

A Family Business Successor Considers Quantitative Methods

Fred A. Ware, Jr.
William B. Fredenberger
Valdosta State University

This case provides an opportunity to consider that vital period in a family business timeline when a younger successor is moving inevitably toward taking over top management of the organization. In this situation, the son of the founder/owner of a retail shoe business is contemplating the use of quantitative methods as a change in the normal seasonable merchandise buying policy of relying on intuition and experience. The heir-apparent is nervous about the proposed change and wonders if his father and other senior managers will be willing to take the risk.

The main character has worked for many years in a successful family retail shoe business. His father and the senior managers have long demonstrated an extraordinary work ethic with a conservative but effective purchasing policy of deliberately overbuying shoes semi-annually, virtually preventing any stock-outs. The business has developed an enviable reputation of good customer service with consistently large and diverse inventories.

Through dogged persistence, starting with a purchased (ineffective) data management system, the younger family member has gradually built his own valuable data base. Senior managers and even the young man himself are reluctant to change the normal procedures even though better use of quantitative data would likely significantly improve the profit picture. It is noted that it would be reasonably safe in today's marketplace to make smaller initial buys and rely on subsequent reordering of top selling items before stock-out occurs. Computerized information systems would signal ordering times. One can empathize with the managers' risk involved in making a buying policy change since the firm has performed well in the past. Should they take the chance?

INTRODUCTION

Country Cobbler, a highly successful regional retail shoe business in south Georgia and north Florida has grown over 43 years from a single store in Valdosta, Georgia to two stores in Georgia (Valdosta and Waycross) and two stores in Florida (Jack-

sonville and Gainesville). The Valdosta store expanded from two small locations into an 11,000 square foot store in Valdosta's largest mall (anchored by Sears, J.C. Penny's and Belk's). Country Cobbler's reputation spread to the point where it became a major destination store from as far away as Atlanta, Georgia (230 miles) due among other factors to its inordinate volume and diversity of inventory. The owners' seemingly inexhaustible energy in dealing with numerous wholesalers and attending trade shows allowed the stores to carry over 60 brands of women's shoes and 20 brands of men's shoes. Over the years management had been willing to meet one-on-one and deal with considerably more manufacturers' representatives than other retailers, even the large department stores. The Valdosta store recently left the mall and built a free standing building with 6,800 square feet of retail space and 3,000 square feet for warehousing inventory.

Country Cobbler utilizes a "hash" inventory system which allows salespeople to bring numerous brands of similar style shoes out quickly to customers. This contrasts with shoe retailers who store merchandise by brand to simplify taking inventory at the expense of access. The store uses bar codes for inventory control but for years had a more labor intensive inventory-taking technique, always aiming to better serve their customers and facilitate sales. Thus, the business had developed an enviable reputation for having an abnormally wide selection, excellent service, and an attractive atmosphere. A number of competitors had been more or less driven out of business in the region and shoppers preferred Country Cobbler over regional and even nationally known large retail chain stores. Sales people work on a commission basis and turnover among employees is low.

County Cobbler's long-time owner and founder, Bo Williams, his senior managers, and his son, Cason oversee the merchandise buying decisions. They decide which items are shipped from store location to store location, an activity that takes place constantly. Cason is now Vice President and is slated to eventually take over his father's position. Cason has been more and more involved in semi-annual buying decisions as other senior managers look toward retirement in the near future. He keeps up with business trends by regularly reading trade journals.

THE SETTING

It is now time for the spring, 2006 buying decisions for Country Cobbler. Bo and Cason estimate that they need to purchase approximately \$1,000,000 of ladies and men's shoes at cost for the four stores. Cason is aware that his father has always been in charge of these now monumental buying decisions based on intuition and experience. He visualizes with some trepidation what it will be like when he is asked to take over the responsibility of the entire business.

Country Cobbler has sales history for the four stores for spring seasons (January-July) for 2002, 2003, 2004 and 2005 for ladies and men's shoes on spreadsheets. As an indication of the amount of activity and the complexity of the buying decisions, ladies shoe transactions required four spreadsheets as the volume exceeds the 65,000 rows allowed for a single spreadsheet. (Appendix A provides a sample of this data).

JUST-IN-TIME INVENTORY?

Cason had read about the long popular "just-in-time" (JIT) inventory procedures in use by manufacturers to hold down raw material inventory costs. He wondered if there were any similar retail sales-oriented techniques that could reduce Country Cobbler's huge merchandise inventory expense. "Can a relatively small business like ours have enough clout to demand JIT delivery of merchandise just as we sell it?" he thought. "I'll bet that you could place smaller initial orders and follow up with appropriate re-orders just in time to meet increasing demand." He had read somewhere that it's called "Spontaneous Reordering" and it's based on JIT. It dawned on him that in fact his suppliers had gradually improved over time in being able to provide re-ordering capability throughout a season. This had not always been the case.

Cason then reflected on their regular routine of placing block orders for a whole season twice a year. His father started the policy and Cason had participated in it ever since he began working at Country Cobbler. They had developed procedures of (1) Deliberately over-ordering quantities of shoes in general and (2) Stocking many shoes in stores where those particular styles were not realistically likely to sell. The goal of the latter procedure was to build new markets but the results were typically inordinate quantities of inter-store transfers. All of this shipping was not only costly but susceptible to mistakes due to frequency and volume. A goal of the block order procedure was to always have a large and diverse inventory wherein customers could count on getting the product they wanted without backordering. A common phrase heard in each of the four locations was, "We're out of that shoe in your size but we'll have it for you tomorrow." Of course, the eventual bottom-line results had been good, rewarding the rigorous daily work schedule needed, including the need for routine liquidation each season of left-over stock by way of sales. Unlike some of their competitors, Country cobbler does not sell off large quantities of left-over merchandise to liquidators at loss, but passes the low-price opportunities on to their customers, gaining additional accolades.

A UNIQUE DATABASE

County Cobbler had developed a comprehensive and sophisticated sales transaction database for sales, inventory, and purchase orders. This was the result of Cason's early interest in database management and the bad experience of purchasing a poor

system from a software vendor. By trial and error and a lot of hard work, he had gradually built his own database. He could not imagine why it could not be used to accurately identify high-sales-rate shoes with stock-out potential. "It's time for us to get on board with some of these techniques I've been reading about," he thought, and with a smile realized that Country Cobbler could very well continue to stand up against the best of their competitors in the so-called high-tech, broadband, internet world. He was sure that their foundation of hard work and extraordinary experience, coupled now with intelligent use of a customized database should give them a competitive advantage in their target market. "Would JIT or some other quantitative tool be the trump card?" he thought.

QUESTIONS

1. Are there known quantitative management tools available to assist Country Cobbler's managers as they make seasonal orders or reorders?
2. Discuss the topic of management succession in family businesses using this case setting as a scenario.
3. What are some ways that Country Cobbler might reduce its inter-store shipping expenses?
4. Should the business consider reducing its abnormally high number of shoe brands to allow more control over its operations? Why or why not?
5. Is there any way to document the vast experience of the senior managers before they retire for the benefit of the successor managers, or will this expertise be lost?

ADDITIONAL READINGS

- Meggison, L., Byrd, M. and Megginson, W. (2006). *Small Business Management: An Entrepreneur's Guidebook*. (Fifth edition). New York, NY McGraw-Hill Irwin.
- Poza, E. (2004). *Family Business*. Mason, OH: Thomson/South-Western.
- Render, B., Stair, R. and Hanna, M. (2006). *Quantitative Analysis for Management*. (9th edition). Upper Saddle River, NJ: Pearson/Prentice Hall.

APPENDIX A – SAMPLE DATABASE

ITEM NO	DEPT	Vender	SIZE	WIDTH	STORE # NO	SOLD DATE	QTY	PRICE	COST	CLERK	HEEL	POSTED
312291002	L	RN	10.5	M	2	1/1/2005	1	64.99	29.50	LC	1	12/29/2004
124410035	L	NY	10.0	M	3	1/1/2005	1	29.99	13.50	MSP	2	7/7/2004
124124013	L	ME	9.0	M	1	1/1/2005	1	29.99	13.50	BSF	1	10/7/2004
123801086	L	EC	9.0	M	3	1/1/2005	1	100.00	45.00	MSP	9	4/22/2004
124553413	L	RH	7.5	N	2	1/1/2005	1	64.99	30.00	JH	7	12/6/2004
124501037	L	RN	8.5	N	3	1/1/2005	1	79.99	37.00	CME	1	10/15/2004
124163011	L	JGH	8.5	M	4	1/1/2005	1	19.99	10.75	CLO	8	10/21/2004
123935163	L	WW	8.5	N	3	1/1/2005	1	44.99	36.00	JJ	7	9/7/2004
109847127	L	WW	8.5	N	3	1/1/2005	1	49.99	36.00	JJ	4	6/29/2004
104313038	L	CY	9.0	M	4	1/1/2005	1	19.99	7.60	CLO	X	2/20/2002
108513207	L	LM	7.5	M	4	1/1/2005	1	19.99	4.00	CLO	3	8/4/2003
123967004	L	CW	9.0	M	4	1/1/2005	1	39.99	26.50	KLC	C	7/29/2004
124771066	L	BN	9.0	M	4	1/1/2005	1	49.99	37.50	KLC	P	9/17/2004
123661021	L	BT	7.0	M	1	1/1/2005	1	34.99	19.00	BSF	8	9/14/2004
107768094	L	LE	7.0	M	1	1/1/2005	1	29.99	6.80	BSF	5	5/28/2003
124561046	L	LU	7.0	M	4	1/1/2005	1	44.99	33.00	KLC	1	8/4/2004
124987009	L	NT	9.5	N	4	1/1/2005	1	44.99	27.50	RJH	C	10/4/2004
108246013	L	RR	8.5	M	1	1/1/2005	1	54.99	17.60	RJ	0	9/2/2003
123502032	L	MT	10.0	M	4	1/1/2005	1	19.99	13.50	KLC	0	9/9/2004
109106045	L	NB	6.5	M	4	1/1/2005	1	74.99	42.50	KLC	A	6/15/2004
108243018	L	RR	7.0	M	1	1/1/2005	1	54.99	17.60	RJ	0	9/2/2003
108836005	L	PD	7.0	M	1	1/1/2005	1	29.99	7.56	RJ	P	9/1/2003
107260661	L	WW	7.0	M	2	1/1/2005	1	35.99	13.80	JH	8	7/1/2003
107352037	L	ML	8.5	M	4	1/1/2005	1	24.99	7.60	KLC	8	7/18/2003
107353015	L	ML	8.5	M	4	1/1/2005	1	24.99	7.60	KLC	8	7/18/2003
107447029	L	OT	6.5	N	4	1/1/2005	1	49.99	29.00	KLC	8	2/27/2003
124734066	L	MD	9.5	N	1	1/1/2005	1	84.99	37.00	BSF	8	10/15/2004
106677043	L	WC	8.5	N	4	1/1/2005	1	29.99	9.98	CLO	X	10/23/2002
106154034	L	SF	7.5	M	4	1/1/2005	1	12.99	7.40	RJH	E	2/6/2003
124600080	L	OT	8.5	C	4	1/1/2005	1	49.99	25.00	RJH	8	8/17/2004
123678008	L	OT	8.0	D	4	1/1/2005	1	59.99	32.50	RJH	8	3/31/2004
125415005	L	OT	8.5	C	4	1/1/2005	1	54.99	32.00	RJH	8	11/15/2004
109669217	L	JGH	9.0	M	3	1/1/2005	1	29.99	10.75	CME	8	4/1/2004
109977012	L	LD	9.0	N	3	1/1/2005	1	29.99	16.50	CME	4	6/30/2004
124782012	L	BN	7.5	M	4	1/1/2005	1	69.99	33.50	KLC	C	12/1/2004
123519017	L	NB	5.5	M	3	1/1/2005	1	49.99	27.50	JJ	A	7/1/2004
125407003	L	MAT	8.0	M	4	1/1/2005	1	16.99	9.00	KLC	X	11/9/2004
125407015	L	MAT	8.0	M	4	1/1/2005	1	16.99	9.00	KLC	X	11/10/2004
109858024	L	RH	8.5	M	3	1/1/2005	1	49.99	31.00	CME	4	9/21/2004
124920026	L	LD	8.5	M	3	1/1/2005	1	29.99	15.00	CJ	4	9/23/2004
123620082	L	OT	8.5	N	3	1/1/2005	1	39.99	36.00	CME	7	7/1/2004
123620100	L	OT	8.5	N	3	1/1/2005	1	39.99	36.00	CME	7	7/1/2004
124138149	L	MP	9.0	M	3	1/1/2005	1	27.99	13.90	HM	1	10/8/2004
124699043	L	NB	8.5	M	3	1/1/2005	1	135.00	67.50	JJ	A	8/24/2004
124163023	L	JGH	7.0	M	3	1/1/2005	1	29.99	10.75	CME	8	10/21/2004
107716143	L	LD	6.5	M	4	1/1/2005	1	27.99	22.50	KLC	0	7/28/2003
103496109	L	DN	6.0	M	4	1/1/2005	1	19.99	6.80	KLC	0	7/27/2001
124173249	L	DN	9.0	M	3	1/1/2005	1	39.99	15.75	CJ	B	9/8/2004
108979040	L	BD	7.5	M	3	1/1/2005	1	41.99	60.00	CJ	3	1/19/2004
124809043	L	EC	10.0	M	1	1/1/2005	1	69.99	30.00	BSF	9	8/31/2004
108979089	L	BD	9.0	M	3	1/1/2005	1	62.99	37.00	JJ	X	1/19/2004
123757159	L	WE	9.0	M	1	1/1/2005	1	69.99	40.00	RJ	5	8/31/2004
312014001	L	LD	8.0	M	1	1/1/2005	1	29.99	6.00	JR	7	12/29/2003
125146002	L	EC	8.0	M	1	1/1/2005	1	125.00	60.00	JR	9	10/22/2004
123739050	L	PR	8.0	M	1	1/1/2005	1	39.99	32.00	JR	4	9/21/2004