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BUSINESS | NJC^4 New Jersey County College Case Competition

Sample Case for Rutgers Business School – NJC^4 Case Competition

Sample:

This sample case is intended to be used as a training and mentoring aid for the Community College teams competing in the RBS NJC^4 case competition. The actual case used in the competition will have more depth, additional data points and some financial information. However, the scoring points listed below are similar to the actual case competition scoring criteria.

Case Questions:

1. What issues besides the decision to expand should McDonald consider before making a decision.
2. What contingency plans should McDonald and his management team consider?
3. What sales projections would make sense? Please justify your projections
4. Was a bank loan a better option than selling equity? Why?
5. What other options do you believe McDonald should consider? Cut back the number of beers being brewed, rent capacity from another brewer, reduce the distribution area?
6. What is McDonald's best option? Please support your answer

Scoring Metric:

a. What strategy & assumptions did the team outline? (20 points) ______
b. Quality of: (25 points total)
    a. Accuracy of financial data
    b. Reasonable sales forecast
    c. Any additional information offered?
    d. A SWOT analysis used?
    e. Did the team maximize vale while reducing risk? ______
c. Overall presentation (30 points total)
    a. Convincing presentation?
    b. Professional presentation?
    c. Clear & concise format? ______
d. SWOT analysis (10 points) ______
e. Q&A (15 points total)
    a. All team members can/ do address questions
    b. All team members demonstrate understanding of the case
    c. Answers incorporate key points of the case ______

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How to Keep the Taps flowing **

It was a scare in April 2004 when Boulevard Brewing came close to running out of beer. That scare got the company thinking about its future.

Boulevard is a regional brewer centered in Kansas City Missouri. Its sales had increased by at least 17% per year since 1994. Revenue was $11.8 million in 2003 when it expanded distribution to 10 states, with most sales generated around colleges and universities (so you know who the beer appealed to). But in 2004 demand was on the verge of outstripping supply of Boulevard's 70 year old semi operational brew house that founder John McDonald had imported from Bavaria. John repaired the equipment and installed it in a 100 year old brick warehouse (3 story high) on Kansas City's Southwest Boulevard (Thus the company name). Over the years John had upgrade the facility to produce nearly 17 times its original capacity of 6,000 barrels per year. But to expand further he would need to build a new facility or buy an adjoining building (also over 100 years old) as here was no space to add to his existing building footprint. The company made it through 2004 by stocking beer during the slow winter months; but now even that approach was not enough. As a result, going into spring 2005 Boulevard was asking some distributors to hold their orders for two or three weeks.

There was another concern. The original equipment was over 50 years old. What if it broke and could not be repaired quickly – the company could go out of business. Bob Sullivan (VP marketing) suggested creation of a "contingency plan" to assure the company could operate even if an emergency shut down operations. McDonald felt that type of plan was not enough. He felt company management should consider pulling back in the market, or expansion / move to a bigger location – as well as a contingency plan.

John McDonald took a course on brewing in the late 1970's. But his lack of experience hindered his ability to raise the necessary $750,000 to start a brewery through the 1980's. Finally a family friend and his parents loaned him the money in 1988. McDonald immediately hired an expert brew master (Charles McElvey) who helped locate some 1930's era Bavarian brewing equipment capable of producing 3,500 barrels per year, which he installed in a 15,000 square foot leased building. In the fall off 1989 Boulevard produced its first batch of pale ale. It was sold to a Mexican restaurant two blocks away. By 1992 Boulevard was producing multiple types of beer at 7,000 barrels per year. By 1995 McDonald and McElvey had doubled output to 15,000 barrels with sales of $3 million. At that point McDonald brought in Jeff Krum, a finance and real estate guy, as CFO. Sales continued to grow, reaching $14.2 million in 2004. If they could produce enough beer, sales for 2005 were projected at $17 million. But they were running seven days per week producing eight types of beer and had hit 90,000 barrels.

What should McDonald do? The easiest option would be to cap production and raise prices (which would dampen demand). This would generate enough profit that shareholders and top executive would have a comfortable income. McDonald could also expand by building a new brewery outside Kansas City. Building in the suburbs would be cheaper than renovating an old building downtown and would require fewer permits. But moving out of Kanas City would mean leaving behind most of his trained staff. McDonald also thought there was another option – spend $15 million to renovate a 100 year old adjoining building to his existing site. With that renovation (or the move to the suburbs) he could produce 700,000 barrels per year. Jeff Krum cautioned that renovating a 100 year old building had many “hidden risks” and that once started there was no turning back. He asked McDonald: “Are you sure you don’t want to sit around, play golf and just raise your beer prices?” He voted for a new brewery in the suburbs.

Boulevard secured a 7%, 15 year bank loan to expand operations that would cover either expansion option. That meant that principle and interest payments would be around $2million per year. Any hiccup in sales could be fatal to the company. The company has 30 days to either exercise the loan or cut back on production, raise prices and then just “sit back”. What should McDonald do?

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