3% of net sales for the foreseeable future (FY 2013 UCA total sales expense as a percentage of sales); $200,000 of one-time incremental expense for FY 2015 attributable to the website development initiative (includes design upgrades); $125,000 of incremental expense each year for FY 2016 through FY

2019 attributable to the website development initiative (includes web hosting and new marketing/dealer relations headcount)

- Retail – 9.4%, 8.9%, 8.3%, 7.8%, 7.3% and 6.8% for FY 2014, 2015, 2016, 2017, 2018 and 2019, respectively (allocated 30.9% of total operating expense excluding depreciation for the respective year as reflected on the NEIT projection)

- Interest income – 2.1% interest for the foreseeable future (FY 2013 UCA interest income as a percentage of total cash)
- Taxes on income – 35.0% U.S. statutory corporate tax rate for the foreseeable future

Balance Sheet Assumptions

- Average collection period – 14.6 days each year for the foreseeable future (based on FY 2013 UCA accounts receivable trade, net of allowance and total net sales)
- Inventory turns – 7.3 times annually at cost of goods sold for the foreseeable future (based on FY 2013 UCA inventory and total cost of sales)
- Depreciation: 14.1% of property, plant and equipment, net for the foreseeable future (based on FY 2013 UCA property, plant and equipment, net and depreciation)
- Average payable period – 15.8 days each year for the foreseeable future (based on FY 2013 UCA accounts payable trade reflected and calculated purchases based on beginning inventory plus cost of goods sold less ending inventory)

- Accrued expenses – 5.0% of net sales each year for the foreseeable future (based on FY 2013 UCA accrued expenses and total net sales)
- Common stock – $30,474,000 for the foreseeable future (FY 2013 UCA balance)
- Preferred stock – $19,500,000 for the foreseeable future (FY 2013 UCA balance)
- Retained earnings – $80,791,000 (FY 2013 UCA balance; projected net income added to the balance in future years)

Appendix H – Return on Investment (ROI)

Dealership Acquisition

$ in Thousands

	ROI BASED ON BOTTOM LINE NET INCOME		
	INCREMENTAL BOTTOM LINE NET INCOME	CUMULATIVE NET CASH INVESTMENT	ROI
FY 2015	$ 176	$ 13,814	1.3%
FY 2016	516	25,544	2.0%
FY 2017	1,011	34,382	2.9%
FY 2018	1,869	39,201	4.8%
FY 2019	2,948	39,201	7.5%
5-YR TOTAL	**6,520**	**39,201**	**16.6%**
FY 2020	4,837	39,201	12.3%
FY 2021	6,704	39,201	17.1%
FY 2022	8,980	39,201	22.9%
FY 2023	11,708	39,201	29.9%
FY 2024	14,940	39,201	38.1%
10-YR TOTAL	**$ 53,689**	**$ 39,201**	**137.0%**

$ in Thousands

	ROI BASED ON TOP LINE SALES		
	INCREMENTAL TOP LINE SALES	CUMULATIVE NET CASH INVESTMENT	ROI
FY 2015	$ 29,326	$ 13,814	212.3%
FY 2016	72,986	25,544	285.7%
FY 2017	122,641	34,382	356.7%
FY 2018	180,427	39,201	460.3%
FY 2019	246,543	39,201	628.9%
5-YR TOTAL	**651,924**	**39,201**	**1663.0%**
FY 2020	280,280	39,201	715.0%
FY 2021	302,703	39,201	772.2%
FY 2022	326,919	39,201	834.0%
FY 2023	353,073	39,201	900.7%
FY 2024	381,318	39,201	972.7%
10-YR TOTAL	**$ 2,296,217**	**$ 39,201**	**5857.5%**

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Website Enhancement Investment

$ in Thousands

	ROI BASED ON BOTTOM LINE NET INCOME		
	INCREMENTAL BOTTOM LINE NET INCOME	CUMULATIVE NET CASH INVESTMENT	ROI
FY 2015	$ 216	$ 200	108.0%
FY 2016	282	200	140.9%
FY 2017	352	200	175.8%
FY 2018	428	200	213.8%
FY 2019	509	200	254.7%
5-YR TOTAL	**1,787**	**200**	**893.3%**

$ in Thousands

	ROI BASED ON TOP LINE SALES		
	INCREMENTAL TOP LINE SALES	CUMULATIVE NET CASH INVESTMENT	ROI
FY 2015	$ 2,584	$ 200	1291.8%
FY 2016	2,994	200	1496.8%
FY 2017	3,442	200	1721.1%
FY 2018	3,951	200	1975.6%
FY 2019	4,544	200	2272.0%
5-YR TOTAL	**17,515**	**200**	**8757.4%**

Certified Used Truck Program

$ in Thousands

	ROI BASED ON BOTTOM LINE NET INCOME		
	INCREMENTAL BOTTOM LINE NET INCOME	CUMULATIVE NET CASH INVESTMENT	ROI
FY 2015	$ 158	$ 500	31.5%
FY 2016	169	500	33.8%
FY 2017	181	500	36.1%
FY 2018	193	500	38.6%
FY 2019	584	500	116.8%
5-YR TOTAL	**1,284**	**500**	**256.9%**

$ in Thousands

	ROI BASED ON TOP LINE SALES		
	INCREMENTAL TOP LINE SALES	CUMULATIVE NET CASH INVESTMENT	ROI
FY 2015	$ 4,231	$ 500	846.3%
FY 2016	4,527	500	905.5%
FY 2017	4,844	500	968.9%
FY 2018	5,183	500	1036.7%
FY 2019	5,546	500	1109.3%
5-YR TOTAL	**24,333**	**500**	**4866.6%**

Appendix I – Dealership Acquisition Net Cash Flow Summary

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$ in Thousands

	Acquisition Date	% of 1st Year	FY 2015 Cash Outflow	FY 2015 Cash Inflow	FY 2015 Net Change	FY 2016 Cash Outflow	FY 2016 Cash Inflow	FY 2016 Net Change	FY 2017 Cash Outflow	FY 2017 Cash Inflow	FY 2017 Net Change
Acquisition #1	4/1/2015	100%	$ (5,000)	$ 527	$ (4,473)	$ -	$ 623	$ 623	$ -	$ 747	$ 747
Acquisition #2	7/1/2015	75%	(5,000)	395	(4,605)	-	623	623	-	747	747
Acquisition #3	10/1/2015	50%	(5,000)	264	(4,736)	-	623	623	-	747	747
Acquisition #4	4/1/2016	100%	-	-	-	(5,000)	623	(4,377)	-	747	747
Acquisition #5	7/1/2016	75%	-	-	-	(5,000)	467	(4,533)	-	747	747
Acquisition #6	10/1/2016	50%	-	-	-	(5,000)	311	(4,689)	-	747	747
Acquisition #7	4/1/2017	100%	-	-	-	-	-	-	(5,000)	747	(4,253)
Acquisition #8	7/1/2017	75%	-	-	-	-	-	-	(5,000)	560	(4,440)
Acquisition #9	10/1/2017	50%	-	-	-	-	-	-	(5,000)	373	(4,627)
Acquisition #10	4/1/2018	100%	-	-	-	-	-	-	-	-	-
Acquisition #11	7/1/2018	75%	-	-	-	-	-	-	-	-	-
Acquisition #12	10/1/2018	50%	-	-	-	-	-	-	-	-	-
Acquisition #13	4/1/2019	100%	-	-	-	-	-	-	-	-	-
Acquisition #14	7/1/2019	75%	-	-	-	-	-	-	-	-	-
Acquisition #15	10/1/2019	50%	-	-	-	-	-	-	-	-	-
			$ (15,000)	**$ 1,186**	**$ (13,814)**	**$ (15,000)**	**$ 3,270**	**$ (11,730)**	**$ (15,000)**	**$ 6,162**	**$ (8,838)**

$ in Thousands

	Acquisition Date	% of 1st Year	FY 2018 Cash Outflow	FY 2018 Cash Inflow	FY 2018 Net Change	FY 2019 Cash Outflow	FY 2019 Cash Inflow	FY 2019 Net Change	Total Cash Outflow	Total Cash Inflow	Total Net Change
Acquisition #1	4/1/2015	100%	$ -	$ 905	$ 905	$ -	$ 1,076	$ 1,076	$ (5,000)	$ 3,878	$ (1,122)
Acquisition #2	7/1/2015	75%	-	905	905	-	1,076	1,076	(5,000)	3,746	(1,254)
Acquisition #3	10/1/2015	50%	-	905	905	-	1,076	1,076	(5,000)	3,614	(1,386)
Acquisition #4	4/1/2016	100%	-	905	905	-	1,076	1,076	(5,000)	3,350	(1,650)
Acquisition #5	7/1/2016	75%	-	905	905	-	1,076	1,076	(5,000)	3,195	(1,805)
Acquisition #6	10/1/2016	50%	-	905	905	-	1,076	1,076	(5,000)	3,039	(1,961)
Acquisition #7	4/1/2017	100%	-	905	905	-	1,076	1,076	(5,000)	2,728	(2,272)
Acquisition #8	7/1/2017	75%	-	905	905	-	1,076	1,076	(5,000)	2,541	(2,459)
Acquisition #9	10/1/2017	50%	-	905	905	-	1,076	1,076	(5,000)	2,354	(2,646)
Acquisition #10	4/1/2018	100%	(5,000)	905	(4,095)	-	1,076	1,076	(5,000)	1,981	(3,019)
Acquisition #11	7/1/2018	75%	(5,000)	679	(4,321)	-	1,076	1,076	(5,000)	1,754	(3,246)
Acquisition #12	10/1/2018	50%	(5,000)	452	(4,548)	-	1,076	1,076	(5,000)	1,528	(3,472)
Acquisition #13	4/1/2019	100%	-	-	-	(5,000)	1,076	(3,924)	(5,000)	1,076	(3,924)
Acquisition #14	7/1/2019	75%	-	-	-	(5,000)	807	(4,193)	(5,000)	807	(4,193)
Acquisition #15	10/1/2019	50%	-	-	-	(5,000)	538	(4,462)	(5,000)	538	(4,462)
			$ (15,000)	**$ 10,180**	**$ (4,820)**	**$ (15,000)**	**$ 15,329**	**$ 329**	**$ (75,000)**	**$ 36,128**	**$ (38,872)**

Summary by Fiscal Year

		A	B
	Cash Outflow	**Cash Inflow**	**Net Change**
FY 2015	$ (15,000)	$ 1,186	$ (13,814)
FY 2016	(15,000)	3,270	(11,730)
FY 2017	(15,000)	6,162	(8,838)
FY 2018	(15,000)	10,180	(4,820)
FY 2019	(15,000)	15,000	-
	$ (75,000)	**$ 35,799**	**$ (39,201)**

A Cash inflow amount for FY 2019 was reduced from $15,329 to $15,000, as the net cash investment required cannot be negative.

B Amounts represent the net cash investment required by fiscal year (total investment less the net cash flow provided by the dealership acqusitions inception-to-date).

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Accounting Intelligence: What it is and why it matters

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Abstract

This study aims to produce guidelines for a response to changes within the accounting industry and accountants' practice, and to make them accessible, attractive, and actionable. It adopts an action research approach, synthesising a number of existing approaches and combining them with fieldwork examining what accountants do well and what they could do better. Aligning with action research goals, it sets to improve accounting practice by assisting accountants understand what their clients' value and by suggesting how users of accounting services can get more value from their accountants. The fieldwork involved semi-structured interviews with both accountants and their clients and the adaptability inherent in an action research approach enabled the interview questioning to change and respond to the topics relevant to the two groups of key stakeholders and the aims of the research.

The study arose out of personal experiences and professionals' stories of how accountants utilise a kind of practical intelligence built on their own experience as small business owners, their interactions with clients, and their knowledge of the experiences of other accountants. It also sought to build on accountants' recognition of the need for financial intelligence and realisation that emotional intelligence is important to forging strong relationships with clients to enable productive and sustainable relationships. To make the research attractive and accessible, the article draws from the popularity of combining selected intelligences to augment existing knowledge and practice into a cluster identified as "accounting intelligence." The article suggest how this clustering of knowledges as a single intelligence not only helps in marketing the configuration to accountants, but stimulates new ways to think and act. It recognises that accountants are increasingly aware of the importance of emotional intelligence, that they can impart financial intelligence, and that they implicitly use practical intelligence. It then offers ways to work with all three in ways directly relevant to their experiences. Finally, through the creation and promotion of accounting intelligence it encourages their enactment.

Introduction

Changes stimulated by deregulation and technology disruption are sweeping through professions globally at an ever-increasing rate. These changes bring greater choice for consumers, but increased choices pose fresh micro questions in situations of continuing uncertainty at the macro level.

Other management fields have recognised the challenges of rapid change and expanding choice in a time of turbulence, as acknowledged, for example, in the coinage of the term *Chaotics: The Business of Managing and Marketing in the Age of Turbulence* (Kotler & Caslione, 2009). Outside of the management field, psychologist Howard Gardner has been prominent in considering how to configure knowledge to face these challenges by evolving multiple intelligences (Gardner, 1993) and different kinds of "minds for the future" (Gardner, 2006). Despite being a major influence in education, neither set of concepts impact management directly. However, Daniel Goleman's (1995) popularisation of one selected intelligence, Emotional Intelligence (or EI or EQ in its abbreviated form), brought the "concept out of the academic realm and into the lives of ordinary civilians" and "deserves credit for crystallizing the idea of an 'intelligence' as a useful focus of attention" (Albrecht, 2007, p. 33). Goleman moved beyond psychology and education to become a bestseller impacting on many fields and public understanding.

This success owed much to marketing through the book's aggressive subtitle "Why It [EQ] Can Matter More Than IQ" and unapologetic promotion of the work as "The Groundbreaking Book that Redefines What It Means to Be Smart" (Goleman, 1995, cover). After explicitly rejecting psychology's propriety rights to the domain of intelligence through the traditional IQ construct and tests, Goleman entered EQ into the business literature through *Harvard Business Review* articles (Goleman, 2000; Goleman, Boyatzis & McKee, 2001) and books on EQ in the workplace (Goleman, 1999) and EQ in leadership (Goleman et al., 2001). Goleman's strategic branding of EQ stimulated a stream of imitations from cultural intelligence (Livermore, 2009a, 2009b; Thomas & Inkson, 2004, 2009) through financial intelligence (Lennick & Jordan, 2013; Mertz, 2014) to social media intelligence (Moe & Schweidel, 2014) and paved the way for the entry of multiple intelligences in leadership (Riggio, Murphy & Pirozzolo, 2013).

Inspired by the applicability, accessibility, and reach of these "intelligence movements" in general and the widespread acceptance of Goleman's EQ in different practices in particular, this article applied some of the lessons to one particular area under the name accounting intelligence. It then sought to respond to the fresh micro questions posed by the environmental pressures on professions in general change by focusing on the accounting profession through the following questions. How does a consumer distinguish one professional from another when they all appear the same? How can the consumer ensure they get the best out of that professional? How, looking at this problem from the other end, how does a professional differentiate themselves to attract clients? And once they have clients, how do professionals ensure they understand what the client wants? These questions link to three key objectives of this research: to identify a cluster of knowledge and practice that can contribute to the creation of accounting intelligence; to target areas of strength and improvement in existing accountancy businesses; and to suggest recommendations arising from the findings.

Candidates for interview were found from New Zealand-based accounting practitioners in public practice personally known to the researcher from his extensive experience in this sector of the accounting profession. He undertook semi-structured personal interviews underpinned by an appreciative inquiry approach and asked the interviewed accountants to nominate suitable clients for interview. Participants were questioned on the attributes important for an accountant, on improving accounting/business knowledge, and on innovation.

Literature Review

The concept of accounting intelligence arises from a combination of ideas in education, psychology, and business. It was enabled by Howard Gardner, whose seminal work *Multiple Intelligences* (Gardner, 1993) stimulated interest about the plural kinds of thinking and knowledge that are appropriate to changing environments. Gardner challenged the essentialist and measurable conceptions of

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intelligence that held intelligence was singular, fixed, and immutable. Although some in psychology still dissent, the cross-disciplinary consensus supporting the view that intelligence can be learned, developed and improved has become part of modern thinking (Perkins, 1995; Riggio et al., 2013).

Gardner (2006) went on to examine how skills and knowledge might be usefully clustered with a view to encouraging cultivation of the types of thinking and behaviour that will enable humans to continue to evolve and to thrive. Gardner's (2006) more speculative "five minds for the future" – disciplined, synthesizing, creating, respectful, and ethical – are seen as complementary, rather than separate. They have an evolutionary element in being based upon Gardner's (2006) ideas about the directions that society has taken, is taking, and is likely to take. His intention is to equip us for the unexpected, as well as the expected. This would be also be the ideal outcome of a well-constructed accounting intelligence.

Defining intelligence and accountancy

Intelligence is variously defined as "the ability to gain and apply knowledge and skills" ("Pocket Oxford English Dictionary," 2002), the mental ability to adapt to, select and shape the environment (Sternberg, 1997), a mixture of mental ability and personality traits (Sternberg, 2000) or an evolutional adaptation to a changing environment (Goldstein, Princiotta, Naglieri, 2015).

Many different types of intelligence have been raised as possibilities (Salovey & Mayer, 1989) since the 1980s. Intelligence has been identified as the ability to arrange and organise behaviour (Mayer & Salovey, 1993), and to understand feelings and manage them, seen as a characteristic of intelligence (Sternberg, 1997). Despite the differences, Mayer and Salovey (1993) usefully distinguish intelligence from personality traits and behavioural preferences. This distinction moves intelligence out of a psychological domain and opens it to change and being changed, in line with more evolutionary conceptions of intelligences.

Accounting can be defined as "the process of identifying, measuring and communicating economic information about an entity to permit informed judgements and decisions by users of the information" (Robb, 1996, p. 2). Drucker (1973) helpfully widens thinking about accounting by calling it an information activity for analysis and control. More recently, Berman, Knight and Case (2006) focused on one of the arts of accounting as being able to use limited information to describe how a business is performing (Berman, Knight, & Case, 2006).

This metaphor of art allows the construction of a richer description of features of accounting that are not only often neglected but ignore the fact that the business portrait created by the accountant is filtered through the biases and cognitive filters of artistic accounting aspects (Mathieu, Nonne, & Gott, 2004). Just as an artist uses judgement to interpret reality, accounting relies on finely judged

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interpretations and assessment of reality (Berman et al., 2006). The use of context-sensitive judgements introduces personal biases influenced by the accountant's experience, knowledge, and location. This opens the possibility of many different answers to a given problem, all of which could be correct.

Emotional intelligence as a model

The ability to observe feelings and emotions in self and others, to distinguish those feelings and emotions and to use this information to inform thoughts and actions is one of the earliest definitions of emotional intelligence (Salovey & Mayer, 1989). A more recent definition is the ability to perceive, understand and manage one's emotions (Ciarrochi, Chan & Caputi, 2000). Nevertheless, the following three core elements of emotional intelligence remain constant: knowing emotions in self and others; regulating emotion in self and others; and, using emotions to achieve outcomes (Salovey & Mayer, 1989).

Those three core elements are inseparable and entwined (Petrides & Furnham, 2000) because, in order to regulate an emotion, one must first be aware of that emotion. Emotional intelligence will also meet three criteria if it is an intelligence (Sternberg, 2000). These criteria are that EQ must have a "right" answer, must have measurable skills that correlate to other measurable mental abilities, and that EQ levels rise with age. These criteria can be used as a yardstick to determine the viability of accounting intelligence as an acceptable intelligence.

General cognitive ability, emotional intelligence, and accountants

Researchers have found little correlation between general cognitive ability, or high IQ, and emotional intelligence (Barling, Slater & Kelloway, 2000; Ciarrochi et al., 2000; Davies, Stankov & Roberts, 1998). Their research confirms the contention that being smart does not necessarily translate to being emotionally intelligent (Goleman, 1995, 1999). Although education may increase general cognitive ability, general education does not increase emotional intelligence but specific education in emotional intelligence can (Cook, Bay, Visser, Myburgh & Njoroge, 2011). The ability to educate for an intelligence such as accounting intelligence will have relevance for its future development and propagation.

Accountants perform better across a number of areas when they are emotionally intelligent (Cook et al., 2011). Cook et al. believe that emotional intelligence skills are critical for the future success of individual accountants and for the accounting industry as a whole. One of the promises of Goleman's (1995) emotional intelligence is to go beyond rational intelligence alone. At this point, however, it is import to assert that emotional intelligence alone does not offer enough to constitute accounting intelligence. As an example, Williams (2009) tells us that accounting is a-rational behaviour. A-rational behaviour is "situated behaviour without analytical division of situation into parts and evaluation according to context independent rules" (Flyvbjerg, 2001, p. 22). Situated behaviour exists dynamically in its environment and is changeable in response to changes in that environment.

A-rational behaviour is the tacit behaviour of experience, and much accounting behaviour is tacit. An example of tacit behaviour in action is a blacksmith, hammer in hand, creating a horseshoe. Hours of repeating the same action have created an inductive bond between the artisan and his steelwork. The smithy senses the right moment to apply the hammer. Thus, a-rational behaviour cannot be modelled (Williams, 2009); it comes only from experience. Others refer to this as practical intelligence (Albrecht, 2007; Sternberg, 1997) and under that name provides more traction to those in practice in contrast to scholars while still incorporating scholarly ideas.

Configuring intelligences

More specifically, this article augmented existing notions of practical intelligence, especially Albrecht's (2007) practical intelligence, with Flyvbjerg's (2001) idea of phronesis, or wisdom as applied intelligence accumulated through practice. It also drew from Gardner's seven intelligences (1985), whereby ways of thinking do not exist in isolation and are distributed differently among different people. Self-aware and informed individuals, for example, can realise that they are strong in some of Gardner's intelligences (1985), and weak in others. To explore the utility of this for accounting intelligence, this research explored whether self-aware individuals acknowledge their limitations and seek help from others who are better equipped in the specific areas.

Accounting intelligence as a model

Tacit behaviour cannot be taught, only experienced or copied (as children may do in relation to their parents). However, intelligence, such as accounting intelligence, may be an ability that can be taught or trained. After all, soft skill training (Barling, Weber, & Kelloway, 1996) and transformational leadership training (Barling et al., 2000) can both be effective with managers. However, not all researchers agree that these skills and abilities are so easily passed on. Lindebaum (2009) asserts that organisational drives for emotional intelligence are unlikely to succeed. Lindebaum (2009) contends that the germ of emotional intelligence within the individual is so deeply rooted, that only prolonged education and an inner desire for change will be effective. So, education in accounting intelligence acknowledges these limits to claim only that such change may be effective and feasible with the proviso that an individual is motivated and determined to see long-term change. To encourage this, accounting intelligence has been constructed with the potential to follow emotional intelligence in becoming an essential part of the business and management toolkit through aggressive marketing and promotion around a simple core.

That core positions accounting intelligence as the synthesis of the required ingredients of accounting expertise and emotional intelligence, seasoned with practical intelligence, when combined in appropriate proportions. The expertise of accountants will essentially be a given, as it represents a baseline competency for membership of a professional body (Smigla & Pastoria, 2000). The field research had two hypotheses: the first was that skilled practitioners of the accounting art have high levels of emotional intelligence, financial intelligence, and practical intelligence; the second was that, once identified explicitly, the characteristic of accounting intelligence will be highly valued by both accountants and their clients. Both sides will be able to make more informed choices and better target specific areas of strengths and weaknesses.

Method

Qualitative approaches: Appreciative inquiry and action research

In order to accommodate the exploratory nature of the research the researcher selected a qualitative approach through semi-structured personal interviews. These interviews identified perceived attributes from both the accountant and client perspective. The researcher sought high level input by finding interviewees who are owners/ partners/directors within their organisations. The researcher then utilised the snowball effect by asking those practitioners who were interviewed to nominate clients for interview. A partial structure, with all interviewees facing some of the same questions, was observed to enable a level of commonality in the coverage.

This research followed an appreciative inquiry approach by seeking an accounting intelligence grounded "in affirmation and appreciation" (Cooperrider, Whitney & Trosten-Bloom, 2003, p. 1). It looked to recognise what is best and strong about the past by asking positive and affirmative questions and focused on explorative and open questions with regard to the future as an area for curiosity and lack of certainty. Appreciative inquiry was used to ascertain what accountants see themselves as doing well. The questions hoped to elicit dimensions and elements of accounting intelligence that both practitioners and clients found most relevant. Careful to make no judgements of past faults, it explored any areas in which they think they can do better in positive fashion.

This research interviewed individuals from the two major stakeholder groups by drawing on both meanings of appreciation: recognition and growing in value. "Appreciative Inquiry is an invitation to a positive revolution in change" (Cooperrider et al., 2003, p. 10). And, finally, appreciative inquiry builds on avoiding blame by focusing on versions of two simple questions: "what do you do well?" and "what can you do better?"

Action research was chosen as a method because, as well as fitting with appreciative inquiry (Reason & Bradbury, 2008), it aims to produce practical outcomes and because it allows modifications to the findings. This approach is designed to support the interviewer and interviewees to provide richer data. In this case the research did grow in iterative fashion with elements and directions changing in response to the data collected. In addition, the researcher, prior to the interviews, documented his expectations, and reflected back on these in the light of the interview findings. These reflections helped sustain improved knowledge in a classic form of recursive action research that fits well with sustainability issues and ongoing client satisfaction.

Reflection on Action Research

The largest single example of this reflection was the unexpected turn to the idea of phronesis at work. It emerged from appreciative inquiry in general and the experiences of interviewed accountants in particular. While Accountant B was talking about his interest in computer software, he mentioned that clients seem to like his recommendations from personal experience. As the conversation unfolded, Accountant B also mentioned how he uses his own experiences of running a small business when having discussions with clients.

The idea of accountants using this form of practical expertise as part of their accounting knowledge base had not been considered in this research up to that point. However, this resonated with the researcher's own experiences in public practice, where he also used his own experiences of growing and running a business as a learning resource for his clients. From that point, the line of inquiry was adapted to include questioning about the use of personal experience as a form of practical intelligence.

This idea was expanded further by Accountant C who admitted to regularly using the experiences of other clients when advising and problem solving. Accountant D added another perspective by talking about her consultations with other accountants in the office. This enabled her to synthesise the experiences of other accountants into her practical intelligence.

Findings

Important Attributes for Accountants

All participants reported their belief that good interpersonal skills were important for accountants. Accountants and clients both want accountants to be approachable, friendly, understanding, non-judgemental, and able to put clients at ease. A majority of participants in both groups thought that being forward-looking was another important attribute. An accountant who is looking out for the reefs and shoals in a client's business voyage is able to help them navigate those waters without incident and stress.

This research found an expectation gap around technical skills. Accountants generally thought clients have a baseline expectation of reasonable accounting skills. Consequently accountants placed little emphasis on this during their interactions with clients. However clients rate this as the second most important attribute. This gap could lead to accountants displaying the wrong attributes and could have a negative impact on the accountant's ability to attract and retain clients. There is also an expectation gap about pricing of accountants work. Most accountants thought that pricing would be an attribute desired by clients. However, only one client mentioned it as a matter of importance. This may suggest that accountants put themselves under fee pressure when no such pressure actually exists.

What Accountants Do Well

The one accountant who suggested that only technical skills were important was rated well in soft skills by their clients, and his clients did not mention any hard skill aspects at all. This could suggest that an expectation gap exists in the mind of some accountants about what clients really want. This accountant may be keeping clients happy through his personality attributes without being aware of it. Once the accountant grasps this, there is good reason to relax his anxiety on technical matters and devote more time to enhancing and leveraging the soft skills he already possesses.

In addition, accountants who are part of a small accounting business have a unique differentiator that they can capitalise on. These accountants are in a position to not only empathise but to demonstrate that they share the pain and frustrations (as well as the joys) of being a small business owner. This appears to be a strong builder of empathy with clients and can be a useful shared discourse about common interests.

One unexpected finding was that clients generally thought that accountants had good technical skills. This comment was made by different clients about most participating accountants. Accountants generally did not expect clients to rate their technical ability. There is a widely held belief within the industry that clients have no way of judging the quality of the service. It transpired that clients made this judgement from a number of sources. These sources too, were interesting and focused on the visual appeal of hard output (letters, financial statements and so on) and the accountants' own comments about what a good job they have done.

What Accountants Can Do Better

When asked what they can do better, accountants tended to focus on inward-facing attributes and activities. In contrast, their clients commented more on client-facing attributes and activities. This was an expected result and is consistent with another gap found in the perception of proactivity. Accountants generally thought they were adequately proactive, but also thought their clients would want them to be more proactive. Perhaps this means that accountants acknowledge they are proactive enough to meet their own needs but not proactive enough to meet the needs of their clients. This point is of interest and may be worthy of future research in further developing accounting intelligence. Nevertheless, at present, clients reported general satisfaction with the performance of their accountant so there is a good platform for positive proactive change.

Improving accounting knowledge

Throughout this research, the term "accounting knowledge" is used in a broad sense to signify a wide range of skills and knowledge relevant to business and commerce. Most participants (all the accountants and half the clients) reported formal structured training as the main way they improved their accounting knowledge. This is a very time-intensive and relatively expensive way to acquire knowledge, but hugely popular nevertheless. This also suggests that accountant's preconception of clients as too time poor to undertake training is not correct. Commercial newsletters, available from third party suppliers upon subscription, were used by most of the accountants and valued by most of their clients. One client was very emphatic about the value she received from these. Their appeal to accountants is that they are easy to use and relatively low cost.

By drawing from their own experiences of running a business when advising clients, accountants show empathy and build trust with their clients, according to the accountants. Three accountants out of four reported doing this. However only one of four clients questioned about this reported that their accountants empathise in this way. To paraphrase Wagner and Sternberg (1985), some accountants may learn more from their experiences than others.

Finding innovation

In this fast changing environment, innovation has become core business rather than a desirable add-on (Lafley & Charan, 2008) and as such is worth considering as an element of accounting intelligence. Certainly, the accountant participants in this research all see themselves as early adopters of technology. No doubt this is a result of them being drawn from the researcher's pool of business relationships developed at Xero, a company widely acknowledge as an industry leader in innovation. All of the client participants were Xero users and perceived this technology to be useful for their business. Client participants report that this technology reduces stress through being easy to use and enabling easy collaboration with accountants.

One exception about innovation must be noted: tax innovation was not desired. Most participants, accountants and clients, favoured a more conservative approach designed to keep a low profile and stay out of trouble with tax authorities. Interestingly, in the research for this project, innovation appears to be a contextual concept. That is, what participants consider to be innovative is influenced by their geographical location, the type of clients that they serve, or type of accountant they have, and their own outlook on 21st century business culture. Expert marketers may not call “house calls” innovative but to clients in a conservative provincial centre they certainly are.

Recommendations

Emotional Intelligence

Bar-On (2010) and Goleman (1999) both point to highly predictive relationships between high levels of emotional intelligence and occupational success. The key emotional intelligence contributors to this success are the ability to be aware of and to accept yourself; the awareness of the feelings of others; and the ability to manage emotions in oneself and in others. Emotional intelligence is an integral factor of success for accountants (Cook et al., 2011) and will play an increasingly important role in all professions over the next 15 year (Jomati Consultants LLP, 2014). For example, Cook et al. (2011) report that, within a large accounting firm, higher incremental profits come from partners with high emotional intelligence than partners with high IQ.

This research supports these findings and has identified two emotional intelligence factors as important for accountants; approachability and empathy. All participants rated components of emotional intelligence as important attributes for accountants. Given the known desire by clients for emotional intelligence in their accountant, and the known correlation to profitability for accountants, it is reasonable to assume that accountants would understand the importance of having and displaying emotional intelligence. However, only one accountant mentioned any systematic attempt to measure emotional intelligence within their firm. None of the accountants mentioned any attempt to increase levels of emotional intelligence in any structured or systematic way.

Accordingly, following this research, I recommend that for building accounting intelligence, accountants must first build emotional intelligence. For specific application to accountants, accounting intelligence should involve the following three interlinked actions: measuring the emotional intelligence of their colleagues; taking, where needed, active steps to cultivate and improve that emotional intelligence; and to promote emotional intelligence awareness to their client base and potential clients. In addition, this article suggests adding actions derived from current research on aspects relevant to key emotional intelligence moments in interactions.

For example, although not intended specifically for accountants, Cuddy, Kohut, and Neffinger (2013) discuss ways of connecting to and engaging with followers, especially at key touchpoints in relationships when much is at stake. Good leaders do this with an interaction of the two primary aspects of social judgement; lovability and fearsomeness. These two traits relate respectively to warmth/agreeability and technical competence. Agreeability and technical competence were the two most highly regarded attributes for accountants according to this research so to transfer the learning from Cuddy et al. (2013) makes sense and could add significant value in first meetings with clients or potential clients.

Agreeableness is the pipeline of influence and so displaying warmth, through demonstrations of listening, understanding and reliability, helps make a connection (Cuddy et al., 2013). People "feel" the warmth before they pick up the competence. Displaying competence before warmth can lead to a lack of trust and failure to commit, so it is important to show warmth (lovability) before competence (fearsomeness). Accountants can use this knowledge to help strengthen their relationships with clients by building on the clients' natural desire to affiliate, to be listened to and to be understood (Cuddy et al., 2013). When meeting with clients early in the business relationship, a conscious effort should be made to build rapport and empathy prior to trying to impress clients with technical knowledge.

In these interactions, warmth can be projected vocally by lowering the pitch and volume and by sharing personal stories. Cuddy et al. (2013) suggest finding a way to demonstrate a shared world view through some mutual basis for agreement. As noted above, the situation of both accountant and client being SMB owners sometimes provided common ground but even a smile and appropriate posture go a long way to projecting warmth.

To help manage first impressions, and to increase engagement in existing client relationships, accountants should identify ways to project warmth. These methods should be codified. Once codified, the methods can be taught to colleagues so that warmth projection becomes second nature (Cuddy et al., 2013).

Empathy is a similar contributor to emotional intelligence. Empathy is one of the principle conduits for managing emotions in others and is a skill that helps people to provide social support and to make positive interpersonal relationships (George, 2000).

Smigla and Pastoria (2000) tell us that emotional intelligence is dropping among younger people at the same time that IQs are generally rising. This trend will have long term implications for industries, such as accounting, with high emotional intelligence requirements. Decreasing levels of emotional intelligence across the industry could lead to widespread dissatisfaction with the industry as a whole and create an environment supportive of further market disruption. Proactive training for new entrants along the lines suggested above could, over time, turn into a significant competitive advantage.

Individual accountants, their firms, and the industry as a whole, can combat this trend by instituting emotional intelligence-specific education for new entrants throughout the ranks, be they associates or directors (Goleman, 1995). As changes in the emotional intelligence of an individual tend to happen slowly, and people need time to practice the new skills and habits they develop though this education (Lindebaum, 2009), the process should start early. Astute accounting businesses will introduce, or continue, training their people in emotional intelligence as there should be significant long-term benefits in terms of client acquisition and retention.

Social Intelligence and contagion of emotion

There is still not a consensus around the existence of a social intelligence distinct from emotional intelligence although the ability to understand, motivate and manage people, has been called social intelligence (Goleman, 2007; Thorndike, 1920). From the perspective of this research, social intelligence serves to highlight important aspects less commonly associated with emotional intelligence. As such it is a useful skill for any business operator. The deeper the relationship is between supplier and customer, the greater the need for social intelligence expertise to make the relationship successful. Consider the doctor/patient relationship and that of the lawyer and client alongside those of the accountant and their client.

In *Humble Inquiry*, Schein (2013) relates his own experiences of different depths of engagement based on the social intelligence of doctors. The difference in "bedside manner," and the resultant difference in comfort that brings to the patient, can be enormous. Several of the client participants in this research offered stories of inadequacies in their (former) accountants that were deficiencies in social intelligence. One deficiency commonly mentioned was the inability to see formality as a barrier to effective communication.

Humans unconsciously imitate the emotions of others (Goleman, 1995, 2007, 2009). Mood and emotion will be transferred between individuals from the one with the more forcefully expressed emotion to the more passive individual. Actors on stage use this affect by mimicking emotion to get an emotional effect with members of the audience. At times, simply seeing someone express an emotion can be enough to evoke that emotion within us.

The extent of emotional rapport in a meeting is mirrored by how close the physical movements follow as the participants talk (Goleman, 1995, 2007). Nodding while another person talks and leaning toward the person as they make a point indicate the building of rapport. This phenomenon was noted and exploited, albeit without understanding the underlying principles, by the researcher during his career as a public accountant. In this research, the contagion of emotion through unconscious motivation by their accountant was raised by one client participant.

When we are socially intelligent, we can control the signals we send that mark our moods (Goleman, 1995). Accountants who are masters of social intelligence should be able to send the appropriate signals to alter client's moods. Clients who arrive despondent or discouraged can be reinvigorated by appropriate use of mirroring and displays of empathy. This will bring help about coordination of moods, which is the essence of rapport (Goleman, 1995). Increased rapport, motivation and encouragement all assist in strengthening the client relationship.

As a result of this research, accountants should establish training programs to be used in their businesses that will formalise the learning of warmth projection, establishment of empathy and transfer of moods. Accountants should develop exercises to practice managing their own moods. This will assist in creating the calm foundation needed to allow emotion/mood to flow from the accountant to their client.

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Emotional work

An ever-smiling flight attendant, the unflappable credit controller and the accountant with infectious positivity are all workers with a common trait. These are all mean-making occupations (Hochschild, 1979). These occupations all require effort to match emotions with the work context.

Meaning-making occupations require the worker to attempt to change their emotions and feelings to some extent. Emotion workers shape their emotions positively or negatively depending on circumstances (Hochschild, 1979, 2012). Emotion workers may be required to evoke emotions that are absent or suppress emotions that are incompatible with the necessary work.

Successful emotion workers may use a combination of routines that are mental, physical or expressive in nature to position their emotions appropriately for the particular task at hand. For instance, a doctor giving bad news to a cancer patient may deliberately think themselves into a sombre mood before meeting the patient. Another example was related by one of the accountant participants who said he gets himself into the "right headspace" before making phone-calls to challenging clients.

This self-control of emotions at work can come with a physical and mental cost (Lindebaum, 2009). Inhibiting emotion may result in the degradation of cognitive performance as well as creating physiological stress (Gross & Levenson, 1997). Accordingly, accountants, along with other emotion workers, should ensure that they find ways to relieve the physiological and mental stresses caused by shaping emotions at work. Prolonged exposure to the mental stresses can trigger breakdowns (Brotheridge & Grandey, 2002), so extreme care should be taken to avoid prolonged exposure. Brotheridge and Grandey (2002) advocate training in deep-level emotional regulation, a recommendation worth adding to the recommendations accompanying accounting intelligence.

Conclusion, limitations, and future research

Accountants and their clients both recognise the need for rapport and empathy in their business relationship. Both groups rated the quality of the interpersonal relationship as the most important attribute for an accountant to have. Clients rated technical expertise as the second most important attribute.

The accounting industry tends to focus on technical skills. In New Zealand, accountants will typically study a four year bachelor degree, before going on to undertake their professional competency examinations. There are many possible permutations of papers to study, but technical papers on offer significantly outweigh soft skill papers (University of Waikato, 2014).

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There is a contradiction between what accountants say is important (interpersonal skills) and what they do (technical skills development). If interpersonal skills are recognised as important, why do accountants not organise the teaching and learning of these skills within their businesses? The promotion of accounting intelligence could help to highlight this gap and the enactment of accounting intelligence could help to close it.

This research has highlighted the use of practical intelligence by accountants, particularly drawing on their own experiences to connect with and to advise their clients. While most accountants reported doing this, none offered any organised, or structured, way of raising their own experiences to reflect upon them and learn from them. Any systematic method of achieving this would be a valuable tool for the accounting industry. This appears to be an opportunity looking for a solution that could be realised through accounting intelligence.

In a similar way, the use of contagious emotions to build rapport and to encourage clients appears to be valued by clients but not commonly used by accountants. Increased knowledge of this phenomenon, accounting intelligence could assist the organisation of a teaching framework and create opportunities to practice this skill.

Increasing the level of recognition of emotion work as a key component of accounting intelligence will further assist in promoting recognition of wellness regimes. Maintenance of emotion has a toll. Just as a tool gets blunt through overuse, so the accountant's mind can lose its edge through exposure to too much stress. The accounting industry could no doubt benefit from more emphasis on emotional stress relief, particularly in the form of deep-level emotional regulation.

The actions required by accountants have changed over time at an ever-increasing pace. Change in technology will drive the industry toward the human element – rapport, advice, encouragement, and creativity. As the accounting industry looks to completely master this change in emphasis, the recognition of their unique combination of emotional intelligence and accounting expertise can be achieved through their synthesis into accounting intelligence.

Finally, this article acknowledges that much more research needs to be done. The three key objectives of this project were: 1) to identify a cluster of knowledge and practice that can contribute to the creation of "accounting intelligence"; 2) to target areas of strength and improvement in existing accountancy practices; and 3) to suggest recommendations arising from 1) and 2) above. This research has contributed significantly to 1) above by gathering areas of strength and improvement from both accountants and accountancy client. That said, the findings are limited because of the small number of interviewees and because of their atypical nature in being clients of Xero. Nevertheless, this research has established a baseline of sorts to begin productive conversations and stimulate further research. Most of the recommendations in (iii) above come from the second objective. Nevertheless, the literature review, and the exploratory conversations with both accountants and clients suggest that it is possible to identify a cluster of knowledge and practices as "accounting intelligence" and to offer recommendations and a framework, albeit in crude form, for its enactment.

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