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THE WEAKSLEY PAINT COMPANY

BY

R. ANDREW CARLSON
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A
CASE

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For The Degree Of

MASTER OF BUSINESS ADMINISTRATION

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THE WEAKSLEY PAINT COMPANY*

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In his first appointment as a member of the Expertise Consultant Co. Inc., Donald Peterson was assigned to the Weaksley Paint Company located in Omaha, Nebraska. The young man, an ambitious fellow who had just earned his M.B.A. from Creighton University, noted with interest the preliminary inquiry forms his client had recently filled out and returned to Expertise. The form was merely an introductory fact sheet, the highlights of which are shown on the next page.

Mr. Peterson quickly arranged for the initial meeting with his client and carefully prepared his interview format for the meeting. He was well aware that first impressions were important in the consulting business.

College of Bus. Ad.

On his drive to his first meeting with the owner of the company, Mr. Peterson was careful to note the location and surroundings of Weaksley Paint Company. The firm was situated on the North Side of Omaha, roughly two miles from the downtown area and in the midst of a rapidly-changing neighborhood. This area was once the scene of lower-income housing and now was subject to a fair amount of renovation. Many of the old warehouses were very much in use. On the other hand, N. 19th St. had lost many shopowners from the district.

Mr. Peterson was impressed with his first scrutiny of Weaksley. What initially impressed him the most was the extremely neat and orderly warehousing facilities below the main structure and the efficiently laid-out customer area with rows of paints to one side, painting equipment to the other, with the tile and carpet section in back with the office.

Equipped with a taperecorder at that first interview, Mr. Peterson obtained the following history of Weaksley Paint Co., the interview was obtained from Mr. Kevin O'Brien the fifty-eight year-old owner who spoke proudly yet guardedly about his enterprise. Peterson first asked how O'Brien had acquired the company:

"In late 1956 the first contact between myself and Weaksley came about. I was a sales representative for Pratt and Lambert Paints, and in 1957 the original owners, Mr. and Mrs. Weaklsey, added Pratt and Lambert Paints. This switch in-product line came about as a result of their

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*This case was prepared by R. Andrew Carlson, under the supervision of Dr. William H. Brannen, Creighton University, as a basis for class discussion.

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PRELIMINARY INQUIRY FORM

Firm Name: Weaksley Paint Company

Address: 1001 N. 19th St.
Omaha, Nebraska

Owner: Mr. Kevin O'Brien

Telephone: 342-1001

Number of Employees: 3 (excluding wife who works part-time
as bookkeeper).

Total Net Sales of last Fiscal Year: \$460,000

Other Relevant Data: Net Profit to Net Sales: 11%
Inventory Turnover: 4.6x

Previous Consultative Work and Description: R.R.D. Inc.,
the firm was approached for help in the determination of
optimum areas of Omaha for direct mail advertising.

Owners Opinion of Problem Areas and Areas for Counseling Con-
centration:

Market Feasibility

Advertising

Merchandising

Planning for the Future---

New Retail Location

New Manufacturing Venture

previous supplier (Glidden Paint) installing a drive-in paint store in Omaha:

Peterson at this point requested information as to how the present warehouse arrangement was set up, and how the store ended up with a Dutch Boy product line:

"In 1958, the old owners were offered a Dutch Boy warehousing arrangement by a national labor representative, but there was a problem with adequate warehouse space. Good Will Industries had obtained money from a local Foundation and had built a structure at our present location. They had later found this location unnecessary and vacated the spot. This was found to be perfect for the purpose of the warehouse facility as far as the Weaksley couple was concerned. This arrangement turned out well for the business at that stage, the payments were reasonable, and Dutch Boy gave the couple four years to pay for their inventory. After renting part of the building to a sales organization, the company quickly became profitable as it was growing all the time, even to the point of buying out a few competitors who were known to have good distribution facilities and connections"

Peterson again moved the interview back to the specifics of the O'Brien takeover:

"In 1968, the Weaksley family situation dictated a sell-out as the couple was growing elderly. As a result, the couple looked for a buyer and I expressed interest. After we exchanged figures, the only question in my mind seemed to be operating capital. On Jan. 18, 1968, the actual takeover did take place however, and it seemed as though we were always underfinanced. In 1969 we took out a SBA loan in the amount of \$54,000 guaranteed by merchandise and receivables. After quickly paying off the loan, we were on our way. We still did not own the inventory due to the specific arrangement with Dutch Boy. We were given a percentage of the inventory turned over. Dutch Boy did their own billing to the large accounts. An example of these large accounts would be the smaller stores we supply. We also arrange for the freight transportation to these stores"

O'Brien continued with important recent developments as far as his company was concerned:

"In the spring of this year, the head of the old regime at Dutch Boy retired and the newly named President along with his new people dictated that there be an end to the company warehouses and independent distributors. He wanted to go to completely redefined distributors all over the United States. As a result, I was approached by the Dutch Boy people and told that an independent in Omaha was imperative. They told me I would keep the purchased inventory at my warehouse, but in addition I must do all my own billing and shipping. At that point in time I had to negotiate a new loan through the SBA, and I also dropped some of the lines of Dutch Boy to keep inventory levels at a minimum and to keep on hand only established sellers. As a result, we realized our greatest sales levels in the history of the company.

Sure Don, we have had the reputation for being slightly late in paying our bills, we tried to amend that situation by asking suppliers to help by accepting notes for merchandise. That's in the past though, that problem has been amended."

The initial meeting-observation stage of the counseling effort continued for a period of 8 weeks. During this time Mr. Peterson worked closely with the staff and management of Weakley the couple of hours a day he spent at the location. Donald Peterson remembers well his feelings of annoyance with some of the personal habits of Mr. O'Brien. More than a few times scheduled appointments with the owner were broken or delayed, primarily due to the insistence of Mr. O'Brien to do the many deliveries to customers personally. These deliveries were made almost daily and required a fair amount of manual labor. More often than not, Mr. O'Brien returned exhausted yet satisfied that the job was done right. Mr. Peterson was quite concerned about the employee considerations of the firm. One complete series of interviews with Mr. O'Brien was devoted to his feelings and interactions with his employees.

Metropolitan Omaha is a city which has experienced a regular and systematic growth. Located on the eastern edge of the state, the city now totals over 350,000 people. Its neighbor directly across the river to the east, Council Bluffs, Iowa, is a city of 60,000. The influence of insurance and cattle industries has given the city a healthy business climate. Omaha is in a centralized location in the United States and is very attractive to firms looking for a new place for expansion. Don Peterson had been interested in an analysis of the movements to Omaha suburbs, the most active of which were in the county directly west of the city. He was amazed to learn the population of this

county now totaled 63,696, bringing the total population of the three county area to be over 479,000. This was an important consideration in the Weeksley situation as Mr. O'Brien continually spoke of expansion possibilities to Mr. Peterson. In one interview, the owner echoed the sentiments Mr. Peterson remembers as typical of O'Briens philosophies of growth:

"What I've got in mind Don, is one new location for sure. I want it on the West Side of Omaha to serve that side of town. The growth is to the west in this city as I am sure you are well aware. I've already done some speculating as to land and buildings and I feel confident the new store will go over. While I'm at it, at that stage of the game I'm going to change the name of the whole operation. The Paint Works has caught my fancy. What is your opinion?"

Mr. Peterson carefully withheld his "gut" reaction and assured Mr. O'Brien that the consultation efforts would keep in mind the owner's long-term goals. Peterson became quickly aware of the immediacy of the wishes of the owner to this goal of expansion. At first glance Peterson initially speculated that location must be a key determinant for patronage on the part of Weeksley's customers. After a close scrutiny of billing addresses of major customers, Peterson came to the conclusion that his speculation was wrong. The main charge customers as well as cash customers (tabulated by personal interviews) came from a wide array of not only suburban Omaha, but from outlying areas as well as neighboring small towns. Accounts on the records of Weeksley also showed customers in the far western parts of Nebraska as well as into Iowa.

Also related to consumer groups and location of Weeksley's customers, Peterson was extremely interested in the work of a previous consultant effort by R.R.D. Inc., who was enlisted by Weeksley to ascertain key areas in Omaha which would be most conducive to direct mail promotions and advertising. Mr. O'Brien, years before, had been extremely successful in a similar offering via the mails in Sioux Falls, South Dakota. O'Brien was at that time in a different managerial capacity with a paint store there. Out of the total number of coupons included in the mailing promotion sent out in Sioux Falls, a total of 7.2% had been returned. This promotion became an important implementation in the profitability and expansion of the store there. The similar effort in Omaha yielded scant results. R.R.D. Inc., had defined what they considered to be optimum areas in Omaha for the mailing promotion. The basis for their findings had to do with the idea of areas in the city in which there was a high concentration of homeowners who did, in fact, own their homes. The rationale being that these type of

consumers with a high degree of equity invested in their homes would be more approachable as to home-improvement material such as paints and the other accessories. Peterson wondered as to the authenticity of this argumentation and determination by R.R.D. Included in the Omaha promotional package sent through the mails was an attractive color card of coordinative ideas as well as suggestions as to wall surfaces and paint coverage.

It had been the practice of Weaksley to advertise in the daily paper of Omaha, the World Herald, until O'Brien came to the conclusion that the cost of such advertising "was not paying for itself". Other methods were tried, such as spot radio plugs, but the cost in O'Brien's estimation did not prove to be attracting the business he had hoped. At the time of the counseling work by Expertise, the management of Weaksley was considering the use of local shopper publications. These newspapers were published weekly, and were completely devoted to advertising and promotional activity by merchants. The salesman for The Weekly Shopper, the largest of the shopper newspapers in the three state area of Iowa, Nebraska, and Kansas, extolled the virtues of the market segment which the newspaper allegedly reached, i.e. the smart and thrifty shopper. O'Brien and Peterson had briefly discussed the legitimacy of such claims.

Donald Peterson carefully noted and examined the competition of Weaksley Paint Company. To Mr. O'Brien's way of thinking, the biggest competition to his firm was from the huge conglomerates such as Sears and Wards.

"There is no question about that, Don. The big boys are far and away our main concern. Pricing, I suppose, is the real important issue. It would not be so bad if they would really provide what they can so easily advertise in the papers with their huge budgets. What really bugs me is that many times they sell-out very quickly the eye-grabbers in the paper. An unknowing customer will more often than not be enticed by a smooth-talking salesman as to another line of paint. I'm afraid these people are taken in by such a hard-sell!"

Peterson's further investigation of main competition had interesting ramifications as to this salesperson consideration. It was discovered that at Weaksley there was a goodly amount of expertise among the clerks that interacted with the customers. This expertise included not only the paint angle of the business, but all phases of problems having to do with decorating. In short, Peterson found the employees of Weaksley to be not only knowledgeable, but more than willing to assist any and all customers. The friendly atmosphere of the client-firm was reason for many return customers according to interviews with the patrons

of the store.

Peterson quickly found that the fluctuation of paint sales was quite seasonal in nature. This fact had always weighed heavily in the decisions of Mr. O'Brien as to advertising. Due to the specific nature of the weather conditions in Nebraska during the course of a normal year, prime advertising time was considered to be between April 1st and September 15th. Yet a close look at monthly receipts and records of Weaksley revealed a surprising amount of purchases in late March and early October. O'Brien's comments:

"We seem to cater to a surprising number of early-birds for repairs and outside work as well as those who seem to take advantage of an opportune fall. I guess I've never put that much faith in the weather here in Nebraska, myself"

Donald Peterson had, on occasion, the habit of going back to some of his old textbooks in some phases of the counseling at Weaksley. One specific example concerned micro and macro-economic considerations in relation to the client-firm. Mr. O'Brien remarked on more than one occasion about his inability to obtain all of the desired inventory he ordered each month. He further explained that it had become common in recent months to receive only 78% of the paints he "needed and required" each month. Upon further investigation, Peterson found a direct link of these problems of shortages and stock-outs to the basic ingredient of the paints--- oil. Not only was the parent company (Dutch Boy) having trouble meeting production expectations due to the limit of their oil allocations, but prices had reacted as a result. Weaksley Paint Company had made three additional markups this fiscal year alone. These mark-ups reflected the increase in the price of paint goods as a side-light of international oil situations, and the mark-ups now totaled an increase of 20-25% from cost as obtained from the parent company. This, in turn, had affected the wholesale prices Weaksley offered to accounts. These accounts had of late become disenchanted with carrying certain premium-priced brands of paint. The retail price they offered affected sales, and it now seemed as though the consumer was unwilling to pay for a product for which he felt he could adequately "get by" with a cheaper line.

The latter part of the counseling effort found Don Peterson working in the bookkeeping department of Weaksley. After some pencil-pushing and evaluation of data, Peterson pinpointed what he considered a unique aspect of the firm. A brief summary of which can be found on the next page.

Taking these figures into consideration, it was interesting to Peterson to note the comments of Mr. O'Brien concerning these sundry items:

"Our sundry items have always been an area of

The Weaksley Paint Company

Average Dollar Sales in Winter Months-----	\$28,666/mo.
(Oct.-March)	
Total Winter Months Dollar Sales-----	\$172,000
Average Dollar Sales in Summer Months-----	\$48,000 mo.
(April-Sept.)	
Total Summer Months Dollar Sales-----	\$288,000
Total Dollar Sales last Fiscal Year-----	\$460,000
Percentage of Total Sales that are realized to be	
	Paints----87%
Percentage of Total Sales that are realized to be	
	Sundries--13%
(by Sundries the interpretation is to be to such items as rollers, brushes, ladders, sandpaper, etc.)	
Dollar Amount of Paint Sales last Fiscal Year-----	\$400,200
Dollar Amount of Sundry Goods last Fiscal Year-----	\$ 59,800
Total Dollar Sales last Fiscal Year-----	\$460,000

high profitability for us, Don. In terms of floor-space, these items do take up a lot of square footage but are worth their weight in gold almost literally. Our inventory turnover concerning these materials and equipment has been an area in which we do not keep extremely close tabs on I'm afraid. We have always looked upon these items in the past as a necessary wheel on the cart. What paint store could be without them?"

Midway through the analysis of Weakley Paint Co., one entire week of two-hour-a-day meetings was devoted to the scrutinization of past consumer market segments, the strategies dictated to each, and how future business could be accelerated by a possible reevaluation of these strategies. When Donald Peterson questioned Mr. O'Brien on the definition of groupings of his many customers, he found his client rather confused and dismayed:

"I've been in this business for more than twenty-five years now, Don. I like to think I've made quite a few friends here in Omaha as a result of my dealings with customers and even competitors. Of course, the Chamber of Commerce has always been my pride and joy, I've had many profitable business ventures as a result of that contact. My customers generally are from a small business surrounding or at least I like to think so. I've prided myself in personally calling on some of the handi-men who may not be as well versed in painting and decorating as they would have you think."

Mr. O'Brien's "calls" were typical of a small businessman concerned about customer satisfaction. He later admitted that time was a detriment to seeing many of his customers, potential as well as established. The fact was O'Brien had occasion to call on quite a few small contractors outside of the delivery routine he kept. More than once contacts led to contracts for sales of paint in bulk quantities at discounts attractive to these small contractors. Peterson wondered as to the feasibility of more concentrated effort towards these consumers. The charge accounts of Weakley also carried the names of a few property-management enterprises. It was these type of businesses that owned and were responsible for the upkeep and maintenance of apartment houses, duplexes, and other rented or leased structures. These property-management people also had occasion to sub-contract painters and other laborers for the purpose of renovating and improving existing dwellings for prospective tenants.

Mr. O'Brien was extremely interested in industry tendencies and liked to keep well-versed in national trends and

in-vogue ideas. Peterson carefully noted that the firm adhered to what O'Brien read and deemed important in Paint and Wallpaper Dealer, a bi-monthly publication devoted to the interior decorative industry in general. It was from this publication that O'Brien took data by which he measured his company by companies of similar size in dollar sales. O'Brien was extremely proud of the data he confronted Peterson with, a summary of which is below:

	<u>"Similar Firms"</u>	<u>Weeksley</u>
<u>Average Sales per Employee</u> <u>Yearly</u>	\$40,000	\$150,000
<u>Inventory Turnover</u>	2.6x	4.6x
<u>Bad Credit to Total Sales</u>	2.3%	1.3%

Peterson, extremely impressed, researched these comparable figures O'Brien deemed so important. After finding the back issue of Paint and Wallpaper Dealer, Peterson found the firms to which O'Brien was comparing his company realized a much smaller percentage of wholesale sales to total sales than did Weeksley. Peterson wondered as to the implications under which these figures had made O'Brien so content in his company.

Before leaving the 8-week initial confrontation and analysis stage of the consultative work, Peterson sat down with Mr. O'Brien and queried into specific objectives and business plans of the Weeksley Paint Co. Coming out of the interview wondering as to the exactness of O'Brien's answers, Donald Peterson, in order to give direction to his upcoming report and recommendations, formulated these objectives and business plans on the basis of the answers given by the owner and Peterson's eight weeks of interaction with the company:

Owner's Objectives

- 1) to maintain and increase profitability.
- 2) to consider all the possibilities of expansion.
- 3) to pay off the current SBA loan now on the ledgers.
- 4) to keep "on top" of the credit-crunch and oil limitations which have made their presence felt in the retail paint supply industry.
- 5) to reconsider and establish promotional and advertising strategies.

Business Plans

- 1) to keep a close watch on inventory levels and overhead costs.
- 2) to look over paint business situations in the area and feel for openings for expansion.
- 3) to give top priority to payments on loan by SBA
- 4) to maintain key ratio standards and keep in contact with the periodicals of the industry.
- 5) to seriously consider shopper newspapers as a channel for promotional and advertising communication.

THE WEAKSLEY PAINT COMPANY (TEACHING NOTE)*

The following aspects of the case should be identified as critical in scrutinizing the operating of Weakasley Paint Co.:

- 1) Acknowledgement of main competitors
- 2) Locational aspects of the company
- 3) Realization of market segmentation
- 4) Failure of past promotional efforts and why
- 5) Advertising strategy complementing long-term plans
- 6) Importance of planning new employee considerations
- 7) Analysis of high-profit sundry items
- 8) Analysis of ratio figures.

Given the fact of the recognition of the mass merchandisers to be the main competition of Weakasley, and given the observations of the case concerning the expertise of the employees of Weakasley, it should follow fairly logically that Weakasley was in a better business environment in which to offer full customer service. This service/friendliness aspect on the part of the employees of Weakasley should be exploited in promotional and advertising plans against Sears and Wards. The firm should strive at all times for the utilization of its strongpoint of quality service and expertise.

Specific strategies left open to Weakasley as a consequence to particular moves by competition should also be examined in this case. Possible action by Weakasley in terms of sales, channels of promotion and advertising, and pricing, should be highlighted.

Weakasley operated under a handicap of location yet customer patronage was realized from areas away from the immediate area. It should be noted that promotional efforts toward consumers from different areas of Omaha failed, however. This was primarily due to the determination of the research company that Weakasley should adhere to a strategy of mailing promotions to those owning their homes. The promotion aimed at concentrations of homes, and only those in that area received the mailings. The case brings out the crucial argumentation of trying to put locational factors in the proper prospective. The much more important considerations should be the exact definition of market segment and

*This teaching note is for the Weakasley Paint Co. case, which was prepared by R. Andrew Carlson, under the supervision of Dr. Wm. H. Brannen, Creighton University, as a basis for class discussion.

and strategies to be geared toward such a segment.

The important market segments and how best to approach them should be drawn from the case. The key groups, of course, are:

- 1) the independent small contractors, and
- 2) the property management people.

These groups are imperative for analysis because due to the time constraints upon management, these untouched potential customers are being neglected. The proven method of direct selling techniques should be used by O'Brien to these two groups, as they hold the possibility for increased quantity sales and higher profits. The property management people offer further vast chances for the exploitation of the personality of Mr. O'Brien as to community identity and contacts, and, further sales via subcontractors and painters who work for these management people are a real possibility.

The failure of past promotional efforts as far as the coupon offering is only one example of the misuse and misunderstanding of the channels of communication. A closer look at the possibility of the shopper newspapers is definitely in order for the Weakley firm. These newspapers would offer the most direct type of communication to homeowners as well as merchants. Such a publication would be very conducive to the offerings Weakley should have in mind, and it is at this point that the case involves crucial considerations.

Room for argument both ways as to the merits of expansion may be gathered from the case. On the affirmative, the expertise and know-how of the staff of Weakley is evident. There seems to be proper marketing and promotional skills lacking, however. If the decision is to the affirmative, long-term goals of expansion should be coordinated with anticipated marketing strategies to build up a larger patronage. Further, if the name change is to be implemented, it must be coordinated with the expansion time-table as well as the attempt to gain name-familiarity and recognition on the part of the populace of Omaha. Manpower expansion must be initiated immediately if the expansion is to take place. Not only would this free O'Brien from jobs which are too time-consuming and relatively unimportant, but it would give O'Brien the time to solicit possible new customers and look into the possibilities of the property for the new location. Additionally, this would free the gentleman to look for an enterprising individual to head the new location, and work out the details.

On the negative side of expansion, there is ample data in the case for argumentation against expansion. First of all, the situation regarding the SBA loan. The liquidity of Weakley leaves room for suspicion that the firm would be able to attract sufficient borrowing power to follow through with such plans. Secondly, with the world oil situation

the way it is, and the inability of Dutch Boy to meet full inventory requirements, there is food for thought as to the very uncertain future of oil related industries. Finally, the relationship of Weaksey to not only the parent company (Dutch Boy) but the small stores it supplies, should bring doubt to the casereader as to the uncertainty and chance of such plans.

The sundry items or accessory items are grounds for profitability analysis on the part of the company as well as possibilities for promotional schemes and strategies. The company should not only take a new line of thought towards this merchandise as far as inventory turnover is concerned, but also consider these items as inducements for patronage. One possibility might be lowering prices to realize greater sales on these sundry items, and to also use these items for "specials" to stimulate paint sales.

The figures in which Mr. O'Brien seems to put so much faith are all but relateable to the situation of his company. The simple reason for this is the large amount of wholesale sales that Weaksey is involved with. It should be clear to see that this would have a very important effect in contemplating comparisons between Weaksey and the companies of the Dealer magazine. As we are not given the exact figures of wholesale activity, it is merely important to keep in mind the fact that a reassessment of company guidelines should be forth-coming.

Given the data on the recent changes of the higher management of Dutch Boy, it would be a very opportune time for Mr. O'Brien to make intimate and probing contact with the new people, if for no other reason than to engage their help to determine relevant figures by which the company can gauge its position in relation to others. Along the same lines, there is a very real need for the management of Weaksey to formulate company policies as well as goals. It should not be the task of an outside party to ascertain or even help ascertain objectives. Policy and plans of Weaksey can very well be formulated by professional help, but the objectives of the company should be a very personal and definite matter, especially given the stage of life of the owner, and the degree to which his family is involved in the business.