

**CASE STUDIES OF
BUSINESSES FROM
WESTERN PACIFIC**

EDITED BY
MARIA CLARET M. RUANE, PH.D.

SPONSORED BY
**UNIVERSITY OF GUAM
SCHOOL OF BUSINESS AND PUBLIC ADMINISTRATION**

TO BE PUBLISHED IN
**THE JOURNAL OF THE INTERNATIONAL ACADEMY
FOR CASE STUDIES
ALLIED ACADEMIES**

MESSAGE FROM THE EDITOR

Hafa adai from Guam, U.S.A.!

It is with great pleasure that I welcome you to this issue of the Journal of the International Academy for Case Studies, a journal published by the Allied Academies to expand the boundaries of case teaching by supporting the exchange of case teaching materials.

This issue features the teaching cases about businesses on the island of Guam, U.S.A. in the Western Pacific region. It is hoped that this issue will be the first of several issues that will bring to educators and their students around the world the stories of entrepreneurs from the Asia-Pacific region and highlight the universality of the entrepreneur's persistent and untiring spirit and the rewards for his/her hard work. May these stories serve as an inspiration to aspiring entrepreneurs, wherever they may be.

The teaching cases featured in this issue show how businesses are affected and respond to many challenges, including compliance with government regulations such as those in the Mini Camachile Tree Store and the Marianas Environmental, LLC; competitive pressures from the market in the Isla Training Center and LorWill's BBQ Stand; a growing need for professional financial service as highlighted in the case of Advisors Unlimited; and a changing customer base in the case of Community First Guam Federal Credit Union.

I express my sincerest gratitude and appreciation to my dean at the School of Business and Public Administration at the University of Guam, Dr. Anita Borja-Enriquez, for her support and encouragement of this collaborative work between several of our faculty and our select students. I am also grateful to the Academy for providing us with the outlet through which we can share with scholars, educators, students and entrepreneurs around the world the stories of business hardships and successes from our islands in the Western Pacific. Special thanks are due to the members of my Editorial Review Board for their collegiality and service to our profession.

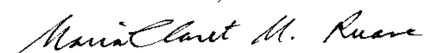
This journal is dedicated in memory of Mr. Francisco T. Salas, Jr., who co-authored one of the papers in this issue.

Consistent with the editorial practice of the Academy on all 19 journals it publishes, each paper in this issue has undergone a double-blind, peer-review process.

Information about the Allied Academies, the JIACS, and the other journals published by the Academy, as well as calls for conferences, are published at <http://www.alliedacademies.org>.

Si Yu'os Ma'åse!

From the Editor,



Maria Claret M. Ruane, Ph.D.

Associate Professor of Economics and Finance
School of Business and Public Administration
University of Guam

EDITORIAL REVIEW BOARD

Venus C. Ibarra, Ph.D.

Chair

Finance and Accounting Department

Ateneo de Manila University and San Pablo Colleges

Sangjoon Lee, Ph.D.

Assistant Professor of Economics

College of Business

Alfred University

Marilyn C. Salas, Ph.D.

Acting Director

Center for Excellence for Chamorro Language and Culture

University of Guam

Vivien T. Supangco, Ph.D.

Professor of Business Administration

College of Business Administration

University of the Philippines

Luz T. Suplico, Ph.D.

Associate Professor of Marketing Management

College of Business and Economics

De La Salle University-Manila

TABLE OF CONTENTS OF BUSINESS CASES

THE MINI CAMACHILE TREE STORE: SURVIVAL AND GROWTH IN A SPECIAL ENVIRONMENT

Ning Li, Ph.D., Assistant Professor of Public Administration, University of Guam
KenJoe Ada, MPA Graduate 200x, University of Guam

MARIANAS ENVIRONMENTAL, LLC.: BRILLIANT IDEA, DIFFICULT STARTUP

Ning Li, Ph.D., Assistant Professor of Public Administration, University of Guam
Charles Esteves, BA Senior, University of Guam

ISLA TRAINING CENTER: PRODUCT DIFFERENTIATION IN A PRICE-COMPETITIVE MARKET

Maria Claret M. Ruane, Ph.D., Associate Professor of Economics and Finance, University of Guam
Sandra Paulino, PMBA Graduate 2008, University of Guam

ADVISORS UNLIMITED: PRACTICAL APPLICATION OF ECONOMIC THEORY

Francisco T. Salas, Jr., BA Graduate 2008, University of Guam
Karri T. Perez, Ph.D., Assistant Professor of Global Resource Management, University of Guam

LORNA VALDEZ ON COOKING UP A BUSINESS: LORWILL'S BBQ STAND

Annette Taijeron Santos, Ph.D., Assistant Professor of Business Administration, University of Guam
Jennifer Dacanay, BA Graduate 2008, University of Guam

COMMUNITY FIRST GUAM FEDERAL CREDIT UNION

James J. Taylor, Ph.D., Associate Professor of Finance, University of Guam
Kimberly J. M. Perez, BA Graduate 2008, University of Guam

TEACHING NOTES ARE AVAILABLE IN A SEPARATE ISSUE.

THE MINI CAMACHILE TREE STORE: SURVIVAL AND GROWTH IN A SPECIAL ENVIRONMENT

Ning Li, University of Guam

nli.uog@gmail.com

KenJoe Ada, University of Guam

CASE DESCRIPTION

The primary subject matter of this case is the impact of government regulation on business. Other issues described in this case are related to small business management, business strategies, and cultural environment of doing business in Guam. The difficulty level of this case is three and up, which is appropriate for junior level and beyond. This case is designed for discussion in two class hours in a government and business, or an entrepreneurship, or a small business management course. Students are expected to spend about two hours for outside preparation, consisting mainly of reading the case and of familiarizing themselves with the business environment in the Western Pacific region.

CASE SYNOPSIS

This case is about the Mini Camachile Tree Store, a family-owned retail business operating on the island of Guam. The business was started right after the WWII by Mr. Jesus Maanao and subsequently entrusted to his daughter Louisa. Louisa's strategies moved the business into a new level of fast-growth by opening more than ten additional stores island-wide. The family-based retail business has to endure many regulations and rules and deals with various government agencies, ranging from the Department of Health and Social Services to the Department of Revenue and Taxation. Meanwhile, the business is able to balance the forces that influence market operations, such as economic activities and technological changes. In addition, the Mini Camachile Tree Store has been functioning in a business environment with unique natural characteristics and cultural heritage.

A BRIEF HISTORY

The Mini Camachile Tree Store is a family-owned business that has withstood the test of time dating back to post-WWII in the heart of Tumon on the island of Guam. The founder of the Store, Mr. Jesus O. Maanao, was a business-minded man who was always looking for ways to improve his financial situation. The business really started out as a hobby for he enjoyed the beer that came with the store.

Jesus' first main store was known as the "Hollywood Poolhall & Tumon Grocery Store" located at the now present day parking lot of "Stanlees" in the heart of Tumon. Upon selling the land in Tumon, he then moved his family to Dededo, where he opened the "Magic Hill" store in which he operated with his children. The store became popular amongst the locals in the area and still remains in the same location to date. It is on a lease contract.

Jesus' endeavor in running the Store was not an easy one for the single father of ten children. The loss of his wife, Agueda, due to child-birth left the businessman to fend for his children and become both father and mother. The number eight child of the ten was Louisa. She was the one whom Jesus entrusted his assets and businesses. Louisa, like her father, was a very business-minded person and took a lot of chances in the game of business. She married Roland

V. Ada, the youngest son of Jose and Regina H. Ada of Tamuning. Roland was a former army Engineer and is now retired under the Guam Power Authority.

Upon taking over the “Magic Hill” store in Dededo, Louisa expanded her ideas to a whole new level of business that her father could only dream of. She decided to take up a lease contract which resulted in the “Mini Camachile Tree Store” in Windward Hills, Yona. The store was nothing like her pool-hall/game-room and was appropriately named after the tree that grew next to the store, a Camachile tree.

Riding her wave of ideas and through the opportunities that arose eventually, Louisa expanded her business by opening “Magic Hill Store”, “JAM Janitorial”, “Che’lu’s Mini Mart” in Agat, “Lil’ Bob’s Café” at the Agana pool, “Ma’anao’s Catering”, “Mother’s Day Store”, Sayama’s Video”, “Sayama’s Feed”, “Tendan I Sengsong” and the new franchise “BJT Entertainment”. Using her financial business practices, the Mini Camachile Tree Store was the staple that made everything possible.

Louisa’s business practice was pretty simple: being honest, promoting customer satisfaction, and staying in compliance with the governmental aspects of the business world. Moreover, her success also comes from learning from experiences at the expense of losing. Louisa has lost the roof over her head due to natural disasters like Typhoon Russ, and as recent as Typhoon PongSong-ha. No matter what happened, like many business people, Louisa kept optimistic of the future with the intent of longevity when doing business.

GOVERNMENT REGULATIONS

There are many rules and regulations that a store must endure, but these rules and regulations are in place to not only protect the store, but to maximize a store’s potential not only in business, but more importantly, in the community.

The importance of staying in compliance with the governmental licensing, rules, and regulation is at the forefront of operating the business at the Mini Camachile Tree Store. The “trick” is not to draw any unwanted attention to the business. For example, when the media covers a restaurant that does not use ethical practices, the restaurant draws unwanted attention and eventually loses the public trust as well as its rating of A,B or C.

Each rating represents the infractions or demerits that the business may incur during an inspection from the government’s Department of Public Health and Social Services. An “A” rating is based on an assigned demerit score of 10 or less demerit points. The placard indicating the stores’ rating is also required to be placed in a conspicuous space for the customers to see and become aware of the store’s rating grade. A demerit can range from dirty floors to an un-kept restroom. The general maintenance of the store is the primary focus of the inspector. The inspector represents the general public and it is their responsibility to hold the store accountable for the infractions the store may incur.

In turn, the store’s managers and workers must always be aware of the store’s operations ranging from product expiration dates, to making orders and inspecting the items coming in and the general cleanliness of the store for a smooth operation. It is also during an inspection that the inspector takes the opportunity to relay important messages or notices from the Department of Public Health and Social Services. For example, a printed statement from the Director of the department would like to give the store a kind of “heads up” on things that are current and request that the store check their shelves for items that can be potentially dangerous if consumed by anybody.

In the Mini Camachile Tree Store, these notices are usually taken care of as soon as they are received. Things ranging from lead-based toys, potentially hazardous foods, a certain kind of

toothpaste that is being recalled by the manufacturing company and proper temperature for refrigerated foods as an annual reminder.

The Department of Mental Health and Substance Abuse along with the Department of Revenue and Taxation really play an important role in regulating the stores as a part of the tobacco control act of 1998. The intent of the program is to take underage “smokers” and have them enter the establishment and request to buy a pack of cigarettes. The cashier must be able to identify if the person is a minor and not of age to consume the product. If the cashier fails to identify the minor and fails to check for identification, he or she has earned the store a penalty of monetary proportions. However, if the cashier successfully identifies the minor and asks for Identification, or refuses to sell the minor the cigarettes, then the cashier has played their part in maintaining a healthy Guam. The cashier will receive a “Certificate of Compliance” signed by both of the Directors of the Department of Revenue and Taxation and of the Department of Mental Health and Substance Abuse.

The Department of Revenue and Taxation issues business license to individuals who wishes to start a business on Guam. In opening its business, the Mini Camachile Tree Store experienced the same procedure. Depending on the type of business that will be conducted, the business will be required to obtain clearances from various government agencies. For example, if somebody wants to convert his/her home to rental property, this individual will be required to obtain clearances from the Department of Land Management and the Department of Public Works (DPW). Upon approval of the Business License, the business will be issued a Gross Receipts Tax (GRT) Account Number for purposes of filing and paying your GRT.

The Mini Camachile Tree Store must be prepared for many things at all times. For example, the Americans with Disabilities Act (ADA) provided that because of programs the store houses, the facilities must also conform to the rules and regulations that follow the program. The store in turn, had rails, a ramp, and a reserved handicap parking space installed to meet these requirements.

As a pre-caution, the store has a camera system in place and witnesses according to the shift. For example, the afternoon shift is a low-activity shift, so the cashier usually works with management during these hours. On the other hand, the night shift is a busy shift, so the cashier is teamed up with stocker or stockers to cover the areas that the cashier is too busy to supervise as a preventive measure towards injury to the customer.

There are a lot of unforeseen elements that contribute to the legal matters that the store must address like if a customer slipped in the store and was injured, we must always be alert and never let your guard down. But to take the pre-cautionary steps to prevent such a scene is a virtue to ensure and safe working and shopping environment, but more importantly does not jeopardize the business.

RUNNING BUSINESS IN A SPECIAL ENVIRONMENT

In a small business the key is being able to balance the forces that influence market operations, including all economic activities, competitors’ actions, and technological changes to name a few. In order to keep up to speed in the competitive market, the Mini Camachile Tree Store strives to attract customers by providing them with convenient services. For example, during the Government of Guam pay periods, the store functions on a check-cashing system that protects the interest of the store. Consumers are able to cash their checks, but in turn will buy up to ten percent (10%) of the check cashed according to store policy. Another example is to accommodate influxes of grocery shoppers on the beginning and end of each month due to the food-stamp program, otherwise known as the Electronic Benefit Transfer (EBT-the Guam Quest card), in which each card holders’ account is replenished during this time. The technologies

surrounding the EBT program have evolved from paper Food Stamps to the now electronic card-swiping system. Each store of the Mini Camachile Tree Store maintains a card machine in addition to a store I.D. number and pin number to access the account when handling banking duties.

The Mini Camachile Tree Store operates its business on a dual system. There are two generations that operate the store, and the older generation relies heavily on the “traditional” method rather than learning the technological system. All book-keeping is manually recorded in simple notebooks and receipts are filed in boxes chronologically. Records of everyday sales, payments on accounts, accounts receivables, and cash on delivery status (C.O.D.) are manually recorded. On the other hand, the younger generation of the store family conforms to the electronic method of record-keeping when handling some business ranging from e-mailing interested vendors to record-keeping using programs like Microsoft Excel. The younger generation is also adequately trained on registers and both the EBT and Credit Card machines. They attend all workshops offered by the Department of Public Health and Social Services and the Woman Infant Child program (WIC) to keep the store updated on both technological changes as well as updated information in regards to the store and government policy.

To the Mini Camachile Tree Store, this dual system does not hinder the store from improving, but rather it enhances the operation. In the case of record-keeping, there are two models in place that will eventually help the store accountant/GM by giving her information and she will then conclude accurate numbers for taxation and general financial purposes.

As a locally-owned business, the Mini Camachile Tree Store has always welcomed outside vendors to accommodate the popular taste of Chamorro food, such as tamales gisu, empanada, coconut candy, etc. This outsourcing is sharing the wealth of the business with the community.

As a family store, the Mini Camachile Tree Store also provides a family-friendly environment even down to the music that is played in the store. The cashiers are well aware of their environment and are able to assist customers in almost everything they ask for, ranging from the use of restroom facilities, phone, to directions to the nearest golf course or hiking trail. In addition, the cashiers and management never show that they are having a “bad day”, as business is an attitude, and a positive attitude renders positive return.

When a typhoon threatens Guam, the community surrounding the Mini Camachile Tree Store shifts the store into over-drive. The shelves must be stocked to its limits to accommodate the high demand of a product e.g. water, batteries, propane fuel, among others, all in efforts to be adequately prepared for the typhoon.

A rainy day also forecasts the sales of the day. Because of the human tendency to stay dry, most people opt not to pull over to the store during a rainy day just to get wet while running inside the store to buy a drink, but they would brave the elements if they needed something like a can of soup for a sick family member. So in a sense, the rain separates wants from needs which in turn make the store sales reflect that indication. While during a hot sunny day is the vice versa of the rain forecast sales. It means a successful business day for many stores. The hot sun promotes drinks, ice, ice cream, etc., all for the trip to the beach with the family and/or the golf course with friends.

The natural environment around the store also presents what is inside as well. A dirty parking lot and un-kept lawn is not an inviting scenario to shop. So the lawn must be kept and a clean parking lot at all times. This is always a priority. Part of being a business is selling an image. That image must be well maintained to keep loyal customers given that they like the environment provided for them.

The internal environment at the Mini Camachile Tree Store transcends from co-workers to family. The upside of a family business is just that, family. Nothing is explicit and everyone

is aware of each other's function and must respect each other in order for the business to be successful, by osmosis. And the downside of the business is again, family. With each personality within the business, some may clash with others, but unlike a co-worker who goes home every night, you live with your family. So each problem is usually taken care of from a family standpoint.

DISCUSSION QUESTIONS

1. What are Louisa's main business strategies?
2. Conduct a business environmental analysis of this case. Be sure to include the following:
 - *The Economic Environment*
 - *The Technological Environment*
 - *The Political Environment*
 - *The Legal Environment*
 - *The Cultural Environment*
 - *The Natural Environment*
 - *The Internal Environment*
3. Describe the business-government relationship for a small family-owned retail business in Guam.

MARIANAS ENVIRONMENTAL, LLC.: BRILLIANT IDEA, DIFFICULT STARTUP

Ning Li, University of Guam

nli.uog@gmail.com

Charles Esteves, University of Guam

cesteves@guam.net

CASE DESCRIPTION

The primary subject matter of this case is entrepreneurship. Other issues described in this case are related to small business management, business strategies, and impact of government regulation on business. The difficulty level of this case is three and up, which is appropriate for junior level and beyond. This case is designed for discussion in two class hours in an entrepreneurship, or a small business management, or a government and business course. Students are expected to spend about two hours for outside preparation, consisting mainly of reading the case and of familiarizing themselves with the business environment in the Western Pacific region.

CASE SYNOPSIS

This case is about the start-up of Marianas Environmental, LLC.(MELLC), a small business in the island of Guam. The initial business idea of MELLC was to recycle used vehicle tires and produce four main types of crumb rubber and two types of marketable waste. Though the business idea seemed promising, MELLC experienced hard time with its start-up. The obtaining of permit from Guam EPA was unexpectedly delayed and the business with the Australian machinery equipment supplier turned out to be a nightmare. As a result, MELLC was forced to cease its operations with tire recycling. Nonetheless, MELLC survived by doing business of heavy equipment rentals. The company is now waiting for the crumb rubber machine which will be shipped from California to Guam to resume its tire recycling business within the next year.

THE BUSINESS IDEA

Mr. Charles Esteves first noticed the need for a tire recycling facility when he was passing a wall of baled tires near Polaris Point in Piti of the island of Guam in early 2004. His further investigation on this issue revealed that Guam had a large stockpile of used tires but there was no facility in Guam able to process used tires into marketable products. Obviously there was a ready market for these used tires, but only if they are processed. Further studies showed that the demand for granulate and crumb rubber was at an all-time high with the demand being forecasted to increase even further.

Information from Guam Environmental Protection Agency (GEPA) showed that there were approximately 750 tons of used commercial and passenger tires generated in Guam each year. The majority of these tires were simply stored un-compacted in open fields pending shipment off island for processing. Improper storage of these tires had created prime mosquito breeding grounds. It also resulted in several well-publicized fires that emitted large volumes of thick black smoke and noxious fumes, a situation that is wholly unacceptable in a first class tourist destination such as Guam.

Guam tire dealers charged \$3.00 per new tire to defray the costs of disposing of the used passenger tires, and even higher fees were charged for commercial tires depending on their size.

A significant portion of the disposal fee was then paid over to the company that hauled the tires from dealerships. This arrangement created a ready supply of used tires, as new tire dealers collected used tires from virtually all customers to whom new tires were sold. With more than 100,000 passenger vehicles registered in Guam, Esteves estimated at least 12,000 used passenger tires were generated each year. Combined with the more modest amount of used commercial tires generated each year, the amount of used tire supply would enable a recycling and processing plant to run at or near full single-shift capacity within a short time of becoming fully operational.

With the knowledge of tire recycling and of Guam practice on processing waste tires, Mr. Esteves decided to exploit this niche market. The idea was to produce four main types of crumb rubber and two types of marketable waste. They are: Plus 4 Buffing, Minus 30 Mesh Powder, 1mm to 4 mm Granulate, 8 mm to 15 mm Granulate, Waste metal product, and Tire Derived Fuel (TDF). In February 2004, he had the first meeting with Mr. Greg Perez, President and co-owner of Perez Bros, Inc (PBI) to seek financial backing for his business plan.

Perez Bros., Inc. ("PBI") is one of Guam's oldest companies, founded over 50 years ago by the late Frank and Carmen Perez. PBI's core business is the production of concrete, concrete block, and aggregates for Guam's construction industry. PBI's founders were always interested in forming business that would benefit the people of Guam while generating a reasonable return on their investment.

The management of PBI was convinced by the idea and plan proposed by Esteves and decided to provide the funding and management support necessary to turn Esteves' vision of a modern used tire processing facility into reality. After numerous meetings and discussions, PBI and Esteves reached an agreement to partner up. On April 29, 2004, Marianas Environmental, LLC. was formed. The entire process was guided by PBI's lawyer Jim Baldwin with the firm Klemm, Blair, Johnson, and Sterling. Obtaining the Limited Liability Company Certificate and business license was a fairly smooth process.

FIRST ROADBLOCK TO PROGRESS

Although the process of obtaining business license was encouraging, the events that ensued proved troublesome. Soon after the business was formed, Esteves and PBI worked to purchase the machines and obtain permitting. They needed to obtain permitting from the Department of Public Works (DPW) and the Guam Environmental Protection Agency (GEPA). Since MELLC was going to be conducting tire recycling operations on PBI's lot, it did not take long to obtain clearance from DPW because PBI was already zoned. GEPA on the other hand required them to submit separate applications to obtain separate clearances. Those clearances were for solid waste processing and solid waste storage.

Completion of the GEPA Solid Waste Management permit application was intense. It required a detailed description of the facility, component specifications, method of operation, site personnel and operational life-cycle information, residues expected from processing, maintenance plan, method of record keeping, fire control, vector control, storm water drainage, emergency procedures, and a statement of financial assurance. After completing the application, it was signed off by a professional engineer (PE) and submitted. In the mean time, MELLC remained stagnant while it waited for its shipments and for the permit.

MELLC originally planned to purchase all machinery from an Australian equipment manufacturer. The supplier was going to provide the MELLC plant with containers and bins for storage and shipment of these products. MELLC was hoping this arrangement would further reduce its start-up costs. A month later, the first shipment of parts for the plant came.

However, the permit application was still in GEPA's offices for review. Six months came and went, and MELLC finally received approval to operate under a temporary permit. The temporary permit had limitations such as the maximum number of tires stored at any given time. It was not until July 2005 that MELLC received its permits to store and process tires.

The delay of the permit was not entirely due to GEPA's fault. Most of the problems associated with GEPA long wait times were due to the fact that they were understaffed, and they had no working budget (all GEPA operating money comes from U.S. grants). GEPA chaired too many projects and most of their personnel were dual and sometimes triple hatted. The bottom line was that GEPA was an extremely busy organization for the small amount of people they employed. Just like every other organization and business on island, GEPA had its priorities and review and processing permit applications just did not seem to be at the top.

SECOND ROADBLOCK TO PROGRESS

By the time the permit was received, MELLC came across another pitfall. The Australian company they were buying equipment from was going under liquidation. Unfortunately, MELLC had only received a half shipment of parts. In addition to providing machinery, the Australian company had a product buy-back agreement with MELLC. According to the agreement, the Australian company had planned to buy back 100% of all the crumb rubber produced by MELLC. To make matters worse, the Australian company never refunded their deposit of \$180,000, and, as a result, MELLC was coming close to shutting down its operations completely. MELLC decided to proceed with a lawsuit against the Australian company. However, the lawsuit would involve two different judicial systems in two countries and, thus, would be very time consuming and expensive. MELLC paid lawyers in both Guam and Australia but it turned out to be a no-win situation.

Because MELLC had no method of processing the tires further, the company was forced to buy an all purpose shredder in hoping this would provide MELLC with a quick fix solution, but a notice from GEPA was soon received regarding violation for the stock pile of tires. The method of storing tires in MELLC was to put them in cubed bales and GEPA did not consider baling recycling. Therefore, MELLC had no choice but to find a method to process tires. The situation was pretty grim considering the fact that the general purpose shredder processed tires into a product that was not marketable.

FURTHER EFFORTS

Over the next couple of years, MELLC worked its way out of debt. In a short period of time, MELLC had stockpiled an abundance of tires. They were still far away from their goal of obtaining a crumb rubber machine. Towards the end of 2006, Esteves and Greg Perez started a series of meetings with Government of Guam officials to try and help their cause. They met with Joaquin Flores, the director of the Guam Power Authority to discuss the feasibility of using tire derived fuel as a backup source of fuel. On October 11, 2006 they had the opportunity to discuss with a series of local authorities on the use of shredded tires and crumb rubber in civil engineering projects. People they met with included Senator Joanne Brown; a representative from the office of Senator Eddie Baza Calvo; Larry Perez, the director for the Guam Department of Public Works; and representatives from GEPA's Solid Waste Management, and Water departments.

Basically MELLC was trying to gain support and approval to use tires in a number of civil engineering applications. They hoped to gain approval to use shredded tires as pipe cushion and a filter in leaching fields. Both jobs require sand, and sand is a nonrenewable source.

MELLC was seeking approval to use rubber as an aggregate in roads rather than rock. This method is also known as rubberized asphalt concrete (RAC). Without going into too much detail, RAC is a cost effective, environmentally friendly method to paving more durable, safer, and quieter roads. During their discussion of using rubber in the aforementioned applications, MELLC received approval from every agency except GEPA. GEPA denied using shredded tires as a pipe cushion or in leaching fields. They proposed to do a one year study.

CURRENT SITUATION

Since then, MELLC has temporarily ceased all tire related activity until it can acquire a crumb rubber machine which should be happening within the next year. MELLC had learned its lesson from the bad experience in dealing with the Australian company. This time the business was given to a mainland US company in California.

MELLC is currently engaged in heavy equipment rentals which turned out to be an extremely prosperous venture. Another notably change is with the ownership. Esteves purchased the Perez Bros Inc. share of MELLC for roughly \$260,000.

DISCUSSION QUESTIONS

1. How do you evaluate Mr. Charles Esteves' business idea and entrepreneurship?
2. How did Guam EPA act as a roadblock to progress for MELLC?
3. What can we learn from MELLC's experience as a small business in Guam?

ISLA TRAINING CENTER: PRODUCT DIFFERENTIATION IN A PRICE-COMPETITIVE MARKET

Maria Claret M. Ruane, University of Guam
ruanemcm@yahoo.com
Sandra Paulino, University of Guam
sp@guamtaxshelter.com

CASE DESCRIPTION

The primary subject matter of this case is product differentiation in a relatively price-competitive market. In particular, this case highlights different elements that business owners use to differentiate their products, especially when they face constraints in bringing their business costs down, which prevents them from engaging in direct, price competition. This case has a difficulty level of three and up, appropriate for junior level and beyond. The case is designed to be taught in two to three class hours in a management, managerial economics, or an entrepreneurship course, and is expected to require about three hours of outside preparation for students, consisting mainly of reading the case and familiarizing themselves with the business environments on the U.S. territory of Guam in the Western Pacific region.

CASE SYNOPSIS

The case is about Isla Training Center, a strategic business unit of the Guam-based small business named Tax Shelter, Inc. that provides training services in computer applications. The case traces through the creation of the Isla Training Center in response to a request for proposal from a U.S. Federal agency and the business decisions that had to be made when Federal funding was terminated. Consequently, Isla had to reorient its business operation from originally serving a “captive” market of public sector clientele to entering a relatively competitive market of private sector customers. As such, Isla had to differentiate itself from its competitors by focusing on its better quality products and customer service, which is tantamount to transforming itself to a monopolistically competitive firm.

INTRODUCTION

The Tax Shelter, Inc. is a small accounting firm offering accounting and tax preparation services and business consulting services since 2000. It is located on Guam, a U.S. territory in the Western Pacific. It is a customer-oriented organization that focuses on its clients' needs in the accounting and finance and plays a consultant role to help its clients to achieve their specific goals. It has three Strategic Business Units: tax preparation, business consulting, and computer training services. This case focuses on the creation of its computer training services unit, Isla Training Center.

The business owners' decision to open Isla Training Center (Isla, henceforth) was made in 2006 in response to a Request for Proposal (RFP) advertised by a government agency. It was going to serve the training needs of those employed in the government sector. The Tax Shelter submitted a proposal and was awarded a contract for six months. The contract expired the end of 2006 and another RFP was in process for the subsequent fiscal year. A new contract was signed in June 2007 but deemed illegal due to improper procurement procedures made by the government agency. This resulted in delays in the contract process, a waiting period during which Isla continued to incur fixed costs. It was at this time that the owners of Isla had to

reorient its business operation from originally serving a “captive” market of public sector clientele to entering a relatively competitive market of private sector customers.

BUSINESS ENVIRONMENT

Market Overview

Computer training services is a developing market on Guam. Even though the industry’s growth rate has not been surveyed, the increasing competitors prove that the market is growing. The market started off in the tourism sector where tourism businesses focused on its employees’ computer literacy as a way to improve its customer service and to attract affluent tourists to visit Guam. Since then, other businesses and government agencies followed suit and began focusing on hiring well-educated and skilled employees. Consequently, the demand for training programs has increased. Meanwhile, to enter the market of computer training services does not require strong backgrounds or support, such as huge capital or high technology. Guam’s relatively small population from which to draw prospective customers, combined with low barriers to enter the market, have created a relatively competitive market where pricing strategies are important.

Prospective Customers

Customers include those who work in the public and private sector, as well as individuals. The public sector includes agencies that usually set aside a budget for training and other professional development. Some agencies are mandated to provide training services for their clients. To improve the efficiency and effectiveness, the public sector often imports the experiences of private businesses via outsourcing consultants. In addition, the people network on Guam is powerful and effective. Word of mouth deeply influences the public sector’s decisions where its trainings are held. Those who have worked in the public sector are the key people who influence those decisions.

Each government agency sets aside a budget for staff development according to their annual allotment and number of personnel. Most agencies that do have funds for staff development are either autonomous or receive a large portion of federal funds. The agencies with local funds are limited to a small portion for staff development which varies between agencies. For example, one agency is 90% federally funded and 10% locally funded. Because of the high percentage of federal funds and high level of support from the grantor agency, it is able to allot about \$250,000 to \$300,000 annually for off-island and on-island training. This amount is for about 60 staff of the agency for certification training not offered on island. In addition, this agency identifies funding for staff to participate in training on island in areas such as computer, personnel, and procurement.

Another agency, for example, has very limited funding for training as most of the funds come from the general coffers. As such, its staff rely on the small amounts of federal funds it receives in order to attend training. Staff development appears to be not a top priority for the Government of Guam because of the tight fiscal constraints it has been facing in recent years. Because of this, each agency or department must identify other sources of funding for training.

In the private sector, big businesses usually have their own training department, although many of them have begun to find using an outside training provider to be more cost-effective. Most of medium and small businesses do not have their own in-house training systems, partly because training is not a top priority in their resource allocation. However, they are aware that lack of training can be a hindrance to their growth and to enhance their competitiveness. face a bottleneck of growth, they know that training is the key to expansion. In addition, some start-up businesses invest in training to position themselves well in their competitive market.

At the individual's level, the common motivation for participating in training programs is personal or professional enrichments, with examples of the latter to include seeking either promotions in their workplaces or better opportunities in other companies. Some are also preparing themselves to be business owners.

Competitors

The three major competitors on Guam who provide similar services consist of the professional development center of a public university and two private businesses. In this paper, these competitors will be referred to as Competitors 1, 2 and 3, respectively. There are two other private businesses that provide similar services but are not considered to be a direct competitor to Isla.

Competitor 1 provides Microsoft Office training but does not provide Quickbooks training. It also caters mainly to the public sector. Competitor 2 provides Quickbooks training but does not provide Microsoft Training. Both Competitors 2 and 3 cater to the private sector and individuals. While Competitor 1 advertises mainly through its website, it is not known how Competitors 2 and 3 reach their target market. Isla's and its competitors' profiles are summarized in Table 1.

Table 1
Isla and Other Computer Training Centers on Guam

	Isla Training Center	Competitor 1	Competitor 2	Competitor 3
Private/Public	Private	Public	Private	Private
Location	Harmon, Guam	Mangilao, Guam	Hagatna, Guam	Harmon, Guam
Products/Services	Microsoft Office and Quickbooks Training	Microsoft Office Training	Quickbooks Training	Microsoft Office and Quickbooks Training
Prices	\$350 for MS Office course (12 hours) and \$400 for Quickbooks course (12 hours)	\$150 for 8 Hours \$100 for 4 Hours	\$950 for 3 months	\$225 for 8 weeks
Course Duration	12 Hours each course	8 Hours each course 4 Hours each course	3 Hours/week	3 Hours/week
Price per hour	\$29.17 to \$33.33	\$18.75	\$24.36	\$9.38
Lab Capacity	12 Clients	20 Clients	16 Clients	10 Clients

As one can see in Table 1, Isla's price is the highest among all computer training providers.

Comparatively, its price is 65% higher than Competitor 1's price, 24% higher than Competitor 2's price, and 230% than Competitor 3's price (note that Competitor 3's price does not appear to compare well with other competitors' prices).

Although the computer training market on Guam does not fit the standard purely competitive market definition, especially the part about having a large number of independent, price-taking sellers, the small size of the Guam market relative to the number of training centers creates a business environment that is fiercely competitive. In this type of environment, a business can adopt one of two strategies. One strategy is to become the low-price competitor, which would usually require keeping the business's costs down, perhaps in combination with other measures to keep its price low. Another strategy is to not compete directly in terms of price but instead to differentiate its products by convincing prospective customers that its products are better than those of its competitors. In doing so, the business is in effect removing itself from a purely competitive environment to a monopolistically competitive environment.

Isla has to adopt the latter strategy because it is unable to bring its costs down and thus must set its prices higher than those of its competitors'. In determining its price, the owners of Isla considered its costs, both fixed and variable. Focusing only on accounting or explicit costs and ignoring implicit or opportunity costs, Isla breaks even when it charges a price of \$350 per customer to a minimum of 24 customers per month. Worse yet, if implicit or opportunity costs were included, owners have to charge an extra \$172 per customer or attract more customers. (These implicit or opportunity costs include the interest income owners had to forgo to use their own savings to start up the business and the employment income that one of the owners had to forgo to run the business on a full-time basis.)

PRODUCT DIFFERENTIATION STRATEGY

As stated in the previous section, Isla has had to adopt the strategy of product differentiation as it is unable to compete on the basis of direct, price competition. Instead, it must convince its prospective customers that some aspect of its product (that is, computer training services) is better than its competitors. Marginal analysis provides a theoretical guideline for how this is done: customers would be willing to pay a higher price (a cost to them) if the quality or some other positive attributes of the product (which are benefits to the customer) are proportionately higher. In Isla's case, if its price is $x\%$ higher than its competitor's price, then its products must be at least $x\%$ better, at least as perceived by prospective customers, than those of its competitors. Expressed differently, Isla can compete even with its higher price as long as it is perceived to offer prospective customers with a better value, that is, more benefits for what customers paid compared to what the competitors offer. In reality, the benefits are difficult to measure and hence comparison of Isla's product with those of Competitors 1 and 2 cannot be performed. Nonetheless, the general rule of marginal analysis still applies in a qualitative sense.

In what follows, different elements of Isla's product differentiation strategy are discussed. The centerpiece of Isla's strategy to differentiate itself from its competitors is to showcase itself as a customer-oriented company that offers quality training services that, when compared to Isla's competitors, more than justify Isla's higher price. Isla meets this mission by having certified and reputable instructors and staff, quality materials and latest technology, and excellent customer service.

Qualified, Reputable and Well-Connected Staff

The key people involved in Isla are shown in the table 2 below. These individuals have the educational and professional background and expertise to provide quality computer training services. Isla's management is committed to ensuring that those who take the courses are completely satisfied with the content, customer service, and the overall environment. The management is also positioned to meet the future needs for the growth of the company. Currently, the company has its major weakness in the lack of expertise in marketing and sales, which is viewed as a potential obstacle for the company's future growth prospects. The management at Isla is looking for ways to address this weakness.

Table 2
Management and Instructional Team of the Isla Training Center

Name	Work Experience	Credentials
James Paulino, Instructor	<ul style="list-style-type: none"> ■ One year as Accountant with Triple J Enterprises, 1987 ■ Two years as Assistant Buyer with Duty Free Shoppers, 1987-1989 ■ 13 Years as a Planner and Asst. to Controller with the Guam Waterworks Authority, 1989-2002 ■ 8 Years as Tax Preparer and Business Consultant with The Tax Shelter, 2000-2008 (part time and full time) ■ One year as Quickbooks Class Instructor for Competitor 1 ■ Presently a Quickbooks Instructor for the Isla Training Center 	<ul style="list-style-type: none"> ■ B.A. in Finance and Accounting, University of Oregon, 1986 ■ Licensed Real Estate Broker, 2007
Ed Cruz, Instructor	<ul style="list-style-type: none"> ■ One year of Web Development with IT&E Overseas, Inc. ■ Three years as Web Architect with ByDesign Identity Mgt. ■ Six years as IT Specialist/Webmaster with Bank of Guam. ■ One Year as IT Administrator with Graphic Center ■ Microsoft Office Training Instructor for Isla Training Center since July 2007 	<ul style="list-style-type: none"> ■ B. S. in Information Technology, University of Phoenix, 2008 ■ Microsoft Certified Systems Administrator (MCSA) ■ Microsoft Certified Professional (MCP) ■ Comptia Security + ■ Comptia A+ ■ Certified Data Cabling Installer - Category 5 (CDCI)
Sandra Paulino, Training Coordinator	<ul style="list-style-type: none"> ■ Seven years as Administrative Assistant and Program Coordinator with the Dept. of Public Health and Social Services handling federal grants and programs. ■ 10 Years as Administrative Services Officer with Guam Environmental Protection Agency handling all fiscal, personnel, and administrative aspects. ■ Center Manager for Isla Training Center since July 2007 	<ul style="list-style-type: none"> ■ M.B.A., University of Guam, May 2008 ■ B.S. in Public Administration, University of Guam, 1993 ■ Extensive training and experience in grants management

Not only are the members of the management and instructional staff qualified, they have also built a good reputation in the community and are well-connected in a market that is highly personal. Guam's small business culture is somewhat unique in that the island is small and many owners and/or managers are either related or went to school with one another. Because of this personal relationship, small business owners and/or managers tend to seek out each other's services. Business owners have developed personal relationships over the years. There is a level of trust already developed from these relationships which extends to doing business with one another. There is also a positive level of competition between the businesses in that the owners and/or managers work harder to be competitive although usually not directly with each other as their areas of expertise are different.

Latest Technology and Quality Course Materials

Isla is both market- and technology-driven which means the training materials and computer hardware must be up-to-date. For example, software programs are updated constantly, such as the recent release of Microsoft Office 2007 and Quickbooks 2007. These programs were recently introduced to the market which means that Isla must incorporate these programs into its

curriculum. The management understands how important it is to stay current and, as such, constantly considers the best timing, cost, and expected revenue to update new released computer software and hardware. Staying current and adopting updates as they become available is one way that Isla differentiates itself from its competitors, knowing too well that updating too often will drive up its costs and reduce profits. Yet, updating too slowly or belatedly will push its clients away towards its competitors.

Excellent customer service

Isla prides itself of providing excellent customer service through reliability, flexibility, convenience, trustworthiness and integrity. To meet their customers' needs, Isla staff consists of two instructors and one training coordinator (as presented in Table 2). One of the instructors is in charge of scheduling the training sessions and works with the training coordinator to ensure that training materials are prepared prior to the training sessions. Although the instructors are available only during instruction and lab times, the training coordinator is available full time, maintaining the training facility and attends to customer's needs during business hours. The instructors are usually notified within 48 hours of the training and are always available for the course.

Another distinctive feature of Isla's service is that it offers two hours of lab time with instructors at no additional charge.

FINANCIAL POSITION

It is too soon to evaluate the success of Isla's business strategy of product differentiation. Limited data for the period between June and December 2007 show that the business generated a loss, in both accounting and economic sense.

Isla's revenues increased noticeably from approximately \$ 30,000 and \$ 95,000 in 2004 and 2005, respectively, to almost \$300,000 in 2006. Much of its 2006 revenue was re-invested to expand the training center. Between January and June 2007, Isla's revenue was minimal as it waited for the renewal of its contract with a federal government agency, only for the new contract to be deemed illegal due to improper procurement procedures made by the government agency. To pay for its business costs, many of which were fixed, Isla decided to tap into private sector clientele, yielding an estimated revenue of \$60,000 between June and December 2007, or \$8,571 per month.

For the period June-December 2007, Isla incurred the following costs, divided into explicit and implicit costs (see Table 3):

Table 3
Isla's Monthly Costs, June-December 2007

Explicit Costs=\$9,446	
Payment to instructors	\$3,600
Rent	\$1,450
Utilities	\$505
Administrative	\$1,500
Advertising	\$852
Other	\$205
Computer Hardware and Software	\$1,209
Computer Supplies	\$125
Implicit Costs, also known as Opportunity Costs=\$4,149.67	
Forgone interest on business owners' savings	\$66.67
Training coordinator's forgone salary	\$4,083
Total cost=\$13,595.67	

Among the implicit costs are the opportunity costs of using the business owners' savings of \$16,000 to set up Isla, in this case, interest earnings at 5% per year. Another opportunity cost arises from the decision by the training coordinator to give up her position as a career government employee (earning \$49,000 per year) to work at Isla on a full-time basis. Of course, there are advantages to working at the training center instead of a government agency, including the greater flexibility to do other things when no training classes are taking place. While she stays in the facility to respond to customer's inquiries, she also can use the time to pursue activities aimed at professional and personal enrichment.

Based on the revenue and cost data for the period June-December 2007, Isla posted a monthly accounting loss of \$ 875 and a monthly economic loss of \$5,024.67.

DISCUSSION QUESTIONS

1. Isla Training Center was added to the Tax Shelter, Inc. as a strategic business unit in 2006. Explain what motivated this business decision. Expand on your answer by describing the risks associated with this or similar business decision(s).
2. Explain the difference in accounting and economic profits in general and those reported by Isla during the June-December 2007 period.
3. From the title of the case, explain how the strategy of product differentiation is equivalent to creating some type of monopoly, and explain what strategies Isla Training Center used to differentiate its product from those offered by its competitors.

REFERENCES

Paulino, Sandra (2008). Isla Training Center: A Strategic Business Unit of Tax Shelter, Inc., unpublished manuscript.

Reed, P. (1992). *Marketing Planning and Strategy*. Sydney: Harcourt Brace.

Thomas, Christopher R. & S. Charles Maurice (2008), *Managerial Economics, 9th Edition*, McGraw Hill.

ADVISORS UNLIMITED: PRACTICAL APPLICATION OF ECONOMIC THEORY

Francisco T. Salas, Jr., University of Guam
frank@advisorsunlimited.com
Karri T. Perez, University of Guam
kperezini@gmail.com

CASE DESCRIPTION

The primary subject matter of this case is Economic Theory. This case is a study of Advisors Unlimited, a small financial services business started by two entrepreneurs and examine the business owners' use of economic theory in their business strategy. Economic theory and how it influenced their decisions involving their operations strategy will also be explored, focusing on the areas of business environment, economic profit, marginal analysis, consumer behavior and oligopoly strategies.

CASE SYNOPSIS

Located in Hagatna, Guam, Advisors Unlimited was formally incorporated on November 11, 2000. Advisors Unlimited was founded by Frank Salas and Florence Martinez to provide services including: Investment advisory, financial planning, personal and business retirement plans, as well as life insurance long-term care insurance and supplemental health insurance plans. The founders created a company for those clients who are serious about investing and growing their money, for whatever reason (retirement, college savings, and personal growth). Clients also could get individualized, expert advice locally.

Frank Salas and Flo Martinez had previously worked together at a company called Asia Pacific Investment Services (APIS), which is now called Asia Pacific Financial Management Group (APFMG). Salas was the leading Registered Representative and producer at APIS. Salas focused primarily on high net worth individuals who would produce the most revenue and had the most growth potential for company. This group took approximately the same amount of time and effort for the company as the clientele with smaller sums of money to invest, but yielded a much greater return. Martinez was Chief Financial Officer (CFO) and Treasurer for APIS, and handled the numerous responsibilities that come with that position in a financial services company. Special challenges in this industry include: extremely rigorous and thorough regulation from government regulatory agencies such as the Securities and Exchange Commission and the National Association of Securities Dealers. APIS offered virtually the same product lines that Advisors Unlimited would eventually come to offer.

START OF THE BUSINESS

The Principals

Prior to APIS, Salas held various positions at companies, including Field Director at Prudential Preferred Financial Services Guam, and Sales Manager at John Hancock Financial Services. He also has a variety of professional designations, including the Life Underwriters Training Council Fellow (LUTCF), Chartered Life Underwriter (CLU), and Chartered Financial Consultant (CFC). Salas is a 1980 graduate of the University of Guam with a Bachelor of Arts degree in Business Management.

Martinez's previous experience prior to APIS was with Interpacific Investor Services, where she held the positions of Office Manager and Registered Representative. Other experience

includes previous teaching experience at various schools on Guam. She is a 1985 graduate from the University of Guam, with a Bachelor of Arts degree in Secondary Education – Mathematics.

The Business Start-up Strategy

Salas and Martinez were working together at APIS when reservations with management gave them the reason to consider taking an entrepreneur risk and venturing out on their own. After months of careful planning and acquiring the start-up capital through various investors, Advisors Unlimited was officially incorporated on November 11, 2000. Their vision was to create a company that could provide their expertise in the finance and investment field, with better service at a lower cost than those of other competing firms on Guam.

THE BUSINESS ENVIRONMENT AND APPLICATION OF ECONOMIC THEORY

The business environment for the financial services industry on Guam is regarded as an oligopoly. There are a small number of firms in this sector, including Merrill Lynch, Citi Smith Barney, APIS and Advisors Unlimited, and a few other very small local operators.

The barriers to entry in this market are numerous, due to the strict and stringent guidelines set by the government regulatory agencies, including the Securities and Exchange Commission (SEC), the National Association of Securities Dealers (NASD) and the Financial Regulatory Agency (FINA). Regulations from these agencies include compliance of correspondence, financial transactions and detailed logging of virtually all activities conducted within this business.

Other factors that influence the environment are political, including monetary and fiscal policy, the Federal Reserve System setting of policies, including interest rate changes. Additional factors include the laws in place regarding certain investment vehicles (such as IRA contribution limits). These factors combined make up the general business environment for the financial services industry of Guam. It is the factors of high entrance barriers and exhaustive regulation that contribute to making this industry a fiercely competitive one,

In addition to the business environment challenges, the island of Guam is a small and geographically limited financial services market, due to its isolated location and its distinction of being a small island with a population of approximately 150,000 people.

Economic Profit

The choice to leave employment and strike out as an entrepreneur was not an easy one for Salas and Martinez. Both individuals were producing income of approximately \$100,000 annually. In addition, Martinez was an officer and stakeholder in APIS. They considered the lack of job security and uncertainty of a new, start-up operation in their decision to start up their own company. The cost and risk of starting their own company would be high, but they considered the opportunities associated with having their own business as outweighing the challenges.

The initial years of Advisors Unlimited consisted of mostly “brown-bag” lunches. As expected, times were tough in the start-up phase. Salas and Martinez had to rely solely on themselves for everything, from clerical duties to reception tasks. This was in addition to their workloads as financial consultants. Although those were trying times, they decided that the opportunity cost they would lose should they stay at the current employer was too high, and leaving was worth the financial sacrifice. They recognized that there would be a period of “lean” times before they would recognize the return on their investment of money, time and efforts, but that in the long run the suffering would be worth it. Today, leaving stable and lucrative employment seems to have been a wise decision. Advisors Unlimited earns revenue of about \$200,000 per year with approximately \$30 million of assets under its management.

Marginal Analysis

Advisors Unlimited currently has approximately 600 clients. Their clientele includes people seeking investment advising, retirement planning, insurance needs assessment, personal and business financial planning, and other consulting services for both corporations and individuals.

Pursuing or not pursuing a client is a decision that is carefully weighed at Advisors Unlimited. Since the company is service-based, it is not as easy to measure the cost of a service as opposed to the output of goods. Due to its inability to measure quantitatively, the non-quantitative measure of the cost of time becomes the predominant tool when factoring the cost in a service industry. Since it takes almost the same amount of time to sign up a new client with no previous investment experience and little to no assets to invest, it makes more sense for advisors to pursue clientele who have a higher net worth. This practical application of marginal analysis is what Salas and Martinez use to help decide the most beneficial scenario to both clients and the company.

Consumer Behavior

Salas and Martinez saw a growing trend with clients in the financial advisement field. Many clients were dissatisfied with the level of service they were receiving from their advisors. Benefit within their own firm at APIS, both Salas and Martinez were being sought after by other advisors' clients to provide services and advice. In addition, they had numerous other accounts from outside institutions that were transferring to their advisory. They realized that this lack of quality and personalized service was an opportunity in the financial services industry.

Salas and Martinez's pledge to provide better service to clients is augmented by one of more competitive pricing structures. The pricing strategy Advisors Unlimited implemented includes discounted fee rates for those with substantial assets under management. This translates to about 0.85% management fees compared to the industry average of 1.5%. This gives Advisors Unlimited a price competitive advantage over its competitors.

A decrease in income has a huge impact on how the business is run. It shifts the client's budget lines downward, therefore causing consumers to cut back a number and variety of variable expenditures. Unfortunately, one of the expenditures clients cut back on is the contributions to their investments. This can detour carefully laid plans drawn out by the advisors. Fortunately though, most large clients are exceptionally savvy in financial matters and have contingency plans and measures in place for downturns.

Oligopoly Strategies

Advisors Unlimited is one of only two locally owned and operated investment advisory firms (APIS is the other). While other large national and international companies operate on Guam (Citi Smith Barney & Merrill Lynch), they are not locally based. Being locally owned and run gives Advisors Unlimited a number of advantages, including its ability to make quick decisions and implement them immediately, and also its knowledge of the local culture and an understanding of the local financial market.

The decision by Advisors Unlimited to use lower pricing based on volume is one that has seen enormous benefits. Also, the fact that Advisors Unlimited is still relatively small by (national) industry standards allows representatives to concentrate more on individual accounts that the larger institutions consider too insignificant to service. This type of personalized servicing of individual accounts allows Advisors Unlimited to enjoy strategic segmentation with a focused differentiated product. Their niche is the high net-worth individuals that bigger companies have neglected, and their strength is their ability to offer personalized services.

CONCLUSION

Advisors Unlimited has grown into a key player in the financial services market on the island of Guam. The business owners' use of managerial economics and the practical application of its theories in their business strategy have allowed the company to grow, prosper and succeed in this highly regulated and competitive industry.

Salas and Martinez's experience show that it is possible to take a fledgling financial company from its humble beginnings and grow it into one with impressive market capitalization with just two representatives. Their decision to forego their existing income (profit) at APIS proved to be the right decision and one consistent with a cost-benefit analysis. Their superior pricing strategy combined with the personalized customer service and niche marketing has been a winning combination for Advisors Unlimited. Salas and Martinez use these differentiation techniques to build and retain their current and prospective client base, which they do with great success. Their managerial decisions based on managerial economics principles have catapulted Advisors Unlimited from a start-up business into one of Guam's premier financial service institutions.

DISCUSSION QUESTIONS

1. What affect does having a business located on an isolated island have on a business as compared to a business that exists in a large city in a large state?
2. What might be a negative ramification of patterning your customer profile to include those with higher net-worth and previous investment experience?
3. What are the economic benefits and challenges when in the start-up phase of a business that you own?
4. What are some of the challenges in being in the financial services industry?
5. Advisors Unlimited uses a lower price strategy as part of their marketing strategy. What are some of the economic ramifications of using that as part of a strategy?
6. What are the advantages of being small and locally owned in a Guam's market?

REFERENCES

Advisors Unlimited. (2007). *Advisors Unlimited*. Retrieved December 1, 2007 from <http://www.advisorsunlimited.com>

Block, H. (2005). *Foundations of financial management*. New York, NY: McGraw-Hill Irwin.

Investopedia. (2007). *Investopedia*. Retrieved December 1, 2007 from <http://www.investopedia.com>

Lind, M. W. (2008). *Statistical techniques in business & economics*. New York, NY: McGraw-Hill Irwin.

Thomas, M. (2005). *Managerial economics*, New York, NY: McGraw-Hill Irwin.

Wikipedia. (2007). *Consumer theory*. Retrieved December 1, 2007 from http://en.wikipedia.org/wiki/Consumer_theory

Wikipedia. (2007). *Federal Reserve System*. Retrieved December 1, 2007 from http://en.wikipedia.org/wiki/The_Fed

Wikipedia. (2007). *Marginal cost*. Retrieved December 1, 2007 from http://en.wikipedia.org/wiki/Marginal_cost

Wikipedia. (2007). *Oligopoly*. Retrieved December 1, 2007 from <http://en.wikipedia.org/wiki/Oligopolies>

Wikipedia. (2007). *Supply and demand*. Retrieved December 1, 2007 from http://en.wikipedia.org/wiki/Supply_and_demand

Wikipedia (2007). *Theory of the firm*. Retrieved December 1, 2007 from http://en.wikipedia.org/wiki/Theory_of_the_firm

Yahoo. (2007). *Industry Center – Investment Brokerage – National*. Retrieved December 1, 2007 from <http://biz.yahoo.com/ic/420.html>

LORNA VALDEZ ON COOKING UP A BUSINESS: LORWILL'S BBQ STAND

Annette Tajjeron Santos, University of Guam
annette.santos@gmail.com
Jennifer Dacanay, University of Guam
jendacanay@hotmail.com

CASE DESCRIPTION

The search for opportunity is the entrepreneur's roller coaster. According to the SBA Office of Advocacy's annual report (Source: <http://www.sba.gov/advo/>), there are approximately 25.85 million small businesses in America. The economy and financial markets generally support the growth of small business. Many scholars estimate that 75% of the businesses formed will last less than five years. Approximately 19.86 million of these small businesses were sole proprietorships, which continue to rise according to an analysis of the Census Bureau data found in the SCORE website (Source: http://www.score.org/small_biz_stats.html). Between 1997 and 2002, women-owned businesses increased 19.8 percent or 6.5 million businesses. More than 14 percent of women-owned firms employed 7.1 million workers accounting for \$173.7 billion in annual payroll in 2002.

CASE SYNOPSIS

This is the first record of the business history and entrepreneurship of Lorna Valdez placed in context. Also included is the history on the family and how it all started, a business she built from scratch and that continues to grow today - Lorwill's BBQ Stand. Also included is the economic analysis of each of her business ventures throughout her entrepreneurial venture until today. The current business is one that is in the growth stage, having opened for only three years and is continuing to expand.

As a small firm in a price-taking market, her managerial decisions are what created the competitive edge. In Guam, where there is high competition as well as demand for food and especially barbeque (a local favorite and past time) she is able to offer the market something unique. This and other factors that lead to relatively higher market power for her business than other vendors in the Dededo area explain how its success has grown.

BEGINNINGS

In 1993, Lorna Valdez was working as a waitress at Chopsteak, a restaurant located in Tumon, Guam. After working there for just over a year, she was promoted to the position of manager with an \$8 hour pay. In 1994, the restaurant was forced to close down for the construction of what is now Planet Hollywood. Her boyfriend, at the time, gave her the idea that they should open up a hamburger stand. The idea of opening up her own business and being her own boss strongly appealed to her. She also wanted to find a way to make more money. This was a defining experience for Lorna Valdez. She learned that she had a talent - she was good at cooking and enjoyed it.

HISTORY

The first business she attempted was a hamburger stand located in Tumon, where the Slingshot is now located. The food sold at the stand was mainly a variety of American-style

hamburgers. The opportunity cost of opening up the food stand is the lost cost ranging between \$1,200 to \$1,500 working as a manager. The cost to rent out the space was \$500 a month and Lorna Valdez soon recognized that daily revenue was not enough to cover personal bills and expenses. Several months after opening, she realized that the business was not making enough.

Although her first attempt was not as successful as she had hoped, she continued to follow her newfound talent in cooking. Thereafter, she endeavored on another method of selling food, which was delivering homemade food. She would prepare food at home, package it, and then deliver to various locations to sell. The food would be prepared three times a day, six times a week. Her market was limited to stores such as Napa Auto, Diamond Auto, National Office Supply, and various taxi companies located in Tumon.

She delivered food this way beginning October 1995 and continued for about a year. Her daily menu included mainly Filipino dishes such as fried lumpia, okoy, pancit, spaghetti, and food plates that included rice with choices such as calderetta, sinigang, and/or adobo. She also sold two soups that changed daily; varying from arroz caldo con goto, corn soup, arroz caldo, and other ethnic varieties. Along with the food, she sold a variety of drinks. She delivered all of this personally to each site in her car.

This was a difficult job for her because she ran all aspects of the business from purchasing ingredients, to cooking, to preparation and packaging, and finally delivery. She would end up with daily revenue ranging from \$100 to \$250 a day, depending on the sales. However, the profits were only sufficient enough to cover the bills. This type of business had also resulted in additional losses due to the waste of food that accumulated daily, which was costing a lot. This convinced her that she should look for yet another way to make a living.

BUSINESS DEVELOPMENT

So in February of 1996, she bought a mobile hot dog stand, called it the Big Fat Weiner Stand and opened up for business in the parking of GTA (Guam Telephone Authority) in Tamuning. It was open weekdays from 8 a.m. to 5 p.m. The menu was expanded and included the variety of hamburgers, hotdogs, as well as different lunch plate choices. Soup and hot coffee was served along with drinks and snacks.

In addition, she would also sell at the Dededo Flea Market on the weekends. Interestingly, the revenue that was made at the Flea Market on those two days alone was more than what was made during the five days at GTA. The profit that was made in this business venture were higher compared to the days of delivery; but costs also went up. The loss of money from the waste of unsold food that had to be thrown away was still an issue. This venture lasted for about two years until 1998, when Lorna Valdez lost her vendor space at the flea market.

The year she went to renew her vendor license, she was told that a new law was passed that prohibited vendors to sell food outside of the premises of the main flea market area. This was a barrier created by the government that posed a significant negative impact on her business. This barrier was a big disappointment considering the growing success she achieved from selling at the Flea Market. The Flea Market sales contributed to revenue growth she had not experienced in her other previous business ventures. Her food sales at the Flea Market proved to be the most successful thus far and considering that those revenues generated was made within just two days.

TEMPORARY LAPSE

After that drawback, in 1998 she returned to work in a restaurant called Binh Minh as a waitress. She was getting paid \$5.50 an hour and received daily tips that ranged from \$10-\$15 a day. She also worked a second job as a waitress and a bartender at Mariposa, a karaoke lounge,

where she earned \$7 an hour. After a year, she was promoted to manager and started earning \$8 an hour. She later started to work at a linen cleaning company called, Marianas Linen for about six months for \$5.75 an hour. Her monthly salary was not sufficient enough for the single working mother to provide for her family so she sought once again to continue working in her chosen passion.

BACK TO BUSINESS

In 2000, she began to deliver food again despite her experience from the initial attempt. Her decision was driven by the anticipated profit that was to be made which would exceed her current salary and further driven by her passion for cooking. She adopted the same routine as she had done previously for the next two years. She would deliver food daily to different locations and occasionally filled catering orders for parties. Again, the revenue accrued was only sufficient to cover the costs of her bills. This prompted her to try something new, yet again. In hindsight, the thought of going back to the food delivery venture should have raised red flags, given her previous experience.

Following that, in February 2002, she opened up a small stand called Lorwill BBQ. Her decision to go back into the business of barbeque was a good one after her former success selling at the Dededo Flea Market. The demand was there and she already proved that she could sell good-tasting barbeque. The stand was situated right in front of Napa Auto Parts' parking lot on Route 1 Marne Corps Drive.

At the Napa Auto Parts location, the owner of the land agreed not to charge rent for the space to be used by Lorna Valdez for her barbeque stand as long as the lawn was maintained. On the first day of business, she made \$18 through BBQ sells. Although revenue was not as much compared to the food delivery service, she did notice that losses accumulated from food waste were much lower. This was a result of food being prepared after being ordered instead of beforehand, thus already providing savings in costs.

The business was slow for the first year until her customers learned of the new location. As a result, the menu began to expand as more and more customers learned of her new stand. Initially, barbeque was the main product, then the menu expanded to include lunch plate choices, drinks, and other exclusive Filipino dishes. She was averaging profits that ranged from \$4,000-\$5,000 a month. However, business was still somewhat slow and she blamed it on the location.

Revenue began to rise the following year and so did the demand for food. This prompted her to hire a few workers to help with the growing demand. At that time, there were no overhead costs; however, labor costs seemed to cut into profits. This eventually led to smaller profit margins over time. Then another relocation move was prompted after the space was bought out by Shell and a gas station was to be built on the spot.

GROWTH STAGE

Therefore, in September 2004, Lorna Valdez's business relocated about two blocks down the road. It is now her present location, along Route 1, Marine Drive beside the Dededo Retail Store. This has been her most successful business to date. This may be attributed to the ease of access and visibility, now located along a main road with high traffic flow. Another positive factor is the anticipated opening of the Benson Home Center located right behind the stand. Located along the main road also has the advantage of easy advertisement by just having passersby catch a whiff of the enticing barbeque aroma.

Lorna Valdez's business currently brings in double the revenue than what she was making in front of the Napa Auto Parts location. The barbeque is priced at \$1.25-\$1.50 a stick.

This was determined by the market demand and market supply on Guam, the price range represents the range of the equilibrium price, representing how much the customer is willing to spend and how much the producer is willing to sell. Lorna Valdez further mentions that her profits and take home money has decreased due to additional costs such as capital expansion, which is about triple the size of the previous location. This is a result of adding storage, an office, built-in restrooms, and air conditioning to her business. All of which was non-existent at her previous location. Furthermore, unlike the last location, she was not paying for rental space (a fixed cost), which is \$800 a month.

Table 1
Output Quantity and Costs

Output (Q)	Total Fixed Cost	Total Variable Cost	Total Cost	Average Total Cost
0	100	0	100	150
200	100	100	400	2
500	100	250	850	1.7
1000	100	500	1600	1.6
1500	100	750	2350	1.56667
2000	100	1000	3100	1.55
2500	100	1250	3850	1.54
3000	100	1500	4600	1.53333
3500	100	400	4000	1.14286

Table 1 above shows an estimate of the average total cost per pork barbeque stick she sells. At around 3,500 sticks, she begins to make a profit. This shows that in order to cover her costs for that one item on her menu, she must sell that many in a month. However, this may not be as accurate because there are other factors to take into account such as the variable costs that apply only to the barbeque. Also note that this reflects short-run production costs.

Her opportunity costs have also increased because her job seems to require her to work “24 hours a day” resulting in a lack of sleep. She states that it would be too costly to hire more people than she already has. So, instead, she compensates or tries to lower costs by working longer hours. She mentions that although her profits have increased, her operating and labor costs are consuming about seventy to eighty percent of total revenue.

Taking into account the amount of economic profit to run the business, we consider whether her total revenue minus total economic costs results in a profit or loss. She now takes home roughly \$8,000. That includes total revenue minus explicit costs. Adding in the opportunity costs, which would be the opportunity cost she is giving up running her own business rather than working as a restaurant manager. On Guam, a restaurant manager averages around \$7,000 month. That would mean her total economic profit is \$1,000.

Considering the cost of labor, she took into account the production function even without definite and precise data. There was a point where she had too many workers assisting her, so she had to let them go or reduce the units of labor. At that point, her marginal product of labor for the additional employee was resulting in a loss rather than a benefit to production.

As the business continues to grow, it has been noticed by the local community. It has been featured twice in the Pacific Daily News, in the Northern Weekly insert with reviews such as, “best place to buy barbeque on island.” It was also mentioned in the Guam Manila Time’s *Lifestyle* magazine stating, “Along Marine Drive, heading north, past the Mobil gas station and just a smidgen past the Ysengsong Road & Marine Drive intersection, you will see the Lorwill’s Barbeque stand. Open daily from 4 - 9 pm, Lorwill’s is often packed with lines of customers

waiting to buy from their food. They also have a large menu ranging from the barbeque to pancit to sisig to lumpia, and many more. You can even preorder for parties and celebrations” (Magazine).

BUSINESS STRATEGY

Market Structure

In Dededo, there are many other small businesses to compete against. Each has its own unique taste and various complimentary foods. Also, there are hardly any barriers to entry for the food industry on Guam. That type of business is a “price-taker, a firm that cannot set the price of the product it sells, since price is determined strictly by the market forces of demand and supply” (Thomas & Maurice, 2005, p.22). This makes the products that they provide elastic such that an increase in prices will result in a decrease in demand.

As for the market definition, it shows that in the Dededo area there are many other small barbeque stands competing with each other. As a manager, Lorna Valdez must identify what other products her competition offers so as to estimate product substitutes. However, with the distinct barbeque taste that she offers, there seems to be no perfect substitute available in the Dededo market. This means her market power there is relatively higher than the rest of the vendors.

Management decision for demand in price-taking firms looks at the perfectly elastic demand curve. For example, the current price in the market for barbeque chicken is \$1.50, as shown below. So for each additional unit she sells, the marginal revenue would equal \$1.50, thus producing more and selling more would lead to higher profits. Another thing that must be considered is being careful not to set the price of the barbeque higher or lower than the equilibrium price. Setting the price too high may lead to the loss of customers. Also, setting the price too low could result in a loss of revenue even though there would be more buyers.

A good business strategy would help distinguish Lorwill’s from the many barbeque stands in Guam, especially in the Dededo area. Luckily, having worked in the food and beverage industry, Lorna Valdez knew early on that having a unique and delicious taste in her barbeque is what will give her a competitive edge. When it comes to Lorwill’s BBQ stand, she strives to provide her customers with good service and great tasting food. Her very own unique marinating process and the vinegar-garlic sauce that goes along with it is her distinct creation. In addition, Lorna Valdez’s natural ability to get along and converse with everyone she meets wins her a lot of loyal friends and customers.

Another feature of Valdez’s business is the variety she provides her customers. On top of her main feature, barbeque, her menu consists of a variety of American, Filipino, and Chamorro dishes as well. The menu also includes some Filipino desserts that are not often sold at other restaurants or barbeque stands. Because of this, she is able to accommodate the variety of ethnic groups that reside on island. The combination of good tasting food and friendly service keeps customers coming back.

CONTINUED GROWTH AND EFFICIENCY

As her business continues to grow, she seeks to cover costs that she accumulated during the start-up years due to expansion. Highly concerned about operation efficiency, Valdez plans to implement strategies to lower costs and remove items from the menu that are not sellable or that require storage space that costs more to hold than it does to benefit the business. Other areas of improvement include inventory management and marketing.

CONCLUSION

Lorna Valdez's entrepreneurship is one that has experienced several downfalls as well as successes. After finding her passion for cooking, she continued to pursue her dream of "being her own boss" regardless of the obstacles she faced. This drive and passion combined with hard-work and determination has lead to the growth and success of her business today, Lorwill's BBQ Stand. A small vendor located along Marine Drive on Route 1 beside the Dededo Retail Store and in front of the Guam Home Center that is opened daily from 10 a.m. to 10 p.m. The business is at its growth stage, along with short-run costs, but it has shown economic profit. Overall, it is a place to try a unique tasting marinated barbeque right off the grill along with other appetizing items that are offered in her menu of diverse ethnic foods.

CASE DISCUSSION AND QUESTIONS

For the entrepreneurship course:

1. Develop a matrix to measure opportunities available to Lorna Valdez that she ought to be thinking about or that offer the best return on investment. The dimensions of the matrix may include ones that are specific to a particular situation or circumstance. Along one dimension, you might include: attractiveness of opportunity/idea (level of priority given to the idea) and along the other dimension: viability (profit potential) or strategic alignment. Other criteria relevant to the circumstances or situation may be used.
2. This case is a great opportunity for discussing some of the excitement and fears which entrepreneurs face. Assess the personal and career opportunities and risks, which Lorna Valdez faced and continues to face. Discussion should include personality traits such as: internal locus of control vs. external locus of control, high energy level, need to achieve, self-confidence, awareness of passing time, and tolerance for ambiguity (Daft, 2008). Be sure to anticipate other potential issues that might surface in the future, both in the short- and long-term. For higher-level courses, such as the business capstone course, the following teaching options are suggested: Case Analysis Assignment and/or Assignment Questions.

CASE ANALYSIS ASSIGNMENT

1. Lorwill's BBQ Stand has sought your consulting expertise and asked you to assess the company's strategy, competitive market position, and overall situation, and recommend a set of actions to improve the company's future prospects. Please prepare a report to Ms. Lorna Valdez, owner of Lorwill's BBQ Stand. Be sure your report includes:

- An identification of the key elements of the company's strategy,
- A discussion of which of Porter's five generic competitive strategies most closely match the competitive strategy that Lorwill's BBQ Stand is employing,
- The pros and cons of the company's strategy,
- An assessment of Lorwill's BBQ Stand's strengths, weaknesses, opportunities, and threats,
- An evaluation of Lorwill's BBQ Stand's financial performance,
- An evaluation of the key success factors that Lorwill's BBQ Stand and its rivals compete against,
- The strategic issues and problems that Lorwill's BBQ Stand's owner needs to address, and
- A set of action recommendations to deal with these issues and problems.

The report should be 5-6 pages; plus it should include an assortment of charts, tables, and exhibits to support the analysis and recommendations.

2. What are the pros and cons of Lorwill's BBQ Stand's strategy? What evidence indicates that the strategy is working well or not so well?
3. What does a SWOT analysis reveal about Lorwill's BBQ Stand's overall situation?

ASSIGNMENT QUESTIONS

1. What is Lorwill's BBQ Stand's strategy? Which of Porter's five generic competitive strategies most closely fit the competitive approach that Lorwill's BBQ Stand is taking? What type of competitive advantage is Lorwill's BBQ Stand trying to achieve?
2. What does a SWOT analysis of Lorwill's BBQ Stand reveal about the overall attractiveness of its situation? Does the company have any core competencies or distinctive competencies?
3. What is your appraisal of Lorwill's BBQ Stand's financial performance based on the data in the case? How well is the company doing financially?
4. Identify the key success factors that Lorwill's BBQ Stand and its rivals compete on.
5. What strategic issues and problems does Lorwill's BBQ Stand's owner need to address?
6. What does Lorwill's BBQ Stand need to do to strengthen its competitive position and business prospects vis-à-vis other small barbeque stand rivals?

REFERENCES

- Dacanay, Jennifer (2007). Lorna Valdez on cooking up a business: LorWill's BBQ stand. Unpublished manuscript.
- Daft, Richard. (2008). *Management* (8th ed.). Ohio: Thomson South-Western.
- Quinatas, D. (2006). The roadside barbeque. *The Guam Manila Times: Lifestyle* (1st Issue).
- Thomas, C.R. and Maurice, S.C. (2005). *Managerial Economics* (8th ed.). New York: McGraw-Hill
- Valdez, Lorna. (December, 2007). Personal Interview.

COMMUNITY FIRST GUAM FEDERAL CREDIT UNION

James J. Taylor, University of Guam
jtaylor@kuentos.guam.net
Kimberly J. M. Perez, University of Guam
perezkjm@gmail.com

CASE DESCRIPTION

The Community First Guam Federal Credit Union (Community First) case study illustrates how a company's business policy informs and directs its future. The case also demonstrates how a company needs to periodically evaluate changes in its business environment to determine how that may affect existing company policy. A significant discrepancy between the business environment and the objectives stated in a company's policy should lead to a reevaluation and reformulation of policy. In addition a major change in policy also requires changes in strategy and tactics. The Community First case shows a real world example of this kind of change. The case study is designed for students in an upper division course that includes learning about business policy, strategy, and tactics. The case requires two to three hours of outside preparation that would include reading the case and learning about basic credit union and banking practices. The case should take about one class period to cover.

CASE SYNOPSIS

Community First Guam Federal Credit Union opened for business in 1962 – the first credit union on Guam. Initially Community First was called the NavMar Federal Credit Union (NavMar). NavMar specialized in service on Guam to its select employee group - members of the US Military and the Federal Civil Service. During the 1990s, NavMar's future was threatened by changes in the role of the military on Guam, a reduction in the federal bureaucracy, and the arrival on Guam of other more broadly based military credit unions. In 1997 in a successful policy initiative, Community First switched from a charter based on its select employee group to a community charter that included all of Guam. This created a major change in its customer base. This represented a policy change that required significant changes in the institution's strategy and tactics. This case reviews these changes and how they were successfully carried out.

ROOTS OF THE COMPANY

Community First Guam Federal Credit Union was the first credit union established on the Island of Guam. Founded in 1962, it was originally named the NavMar Federal Credit Union. NavMar stood for Naval Forces of the Marianas and the new credit union initially served Guam's military community - the Navy, Coast Guard, Marines, and the Federal Civil Service. These limitations on the service population, called a *select employee group*, were an outcome of the intent of the founders and the original charter issued by the federal government in setting up the credit union. In September 1997, after extended discussion between the NavMar Board and management, Community First switched to a community charter. Up until October 2008, Community First was the only credit union to make such a switch on Guam. This switch allowed the credit union to extend membership to anyone living on Guam. Several years later, on October 1, 2000, the credit union formally changed its name to Community First Guam Federal Credit Union to reflect the transition to its community charter status. At the same time the credit union initiated a major upgrade to its strategic plan.

BUSINESS NATURE

Credit unions are cooperatives, owned and controlled by the members who use their services. A person becomes a member by depositing monies in a share account. Unlike common stock, where each additional share owned yields an additional vote, credit unions use a one person, one vote approach. By focusing on a narrower population base, a credit union is able to work with people who are often known to each other. This creates a personal environment in which members can both build their savings and also loan money to each other at competitive rates. This knowledge of the customer base often enables a credit union to make loans that would be considered too risky in other organizations. Unlike commercial banks, credit unions are not considered to be profit seeking organizations. Instead a credit union's central focus is service of its members. Because of this focus, credit unions are tax exempt. This exemption provides a strategic advantage, enhancing their ability to pay on deposits and loan funds at competitive rates.

Although credit unions are non-profit organizations, an inflow of money is still essential to support a credit union's services. Traditionally a credit union's principal source of funds for lending, making investments, and meeting liquidity requirements, comes from the share deposits of members. Positive cash flow at a credit union, as at all banking institutions, is built on *net interest income* – the difference between the interest and dividends the credit union pays to members on their deposits and the interest income the credit union earns on loans and investments. This difference allows the credit union to pay for administrative costs and support the expansion of the business. Credit unions also provide their members with deposit safety. Almost all credit unions participate in the National Credit Union Share Insurance Fund that guarantees deposits with the full faith and credit of the US Government. This is similar to the Federal Deposit Insurance Corporation that insures customer deposits at banks.

A credit union's legal status can be derived from a federal or state charter. This is similar to commercial banks which can also have a federal or state charter.

CHANGES AT COMMUNITY FIRST

The charter change at Community First was the outgrowth of the credit union's attempts to come to grips with the evolution of the credit union market on Guam. For some time NavMar had had competition. The Pentagon Federal Credit Union and The Naval Federal Credit Union, two of the largest credit union operations in the world, had opened branches and Automatic Teller Machines (ATMs) on the island, offering credit union services to the same select employee groups served by NavMar. Many potential NavMar customers would instead choose these credit unions because of their presence around the world. This would allow military personnel to keep the same credit union relationships even when transferred to different locations. Besides the Pentagon Credit Union and the Naval Credit Union, the GovGuam Employees Federal Credit Union (GGEFCU) opened shortly after NavMar and over the years developed a large presence on island. The many employees in the Government of Guam, and the number of family connections on Guam, provided an extensive potential customer base eligible for membership in the GGEFCU. Together these competing credit unions took a large chunk out of the customer base eligible for membership with NavMar.

At the same time, NavMar was faced with additional challenges. The US Government shut down the Ship Repair Facility (SRF) in the Guam harbor and initiated a series of studies of the military presence on Guam that could lead to a reduction in military forces on Guam. Among these were A76 studies that would determine whether or not certain large military operations

such as the Post Exchange (PX) and Commissary operations on Guam could be privatized. This, combined with negative statements by some on Guam about the military's ongoing presence were seen as possibly leading to a reduction in military personnel on the island. By 1997, the Board and management of NavMar concluded that the credit union's future needed to depend on the entire population of Guam, rather than a select employee group such as the military. The proposed change to a community charter was fully approved.

Although the charter change was made in 1997, the credit union took several years before the NavMar operations fully reflected the changeover. In the time after the change in the charter, NavMar began the conversion process. Because of the change in the charter, NavMar could no longer have an immediate presence on the military bases. The credit union closed its branches on the military bases, consolidating operations at the central office in the city of Hagåtña. The credit union also opened a northern office in Harmon and, to accommodate members living in the southern part of Guam, opened an ATM/Drop Deposit kiosk at the entrance of the main gate to "Big Navy" in Sumay.

The credit union's functional evolution took some years because of several obstacles. A decline in the military and civil service population was already becoming evident, challenging NavMar's customer base. In addition, the Asian monetary crisis of 1997 led to a downturn in the economies of a number of Asian nations, reinforcing negative economic issues already operative in Japan. This slowed Guam's economy which, besides dependence on the military, was also highly dependent on Asian tourism. In August of 1997 Korean Air Flight 801 crashed on Guam, killing 220 of 254 passengers, affecting Korean Air service to Guam for several years. In December 1997 Super Typhoon Paka hit Guam directly, creating much damage that affected the economy. Finally in 1999, the American Bankers Association (ABA) sued the credit unions nationally in an attempt to turn back credit union regulations that had loosened eligibility requirements for credit union membership. US banks have to pay corporate taxes and were concerned about rules that could expand the credit union customer base, making them more competitive with banks. Because the NavMar changes involved an expansion of NavMar's customer base, NavMar needed to be especially sensitive to eligibility requirements until the suit was dismissed in 2001. Taken together, these major events slowed the NavMar changeover.

While this series of challenges affected the NavMar efforts, there were a number of issues that were closer to the credit union business that also affected the conversion. Opening its membership to all people living on Guam, without requiring participation in a select employee group, meant that NavMar now had to learn how to serve a very different group of customers made up of different cultures, ethnic backgrounds, financial needs, occupations, and professions. The military and the federal civil service had provided a homogenous customer base with which NavMar personnel had become comfortable and familiar. Greatly expanding its customer base meant that NavMar employees needed to broaden their point of view and their ability to serve and celebrate a much broader range of backgrounds and perspectives.

Despite the hold ups, NavMar management developed an extended plan for business change that focused on the year 2000. The key elements of this plan were:

- 1. A renewed emphasis on the customer service that was a central part of the credit union tradition. To credit union employees, people are supposed to be more important than money. The credit union considered itself to be a high touch organization, attempting to personalize all its interactions. Management concluded the credit union had been failing in this area. To help reach this service goal, management proposed additional training in customer service. As part of this reemphasis on a high touch approach, the credit union also planned to enhance other ways of interacting with customers including offering improved phone service and a new Website that would provide customers with additional ways of being in contact. Thus the credit union was willing to utilize technology to assist in customer support. This was also shown by the adoption of a comprehensive credit union management information system.*
- 2. A consistent attempt to offer its members higher interest income on deposits and lower interest charges on loans compared to the competition.*

3. *The development of additional financial products, including a wider range of terms for certificates of deposit, overdraft options, and the offering of retirement plans.*
4. *An expansion of loan products including offering signature loans, auto loans, home mortgages, revolving credit, and business loans.*
5. *The offering of more business services such as wire transfers, money orders, travelers' checks, money orders, and the possibility of making utility payments.*
6. *The deliberate encouragement of members to utilize a full range of financial services. Being a high touch organization was intended to lead to customers with high utilization of credit union services.*

NavMar was committing itself to offering any person on Guam more financial products at more competitive prices, using as much as possible a highly personalized approach to interacting with its customer base. Management concluded that by doing this, NavMar could be potentially competitive with any of the financial institutions operating on Guam.

NavMar management identified several advantages they thought the credit union had:

1. *Senior management with a combined fifty years of service in the financial industry as well as over thirty years of credit union experience.*
2. *NavMar's community charter which allowed membership relationships across the population of the whole island.*
3. *NavMar's designation as a low-income credit union which allowed the credit union to serve small local business. In addition such a designation supported alliances with local banks who could meet federal Community Reinvestment Act (CRA) requirements though depositing funds with a credit union with such a designation.*
4. *A Credit Union Service Organization (CUSO) (a type of subsidiary that allowed for the development of additional customer services) already in place.*

The updated plan was approved by the Board and in October 2000, in recognition of its new status and the enhanced policy goals that had been set, the NavMar Federal Credit Union was renamed the Community First Guam Federal Credit Union.

OUTCOMES FROM THE CHANGEOVER

Because of the change from a charter based on a select employee group to a community based charter, there was a drop in membership, from 11,800 members in 1999 to 6,800 members in 2004. Since then membership has grown to 7,800 members. These numbers however mask what was happening as there was an ongoing drop off in military and federal employee memberships that were being replaced by memberships from Guam citizens and residents. This is illustrated by the figures for total shares and total assets. Total shares started at \$37 million in 1999 and remained relatively flat until 2007 when they began a climb to over \$55 million. Total assets started at \$41 million in 1999 and also remained flat until 2007 when they began a climb to over \$65 million. The military shareholder with a lower deposit base was being replaced by a Guam customer with a higher average deposit.

Community First was also able to be competitive with its savings rates. The following table shows the credit union's competitive status with the local banking community as well as its close competitive status with its primary competition, the GovGuam Employees Federal Credit Union.

Table 1
Savings Rates on Guam, 2006

	3 months	6 months	12 months	18 months	24 months
Community First Guam FCU	3.80%	4.55%	4.25%	4.10%	4.10%
GovGuam Employees FCU	3.55%	4.60%	4.75%	4.50%	4.55%
Bank of Guam	2.30%	2.60%	2.96%	3.07%	3.17%
Bank of Hawaii	1.00%	1.25%	1.65%	2.50%	2.90%
Bank Pacific	3.13%	3.25%	3.50%	3.75%	4.00%
First Hawaiian Bank	1.75%	2.00%	2.50%	2.75%	3.00%

Perhaps the most important indicator of the success of the transition was that during the whole changeover, Community First remained profitable. In 2001 Community First reviewed its accomplishments as well as its strategy and goals. Management saw that all the initial goals associated with membership strategy had been reached. In addition Community First was offering a wider range of savings and investment programs including uninsured investments. Also reached were the initial training goals set out to help credit union personnel become a fully high touch, customer oriented operation. Finally a new goal was added, that of reviewing all positions with the objective of ensuring that Community First would be able to offer competitive wages and the opportunity for professional growth for its employees.

Over a period of three years, against significant external odds, Community First identified significant risks in its business environment and made major changes to its strategies and goals, enabling Community First to continue effective operation. It was a major business accomplishment on Guam or anywhere. Still no business can rest on its prior accomplishments. In October 2008, the GovGuam Employees Federal Credit Union announced that it was changing to a community charter. The implications for Guam's credit unions and banking business are still to be identified.

DISCUSSION QUESTIONS

1. What happened that made Community First decide it needed to make major business changes?
2. What resources did Community First have that supported the change process?
3. What operational changes did Community First need to execute its proposed policy change(s)?
4. Based on the elements of this case, define and differentiate the following business terms: policy, strategy, and tactics. Relate the definitions to this case. Note students are expected to use definitions from a variety of sources. Indeed it may be useful for the instructor to provide a list of three to five definitions for each term. The discussion of a variety of definitions is intended to be one of the ways of learning from the case. In this case study policy represents the long term determination of the direction of an organization. Strategy represents the focusing of organizational resources toward the accomplishment of policy. Tactics are the specific means chosen to carry out the strategy. As a result of studying this case students should be able to better identify policy, strategy, and tactics found in subsequent cases.
5. If you had been employed by Community First in the mid 1990's, would you have argued for choosing to more actively compete with the new military credit unions? Why or Why not?

6. How often should a company review its business environment? What ways would you suggest to ensure that such a review was being conducted?
7. One of Community First's objectives was to be a *high touch organization*. Was this choice a policy choice, a strategic choice, or a tactical choice?
8. If you had been at the center of the Community First change effort, would you have done anything differently?

CONCEPTS USED IN THE CASE

Cooperative Membership Organization
Select Employee Group
Community Charter
Customer Base
Net Interest Income
High Touch Organization
Taxation and Credit Unions
Taxation and Banks
Business Policy
Business Strategy
Business Tactics

REFERENCES

- Branch, B. and Baker, C. *Overcoming Credit Union Governance Problems-What Does It Take?* Retrieved November 02, 2007 from <http://www.iadb.org/sds/doc/1714eng.pdf>
- Community First Guam Federal Credit Union. *Financial Report for FY2006*. December 31, 2006.
- Community First Guam Federal Credit Union. *Our History*. Retrieved October 25, 2008 from <http://www.communityfirstfcu.com/ASP/history.asp>.
- Community First Guam Federal Credit Union. *Strategic Plan: 2000 – 2005*, unpublished manuscript.
- East Central Energy. *What is a Cooperative?* Retrieved November 15, 2007 from http://www.eastcentralenergy.com/about_coop.aspx
- Interview. Cruz, G.A., President - Community First Guam Federal Credit Union. October 8, 2008.
- Interview. Duenas, C., Financial Analyst - Community First Guam Federal Credit Union. October 26, 2007.

National Credit Union Administration. *Credit Union Development*. Retrieved October 28, 2007 from <http://www.ncua.gov/CreditUnionDevelopment.html>

Wikipedia. *Federal Credit Unions*. Retrieved September 29, 2008 from http://en.wikipedia.org/wiki/federal_credit_union

