

THE IMPACT OF INTRINSIC AND EXTRINSIC MOTIVATION ON JOB CHOICE IN GENERATION Y

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ABSTRACT

The goal of the present study was to continue research on job choice, specifically in Generation Y. Using a 2 x 2 experimental design of type of reward and the term in which the reward is received, 140 undergraduate students from Generation Y were surveyed. The present study examined main interactions and interactive effects of the type of reward that was being offered (extrinsic vs. intrinsic) and the term that the reward would be received (short term vs. long term) on acceptance, satisfaction, organizational commitment, and intent to stay. Results of multivariate and univariate analyses indicated that the type of reward had a main effect on satisfaction, organizational commitment, and intent to stay, while the term only had a main effect on intent to stay. Results did not support a main effect of type or term on acceptance. Implications of these findings are discussed.

INTRODUCTION

Looking for a job is always a challenging and time consuming process, especially right out of college. Finding the right job is even more difficult. The process of looking for a job has been studied numerous times and is described as "job choice." A potential employee can spend days searching the Internet, going to job fairs, and networking to see what positions are available. Once that person finds a job they may be interested in, they evaluate what the organization is offering. The process of finding a job is long and can be stressful. Therefore, the individual will want to make sure they fit their criteria with a job that mirrors their needs.

As future employees are attempting to find the right fit, organizations want to find and hire the best and the brightest talent they can find to fill any vacancies. If an organization can successfully adapt their job characteristics to cater to people looking for jobs, they will have a much better chance of finding the best-fit candidate. Once a business has filled a position, they will also want to be sure that the employee enjoys working with the organization. Doing so will allow for a low employee turnover rate, which is important considering the costs of hiring a new employee. According to recent research, the cost of recruiting, hiring, and training one new employee can be over \$4,000 (Prafder). This doesn't include any indirect costs such as missed business because of the vacant position. With these high costs associated with filling a vacant position, it is vital that an individual is not only hired, but that they intend to stay with the organization for some time.

Graduating seniors are the next group of employees that businesses will be looking to hire. These graduates are members of Generation Y. Generation Y are a new and unique group that is more educated and technology savvy than any previous generation. With the help of the Internet and numerous search engines this group will be able to search online for jobs that have the characteristics they desire. The organizations that are able to cater directly to the needs of this generation will be able to recruit the top applicants of the graduating seniors.

Some past research has sought to determine the individual characteristics that are influential to job choice but little research has been conducted for the graduates of Generation Y. While characteristics that ranked high in the past such as a more flexible schedule, relaxed working conditions and high salaries may still be attractive, research has not proven that Generation Y will continue these trends. Each passing generation has reported changes in work values. Businesses cannot assume that the same values that were true for the Baby Boomers or Generation X will hold true for graduates of this generation.

Many studies have been conducted on job choice. However, there has not been much recent research on how an individual will react to job specifications or characteristics. Specifically, research has not explored what

determines the types of characteristics of a job are most attractive to these soon-to-be college graduates of Generation Y. This knowledge would be valuable to recruiters who are trying to market their job openings. If recruiters know what characteristics of the job are most attractive to Generation Y, organizations could revise their marketing strategy to gear it specifically to this group. Meanwhile, the students searching to begin their careers will have a better chance of finding exactly what they are looking for in their first job. In seeking to find what initially attracts Generation Y, managers may also wish to know what motivates Gen Y to be satisfied, committed, and willing to stay with the organization. High levels of these three indicators may produce a lower turnover rate, which will prevent high turnover costs in the future.

The current study will seek to find what job characteristics members of Generation Y are looking to find. In doing so we will divide these job characteristics into two types of factors, intrinsic and extrinsic. The factors will then be tested to see if Generation Y prefers more intrinsic rewards or extrinsic rewards. The current study will then test how satisfaction, commitment, and intent to stay changes with the different rewards. The current study will also seek to find how the term that the rewards are received affects the job choice of Generation Y.

It is critical for companies to identify what students are looking for in their entry level jobs. With this study, hopefully recruiters will know what aspects to advertise to catch the attention of the best and brightest students. Also the current study may help companies organize their jobs specifically to administer to the wants and needs of their new future employees. With a cost of around \$4,000 to recruit just one new employee, it will be very advantageous to get it right the first time.

LITERATURE REVIEW

Generation Y and Job Choice

Over the past two decades recruiting top applicants has become increasingly difficult. Learning how to attract the best applicants is critical for recruiters in today's world (Chapman, Uggerslev, Carroll, Piasentin, and Jones 2005). The key is not just to attract the best applicants, but also to be able to retain them. The average cost of recruiting, hiring, and training a new recruit is around \$4,000 (Prafder). These high costs make it is vital that the turnover rate remains low. The question then becomes, what attracts these top applicants that will also motivate them to stay with the organization in the long term?

Each new wave of graduates has expected different things from their careers. These graduates can be grouped according to their generation. A generation is defined as set of individuals that share birth years, age location, and similar significant life events at critical development stages (Smola and Sutton 2002). Each group shares historical or social experiences that distinguish their generation from the rest as well as sharing common beliefs and behaviors (Smola and Sutton 2002, Lindquist 2008). The generations that are relevant in today's work world are the Baby Boomers, Generation X, and Generation Y. These generations each have its own history and attributes that makes them a unique group.

The Baby Boomers were born between 1945 and 1964 (Northwestern Mutual Life Insurance Company). They grew up with a sense of entitlement and expected the best from life. Some key events that they were effected by are the Vietnam War, the civil rights movement, the Kennedy and King assassinations, and the sexual revolution (Smola and Sutton 2002). Traditional values and material success made a comeback during this generation (Smola and Sutton 2002). They are passionate about their careers and work hard enough to have created the 60-hour work week (Lindquist 2008). Baby Boomers were such a large generation that they were happy to secure any job and worked long hours to keep them (Kadlec, 2007). There was little concern for whether the job was a good fit with the individual (Kadlec, 2007). Baby Boomers did not mind working long hours. Some never planned to retire (Lowe, Levitt, Wilson, 2008). This generation did not require things to move at a fast pace. Instead they paid their dues and climbed the corporate ladder at their own pace (Lowe, Levitt, Wilson, 2008).

Generation X (Gen X) individuals were born between 1965 and 1978 and are known for their self-reliance, informality and practicality (Northwestern Mutual Life Insurance Company). Their younger years were filled with financial, family, and societal insecurity along with rapid change and a lack of solid traditions (Smola and Sutton 2002). Growing up in homes where the norm was having both parents working, they tend to be more individually minded rather than collective (Smola and Sutton 2002). This generation is considered very skeptical and had a

reduced sense of workplace loyalty while also distrusting authority (Roberts, 2005). Differing from many of the Baby Boomers, this generation became well educated and technologically savvy. They were also more entrepreneurial in nature (Roberts, 2005). Generation X differs from the Baby Boomers in job characteristic choices. Generation X is smaller, and has never known job scarcity, so they are able to hold out until they find a job they like. They desire more money, but also want to separate their careers from their personal lives (Kadlec 2007). Generation X also differs from the Baby Boomers because of the speed that they want things to get done. While Baby Boomers were satisfied with taking their time to climb the corporate ladder, Generation X wants to find ways to get things done fast, possibly even by bending the rules a bit (Lowe, Levitt, Wilson, 2008).

Generation Y (Gen Y) individuals were born between 1979-2001 (Northwestern Mutual Life Insurance Company). They are just now beginning to enter the workplace. This generation is the first generation to be wired 24 hours a day with cell phones and the Internet (Smola and Sutton 2002) and is the most well educated of the generations (Roberts, 2005). It is thought that because Gen X-ers craved higher salaries and desired to be more financially sound, Generation Y will want even more (Smola and Sutton 2002). Gen Y was brought up on self-esteem building and personal autonomy. They also tend to be more optimistic, idealists, multi-skilled risk takers, have respect for authority, and a more global outlook (Roberts, 2005). Generation Y-ers also dislike micromanagement and slowness (Lowe, Levitt, Wilson, 2008).

These differences in generations, causes a gap in what the Baby Boomers and Generation X previously desired in a job and what Generation Y will now desire. Specifically, studies that have been conducted in the past may not be relevant to the new wave of college graduates headed out into the job world. A few studies have been conducted that have tried to determine what is important to Generation Y. One study conducted by Smola and Sutton (2002) looked at the difference in work values for Generation X and Y. The study was conducted across the country, including over 350 individuals. The subjects were asked to complete a survey exploring three main issues: (1) if the generational differences in work values among today's employees are different from previous generations (2) if the work values of today's workers are different from those in 1974 and (3) if the work values remain constant or change as workers get older.

The results of this study found that there are different values among today's employees and past workers. The first major difference is that younger workers had a strong desire to be promoted more quickly. Another interesting difference is that younger employees would be more willing to quit their job immediately if they inherited a lot of money. This means that they want immediate results. The study concluded that the newer generations care less about the company and are more "me" oriented. It showed that the new generations want fast results. They are not willing to sit around and wait for rewards or results to come to them. Generation Y wants to get what they want from work and then move to focus more on their private life. In short, they think more in the short term than in the long term.

Another study conducted by Blanco, DelCampo, and Marron (2008) wanted to find the characteristics, work styles, strengths, and weaknesses of Generation Y. Specifically, this study looked at the differences in the total Generation Y population and Hispanic Generation Y-ers. The sample consisted of 272 Hispanic Generation Y-ers and 1713 Hispanics in total. The results of this study sought to outline Generation Y so that recruiters would better understand them. Results suggest that the work style of this generation is very fast paced. They found that Generation Y seeks quick and frequent feedback. Technology savvy, this generation is used to being constantly connected and able to get quick responses. They also desire and expect to see progress in their careers quickly. This can be attributed for a need for "instant gratification," which means that they want something and they want it now.

Generation Y differs from the previous generations of Baby Boomers or Generation X. Generation Y wants results fast. They want to be promoted quickly, have almost instantaneous feedback, and have a strong desire for "instant gratification." As a result of this previous research, the present study presents the following hypothesis:

H1: A job is more likely to be accepted by individuals of Generation Y if the attributes will be received in the short term rather than the long term.

Extrinsic Motivation

Being motivated can be defined as being moved to do something (Deci and Ryan, 2000). A motivated individual is someone who is inspired and energized to move towards an end (Deci and Ryan 2000). Countless

theories have been developed to explain motivation. One popular theory of motivation, developed by Deci and Ryan, suggests two separate potential motivators: intrinsic and extrinsic. This section focuses on extrinsic factors while the next section will focus on intrinsic factors.

Extrinsic motivation can be defined as doing something because it leads to a separable outcome (Deci and Ryan 2000). That means that outside encouragement or rewards are earned from performing a task rather than actual enjoyment of the task. Relating to job evaluation, extrinsic motivation, especially money and pay rewards, are a very important motivator to make decisions on whether to join an organization (Rynes, Gerhart, and Minette 2004).

Money and pay are not the only extrinsic awards an employee may receive from a job, although, according to past research, salary is one of the most important factors in a person's decision to accept or reject a job offer (Rynes, Gerhart, and Minette 2004, Judge and Bretz 1992). Some say that job security, type of work, advancement opportunity, company characteristics, and pay are just a few of these that are weighed in any decision (Jurgensen 1978, Judge and Bretz 1992). Judge and Bretz (1992) also found that promotion opportunities are one of the most important job attributes leading to a job choice decision. In a study conducted 30 years ago, the top three factors in a job were benefits, hours, and pay. Even though benefits and hours ranked higher, there seemed to be a rise in importance of pay (Jurgensen 1978). In a more recent study, extrinsic rewards have been defined as pay, stock options, bonuses, gain sharing, promotions and benefits (Cummings and Worley 2007).

In 2008 a study was conducted to determine how to recruit Generation Y. This study reported on a survey conducted by a recruiting and job placement firm Robert Half International Inc. and Yahoo! HotJobs. It surveyed 1,007 21-28 year olds from Generation Y. According to the results, the top criteria for accepting jobs were salary, benefits, and potential for advancement. This may be because one of Generation Y's main concerns is saving enough money for retirement since Social Security is rumored to be obsolete by the time that generation is able to take advantage of it. Therefore, Generation Y has had it drummed in their heads by parents that Generation Y is going to have to take care of themselves later in life. Another important factor that Generation Y wished to have in a job was bonuses for achieving a high performance rate. One executive that was interviewed said that another reason Gen-Yers want more money is because of skyrocketing health care costs. (Randolph, 2008).

After reviewing the findings of previous research, the present study decided to use pay, bonuses such as monetary bonuses or stock options, and opportunity for advancement as the primary extrinsic factors. Salary and other monetary rewards have been in the top factors of job choice in every study that was reviewed. Similarly, opportunity for advancement was also found as a primary factor linked to job choice. These extrinsic factors have been top contenders in job choice decisions in previous research. Therefore, the present study believes that these extrinsic factors are very influential in the job choice process and may have the most impact on a job decision.

Existence, Relatedness, Growth. Rising costs may not be the only reason new college graduates will want more money or other extrinsic factors. This could also be linked to Alderfer's existence, relatedness, and growth (ERG) theory. This theory began as a study to explore human needs and the desires and satisfactions that people experience (Alderfer 1972). Alderfer was heavily influenced by Maslow's (1954) hierarchy of needs and ERG theory is presented as an alternative. Existence, relatedness, and growth are primary needs that an organism seeks to fulfill. Contrary to Maslow, where a person must fulfill lower needs first, in ERG theory a person can exist in any one of these three stages of need at any one time. The three stages can be defined as follows.

Existence needs can be described as material and physiological desires. This includes items such as food and shelter. It also includes pay, benefits, and physical working conditions. A defining characteristic of existence needs is that they can be divided. When resources are limited, if one person receives more, another will receive less. For instance, if a budget permits only a certain amount of money, one person's bonus eliminates the possibility for extra money for others (Alderfer 1972). Being college students, one might assume that many of these needs, especially money, may not be met. This may be attributed to factors such as debt from student loans or a simple lack of resources because of being unemployed full time.

Relatedness needs suggest the relationships with significant others that individuals maintain. These others may include family, friends, superiors, coworkers, subordinates, and enemies. A basic characteristic is that satisfaction depends on a process of sharing or mutuality (Alderfer 1972). Students in college may have more

opportunity to become fulfilled in relatedness needs. This may be because of frequent interactions with roommates, in clubs, or in class. It may also be linked to belonging to a group, whether that is a specific class or a group of friends.

Growth needs are defined by making creative or productive effects on himself or on the environment. Fulfilling growth needs may include a person utilizing their knowledge or to grow in what they currently know. Satisfaction depends on a person finding ways to be what they are fully and becoming what he/she can be (Alderfer 1972). The subjects of this study are college students who daily find themselves challenged to grow and learn more. They also utilize their knowledge to perform tasks such as homework. Therefore, growth needs may already be met by college seniors.

What can be taken from Alderfer's Existence, Relatedness, Growth theory is that when any one of these needs is unfulfilled, it will be desired. Generation Y college students lack existence needs because while attending college they are spending their money on tuition and living costs, causing most to be in debt. College can provide comradely while also providing an environment for a student to grow.

Pay, bonuses, and promotion have been found in previous research as top factors in job choice. These extrinsic factors are believed by the present study to be the most critical factors in a job decision. Students are also believed to be in the stage of existence, which would make extrinsic factors even more attractive. As a result of previous research of extrinsic motivation and existence, relatedness, growth theory, the present study presents the following hypothesis:

H2: Jobs with positive extrinsic factors and negative intrinsic factors will have a higher acceptance rate than those with negative extrinsic factors and positive intrinsic factors.

Intrinsic Motivation

Intrinsic motivation refers to doing something because the task itself is interesting or enjoyable (Deci and Ryan 2000). To further that explanation, intrinsic motivation is based on the need for competence and self-determination (Deci and Ryan 1985). Although intrinsic motivation is not a primary drive, it energizes behavior and is vital to human function (Deci and Ryan 1985). In past research, intrinsic motivation has been tested using the "free choice" measure where participants in the study are asked to perform a task, then later given "free choice time." Deci (1971) then measured how much time was spent returning to complete the task when no outside reward was offered. In Deci's study, he found that those with only intrinsic motivation worked on the task longer in their "free choice" time than those that had also been given extrinsic motivation. In a job setting, an intrinsically motivated job would be described as a job that is enjoyed for the job itself (Deci 1971, Deci and Ryan 1985, Deci and Ryan 2000). Therefore, the first factor used in the current study to describe an intrinsically motivated job opportunity is if the person enjoyed the job they are asked to accept.

One important study relating to intrinsic and extrinsic motivation is the study "Effects of Externally Mediated Rewards on Intrinsic Motivation" by Edward L. Deci (1971) who is a pioneer in intrinsic and extrinsic motivation. This study was conducted with two laboratory experiments and one field experiment to determine the effects of external rewards on intrinsic motivation. The hypothesis of this experiment was that if someone was engaged in an activity for intrinsic reasons and was then offered external rewards such as money, then the intrinsic motivation would decrease.

In the study, students were asked to use puzzle pieces to produce different configurations. During each session, the experimenter would leave the room for eight minutes where the subjects could work on whatever they chose. The subject's intrinsic motivation was determined by how much of this "free time" was used to work on the puzzle. The results of this first experiment concluded that an extrinsic reward of pay increased motivation while it was available. Once it was taken away, intrinsic motivation decreased dramatically. The control group's intrinsic motivation increased throughout the experiment.

The second study mimicked the first, but was used in the real setting of a biweekly college newspaper. Subjects were asked to make newspaper headlines. The experimental group was given money for each headline but only for three weeks. The experimental group began underperforming when compared with the control group as soon as they began to be paid. In this experiment, Deci found that when money is introduced as a motivator,

subjects lose intrinsic motivation. Money causes subjects to reevaluate the activity. It is used to “buy off” a subject’s intrinsic motivation for an activity. It is seen as a controlling factor. Furthermore, once extrinsic factors are removed, instead of returning to being intrinsically motivated, the same behavior that was exhibited when extrinsic factors were present persisted. The control group that only had the option of being intrinsically motivated used more “free choice” time to work on the puzzle. The control group also wrote more headlines than those that were offered extrinsic factors as a motivator. Deci (1971) found that the lowering of “free choice” time spent on the puzzle and writing fewer headlines than the control group may have been because offering money in return for performance lowered their intrinsic motivation.

Job Characteristics Model. Relating to job opportunities, intrinsic motivation can be applied to determine how much a person enjoys doing their job. Hackman and Oldham (1980) came up with five key dimensions that must be present in order to make a job enriching and fulfilling. They are autonomy, skill variety, task identity, task significance, and feedback about results. These five core job dimensions can lead to three psychological states. These states are the individual must feel responsibility for the outcomes of the job, the job must be meaningful and matter to others, and the individual must have feedback. Two of these, meaningfulness and autonomy are relevant to the current research.

Hackman and Oldham (1975) have grouped skill variety, task identity, and task significance as leading to the critical psychological state of experienced meaningfulness of the job. This is defined as the degree that an employee sees the job as being meaningful, valuable, and worthwhile (Hackman and Oldham 1975). These factors are very important to how employees view their job. It also has a direct impact on the intrinsic motivation of the individual. Because of this link to intrinsic motivation, the current study uses meaningfulness of the job is the first factor used to distinguish a job as intrinsically motivated.

Autonomy is described as the degree to which a person feels they have freedom and can use their discretion to schedule the work and decide how to complete it (Hackman and Oldham 1980). Deci and Ryan (2000) have also developed a theory called Cognitive Evaluation Theory (CET) which specifies that an individual will not enhance intrinsic motivation unless it is accompanied by a sense of autonomy. With autonomy being such a pivotal factor in whether an individual is intrinsically motivated from both the job characteristics standpoint and Deci and Ryan’s theory of CET, the current study felt that it should be included in the research. Therefore, this factor is the second aspect used to describe a job as intrinsically motivated.

These intrinsic factors can be combined in an overall measure of job enrichment. When people find that their jobs are more enriching, they are internally motivated and satisfied (Cummings and Worley 2007). Intrinsic factors give a person an internal perceived locus of causality, which means that they are in charge of their own actions and behavior (Deci and Ryan 2000). This, combined with a sense of autonomy (Deci and Ryan 2000), will make a job more attractive and satisfying.

O’Reilly and Caldwell conducted another study in 1980. It looked at the impact of intrinsic and extrinsic factors on satisfaction and commitment. This study was conducted with 171 graduates of an MBA program who answered a questionnaire prior to graduation. After graduation, these subjects went to work at whatever job they had accepted. Six months later 101 subjects returned to answer a questionnaire on their satisfaction and commitment to their current jobs. The findings of this study concluded that intrinsic factors tend to lead to higher attitudinal commitment. It also found that extrinsic justifications for behavior and as a factor in job choice may have decreased commitment and job satisfaction.

Another study conducted by Lowe, Levitt, and Wilson (2008) examined the challenges facing employers today to retain Generation Y in the workplace. Generation Yers want to be part of an innovative and active organization. They are also much more likely to intend to leave if they are dissatisfied with the organization. Generation Y would also rather have a flat hierarchy and prefer to be coached instead of told what to do by the “boss” while also having freedom and flexibility.

The study looked mainly at how to retain Generation Y since they seem to switch jobs much more than previous generations. The first way that they recommended building this organizational commitment is to give Gen Yers challenging and meaningful work that they can take ownership of. Gen Yers would also like to have flexibility in their work in order for them to do the job their own way. This sense of autonomy gives them the feeling that they provide a valuable contribution and they are also very engaged (Lowe, Levitt, and Wilson, 2008).

This study found that the factors of autonomy, meaningfulness, and enjoying the job in itself may cause a Generation Y member to be more likely to intend to stay with the organization while also increasing their organizational commitment and satisfaction.

Previous studies performed by Deci and Ryan have found that intrinsic motivation makes an individual much more likely to be motivated and perform well as opposed to those that were extrinsically motivated. Other research conducted by Hackman and Oldham outlined the factors of a job that will cause an individual to be intrinsically motivated. More recent research has found that intrinsic factors may increase satisfaction, organizational commitment, and satisfaction. As a result of the previous research conducted on intrinsic motivation, the present study presents the following hypothesis:

H3a: Jobs that have positive intrinsic factors and negative extrinsic factors will have a higher level of satisfaction than jobs with negative intrinsic factors and positive extrinsic factors.

H3b: Jobs that have positive intrinsic factors and negative extrinsic factors will have a higher level of organizational commitment than jobs with negative intrinsic factors and positive extrinsic factors.

H3c: Jobs that have positive intrinsic factors and negative extrinsic factors will have a higher level of intent to stay than jobs with negative intrinsic factors and positive extrinsic factors.

METHOD

Pilot Testing

An initial pilot test was conducted to investigate the responses of participants in the study. A sample of 11 undergraduate students from Siena College was used. Respondents were asked to read the scenario they were given, take the survey, and share their feedback. Three manipulation checks were used to determine if the hypothetical job offers were conveying the proper information. These checks asked if the offer had positive intrinsic factors, positive extrinsic factors, and if the rewards were given in the short term or long term. Based on the feedback and results of the manipulation checks, changes were made to improve the survey.

Sampling and Data Collection

The goal of this study was to gather data from Generation Y students at Siena College, a college located in upstate New York. Generation Y students who are going to be entering the work force in the next year or two were the primary targets of this study. Most surveys were administered in a classroom setting of upper level business, computer science, or psychology classes. There were no incentives offered for participating and participation was completely voluntary. Participants were given a survey with one of four job scenarios. They were then asked to assume they were being offered this job. Respondents were first asked how likely they were to accept the job offer they had been given. After the initial acceptance question, they were then asked to then assume they had accepted the job and answer the questions based on their perceptions of it. This survey can be seen in Appendix 1.

The scenarios are described as follows:

Scenario #1. “Extrinsic short term” offered positive extrinsic benefits and negative intrinsic benefits immediately. For the extrinsic factors the subject was presented with: “The job you are offered gives you a higher starting salary than you expected. The company is known for giving sizeable bonuses every year. In the short term you should expect to receive a promotion.” For the intrinsic factors the subject was presented with: “This job is something you do not particularly enjoy doing. Your boss must have the final say in how you perform your tasks. Your job will not have any impact in the lives of others.”

Scenario #2. “Extrinsic long term” offered positive extrinsic benefits after a long period of time and negative intrinsic benefits. For the extrinsic factors the subject was presented with: “The job you are offered has a lower starting salary than expected but in the long term there will be opportunities for rapid salary increases. Your job offers stock options as a significant benefit but it will take effect in the long term. You will most likely be in this job at your current position for the short term, but in the long term there will be opportunities for promotion.” For

the intrinsic factors the subject was presented with: "This job is something you do not particularly enjoy doing. Your boss must have the final say in how you perform your tasks. Your job will not have any impact in the lives of others."

Scenario #3. "Intrinsic short term" offered positive intrinsic benefits and negative extrinsic benefits immediately. In the intrinsic factors the subject was presented with: "You enjoy performing the work your job entails. You are given the freedom to complete the tasks as you see fit. This job has an immediate impact in the short term on the lives of others." For the extrinsic factors the subject was presented with: "The job you are offered gives you a lower starting salary than you expected. Raises and bonuses are given, but not regularly. Most likely, you will not receive a promotion in the future."

Scenario #4. "Intrinsic long term" offered positive intrinsic benefits after a longer period of time and negative extrinsic benefits. For the intrinsic factors the subject was presented with: "You enjoy doing this job, but in the long term you will be given the opportunity to do something in this job that you truly love doing. Currently, you must answer to a manager, but in the long term you will be your own boss and can complete the job's tasks the way you see fit. This job will have an impact on the lives of others in the long term." For the extrinsic factors the subject was presented with: "The job you are offered gives you a lower starting salary than you expected. Raises and bonuses are given, but not regularly. Most likely, you will not receive a promotion in the future."

For each of these four different hypothetical job offers there were two versions. In version A, the positive benefits were listed in the first paragraph followed by the negative factors in the second paragraph. In version B, the negative factors were listed in the first paragraph and the positive benefits were listed in the second paragraph. This counterbalancing was conducted to ensure that the reader did not respond based on whether the positive or negative factors came first.

Participants

140 individuals responded to the survey. The following characteristics applied to the 140 participants: 42% are male and 58% are female; the average age for participants is 21; 87% are Caucasian, 4% are Asian or Asian American, 1.4 are African American, and 4% are Hispanic American; the average GPA was between 3.1 and 3.5; 19% are the first in their family to attend college; 75% have worked 0-2 years, 15% have worked 3-5 years, 6% have worked 6-8 years, and 2% have worked 9 or more years; 49% believed they will receive 0-2 job offers, 43% believed they will receive 3-5 job offers, 3% believe they will receive 6-9 job offers; 14% are in the school of Science, 72% in Business, and 14% in Liberal Arts.

Measures. The survey had three different sections. These sections included: (a) their personal reaction to the scenario they had been given and how it impacted their likelihood to accept the job, job satisfaction, organizational commitment, and intent to stay with the organization, (b) how significant each of the factors used in the job scenario are including salary, interest in the job, personal significance in the company, personal power in the company, bonuses, and advancement opportunity, and (c) their current living condition as defined by the measures of existence, relatedness, and growth.

Acceptance. Acceptance was measured using a single item, five-point Likert-type scale (1= very unlikely, 5= very likely). The item stated "How likely are you to accept this job?"

Job Satisfaction. Job satisfaction was measured using a five item, five-point Likert-type scale (1= strongly disagree, 5= strongly agree). Items included "Generally speaking, I am very satisfied with my job" and "I frequently think of quitting my job" and resulted in a coefficient alpha estimate of reliability of .65.

Organizational Commitment. Organizational commitment was measured using a 15 item, five-point Likert-type scale (1= strongly disagree, 5= strongly agree). Items included "I am willing to put in a great deal of effort beyond that normally expected in order to help this organization be successful" and "I talk up this organization to my friends as a great place to work" and resulted in a coefficient alpha estimate of reliability of .77.

Intent To Stay. Intent to stay was measured using a five item, five-point Likert-type scale (1= strongly disagree, 5= strongly agree). Items included "I intend to stay with this organization" and "I am currently looking for another job outside of this organization" and resulted in a coefficient alpha estimate of reliability of .89.

Significance of Salary. The significance of salary was measured using a single item, five-point Likert-like scale (1= not important, 5= very important). The item stated "Rate these factors from very important to not important: Salary".

Significance of Interest in the Job. The significance of interest in the job was measured using a single item, five-point Likert-like scale (1= not important, 5= very important). The item stated "Rate these factors from very important to not important: Interest in the Job".

Significance of Personal Significance. The significance of personal significance was measured using a single item, five-point Likert-like scale (1= not important, 5= very important). The item stated "Rate these factors from very important to not important: Personal Significance".

Significance of Personal Power. The significance of personal power was measured using a single item, five-point Likert-like scale (1= not important, 5= very important). The item stated "Rate these factors from very important to not important: Personal Power".

Significance of Bonuses. The significance of bonuses was measured using a one item, five-point Likert-like scale (1= not important, 5= very important). The item stated "Rate these factors from very important to not important: Bonuses".

Significance of Advancement Opportunity. The significance of advancement opportunity was measured using a one item, five-point Likert-like scale (1= not important, 5= very important). The item stated "Rate these factors from very important to not important: Advancement Opportunity".

Existence. Existence was measured using a five item, five-point Likert-type scale (1= strongly disagree, 5= strongly agree). These items were based on the description given of existence needs (Alderfer 1972). Responses were based on if the needs of existence were met (1= needs are being met, 5= needs are met). Items included "I'm worried my budget won't cover what I need to buy" and "I always have enough money to cover all of my expenses" and resulted in a coefficient alpha estimate of reliability of .75.

Relatedness. Relatedness was measured using a five item, five-point Likert-type scale (1= strongly disagree, 5= strongly agree). These items were based on the description given of relatedness needs (Alderfer 1972). Responses were based on if the needs of existence were met (1= needs are being met, 5= needs are met). Items included "I am usually accepted by others" and "People are influenced by my opinions" and resulted in a coefficient alpha estimate of reliability of .61.

Growth. Growth was measured using a five item, five-point Likert-type scale (1= strongly disagree, 5= strongly agree). These items were based on the description given of growth needs (Alderfer 1972). Responses were based on if the needs of growth were met (1= needs are being met, 5= needs are met). Items included "I like to learn new things" and "Volunteering in the community is not something I like to do" and resulted in a coefficient alpha estimate of reliability of .35.

Manipulation Check

At the end of the survey, respondents were asked to answer three questions based on their hypothetical job description. These questions tested if the subjects identified key factors in their description that might cause them to react as the study hypothesized. The first question was "Did the job scenario you read above provide good salary and benefits?" This question was trying to see if the respondent saw it as having positive extrinsic factors. The second question "Did the job scenario you read above provide a satisfying work environment where you could engage in meaningful work" saw if the scenario had positive intrinsic factors. The third question "Did the job scenario you read above focus on short term or long term benefits" made sure the respondent measured the positive results happened in the right time period.

Analysis

A 2x2 multivariate analysis of variance (MANOVA) was used to test Hypotheses 1-3 because of the correlation between the dependent measures. The MANOVA was then followed up using an analysis of variance for each of the three measured outcomes (i.e. job satisfaction, organizational commitment, and intent to stay).

RESULTS

Manipulation Checks

Manipulation checks were analyzed according to the scenario that was given. 84% of respondents rightly identified that “Extrinsic Short Term” had positive extrinsic factors and 87% believed the rewards were given in the short term. “Extrinsic Long Term” respondents rightly identified that the results were negative for intrinsic factors and 81% believed that rewards were given in the long term. 90% of respondents of the “Intrinsic Short Term” scenario answered correctly that the extrinsic factors were negative and 80% answered that the rewards were received in the short term. “Intrinsic Long Term” respondents correctly identified the scenario as being intrinsic 75% of the time and rewards given in the long term 67% of the time.

Effects of Scenarios

The MANOVA showed main effects of both type of reward (extrinsic verses intrinsic), multivariate $F(4, 133) = 34.341, p < .05$, and term (short term verses long term), multivariate $F(4, 133) = 2.965, p < .05$. This test did not find statistically significant evidence of an interaction between the two variables.

The counterbalancing of the surveys showed no difference in the MANOVA or ANOVA data analysis. Therefore, the counterbalancing did not produce an affect on the data.

Analysis of Variance for Type of Reward and Term of Reward

Source	Acceptance					Job Satisfaction					Organizational Commitment					Intent to Stay				
	SS	df	MS	F	p	SS	df	MS	F	p	SS	df	MS	F	p	SS	df	MS	F	p
Type (R)	1.26	1	1.26	1.57	0.21	26.19	1	26.19	117.07	0.00	4.28	1	4.28	16.66	0.00	3.42	1	3.42	4.66	0.03
Term (T)	0.49	1	0.49	0.61	0.44	0.08	1	0.08	0.35	0.56	0.35	1	0.35	1.44	0.23	6.96	1	6.96	9.49	0.00
R x T	5.21	1	5.21	6.46	0.01	0.00	1	0.00	0.01	0.92	0.35	1	0.35	1.36	0.25	1.23	1	1.23	1.68	0.20
Corrected	7.00	3	2.33	2.90	0.04	26.22	3	1.65	39.07	0.00	4.94	3	1.65	6.40	0.00	11.55	3	3.85	5.25	0.00
Error	109.65	136	0.81			30.42	136	0.22			34.95	136	0.26			99.69	136	0.73		
Total	1419.00	140				1311.84	140				1148.72	140				985.24	140			

Acceptance. A 2x2 ANOVA was used to assess the effects of type of reward (extrinsic vs. intrinsic) and term (short term vs. long term) on acceptance. The summary of this analysis can be found on Table 1. As seen on Table 1, there is no support that there is a main effect of the type of reward on acceptance, $F(1, 133) = 1.565, p > .05$. Table 1 also shows that there is no support that there is a main effect between the term of the rewards on acceptance, $F(1,133) = .612, p > .05$. The analysis of the data does not support Hypothesis 1 or Hypothesis 2.

Job Satisfaction. A 2x2 ANOVA was used to assess the effects of type of reward (extrinsic vs. intrinsic) and term (short term vs. long term) on job satisfaction. The summary of this analysis can be found on Table 1 and the relevant means can be found on Table 2. A main effect was found for extrinsic vs. intrinsic, $F(1, 133) = 117.067, p < .05$. On average, job satisfaction was viewed as higher if the rewards were intrinsic ($M = 3.409$) than extrinsic ($M = 2.543$). The findings of this analysis support Hypothesis 3a.

Organizational Commitment. A 2x2 ANOVA was used to assess the effects of type of reward (extrinsic vs. intrinsic) and term (short term vs. long term) on organizational commitment. The summary of this analysis can be found on Table 1 and the relevant means can be found on Table 2. A main effect was found for extrinsic vs. intrinsic, $F(1, 133) = 16.662, p < .05$. On average, organizational commitment was viewed as higher if the rewards were intrinsic ($M = 2.984$) than extrinsic ($M = 2.634$). The findings of this analysis support Hypothesis 3b.

Intent to Stay. A 2x2 ANOVA was used to assess the effects of type of reward (extrinsic vs. intrinsic) and term (short term vs. long term) on organizational commitment. The summary of this analysis can be found on Table 1 and the relevant means can be found on Table 2. A main effect was found for extrinsic vs. intrinsic, $F(1, 133) = 4.659, p < .05$. On average, intent to stay was higher if the rewards were intrinsic ($M = 2.654$) than extrinsic ($M = 2.341$). The findings of this analysis support Hypothesis 3c.

TABLE 2
Descriptive Statistics for Type of Reward and Term of Reward

Condition	Acceptance			Satisfaction			Organizational Commitment			Intent to Stay		
	n	M	SD	n	M	SD	n	M	SD	n	M	SD
Type of Reward												
Extrinsic	33	2.96	0.11	33	2.54	0.06	33	2.63	0.06	33	2.34	0.11
Intrinsic	34	3.15	0.11	34	3.41	0.06	34	2.98	0.06	34	2.65	0.10
Term of Reward												
Short Term	38	2.99	0.11	38	2.95	0.06	38	2.76	0.06	38	2.27	0.10
Long Term	35	3.11	0.11	35	3.00	0.06	35	2.86	0.06	35	2.72	0.10

TABLE 3
Means, Standard Deviations, Covariances and Correlations

Variable	M	SD	1	2	3	4	5	6
1. Acceptance		3.05	0.08	0.303**	0.317**	0.339**	0.09	0.08
2. Job Satisfaction		2.98	0.04	0.65	0.541**	0.481**	.675**	0.02
3. Organizational Commitment		2.81	0.43		0.77	.700**	.323**	0.09
4. Intent to Stay		2.50	0.72			0.89	.164**	.247**
5. Type (R)								-0.05
6. Term (T)								

**p < .05

DISCUSSION

Several other studies have looked at what individuals may be looking for when it comes to job choice (Jurgensen 1978, Judge and Bretz 1992). These studies had found that some of the top job characteristics were pay, job security, type of work, advancement opportunity, and benefits. Though research had sought to determine the top job choice characteristics, job choice factors have never been split into intrinsic and extrinsic factors to determine which has a greater impact on the future employee's acceptance decision. They had also never divided the time frame in which the rewards are received. Because of these gaps, the present study sought to determine what impact dividing job choice characteristics into type of reward and the impact of the term these rewards were received in.

The present study found that type of reward (intrinsic or extrinsic) and the term in which the rewards were received (short term vs. long term) may not have an effect on acceptance decisions in Generation Y's future

employees. However, the subjects were asked to make these decisions based on hypothetical job characteristics descriptions. It is unclear how this may impact real-life job choice decisions.

The current study also sought the reactions of respondents to the job choice scenarios if they had accepted the offer. Previous studies have supported that motivation and satisfaction will increase when intrinsically motivating factors are introduced (Deci 1971, Hackman and Oldham 1980). The current study tested the responses to satisfaction, organizational commitment, and intent to stay with the organization. The current study found that not only the type of motivation used (intrinsic vs. extrinsic) but also the time period (short term vs. long term) could predict the reaction of the respondent in these three categories.

The present study adds to previous research on intrinsic and extrinsic motivation and how they may impact employees. Results showed that those respondents that received intrinsic rewards reported higher levels of satisfaction, organizational commitment, and intent to stay with the organization. Although other studies have measured the affects of pay and how it impacts intrinsic motivation, no study has specifically split the job choice characteristics into two different reward sets and measured them against one another. One possible explanation may be that in a real world situation no job is as black and white as the scenarios used in the present study. However, while managers must include both intrinsic and extrinsic rewards in their job characteristics, it may be worthwhile to integrate as many intrinsic features as possible. While this was the most important finding of the current study, another interesting discovery was found.

The present study also revealed that no matter what the reward, if it is received in the long term intent to stay increases. This means that when a respondent has to wait in order to receive their full rewards, it is more likely that they will stay at their job until they are acquired. This could be important for future employers to be aware of when hiring Generation Y. If you give them a goal to work towards, they are more likely to stay in order to receive the benefits of their hard work.

Although the current study returned some interesting findings, we believe that additional research is needed. The study only dealt with scenarios that clearly outlined which type of reward was being offered. It did not deal with the real world situation of mixed rewards and how those rewards may effect satisfaction, organizational commitment, or intent to stay. Future research may want to perform similar studies that test real world job scenarios and how they affect acceptance. Satisfaction, organizational commitment, and intent to stay should be tested as well against these real world scenarios.

Practical Implications

One interesting find of this study is that no matter the differences in job characteristics, the likeliness to accept the job is unaffected. There could be many causes of this outcome. One possible explanation could be the economy in which graduating college seniors are entering. In earlier years, graduates might have had numerous job offers. Today's seniors may possibly be entering one of the worst economies in the past decade. The unemployment rate is on the rise. While Generation Y is trying to start their careers, they will be competing against older generations who have recently been let go and already have years of experience. This being said, Generation Y may be more likely to accept any job that they are offered, no matter what the characteristics.

These findings may be of interest to both recruiters and managers who can use these results to shape their job specifications as they see fit. Although some members of Generation Y may look for high salaries, they may also wish to have some intrinsic factors to keep them motivated. Since the findings of the current study suggest that a job either type of reward has the same probability of being accepted, a business may benefit from having moderate extrinsic rewards and capitalize on intrinsic rewards. Intrinsic rewards do not have a cost associated with them but may produce higher motivation. Managers may want to ensure a higher level of satisfaction, organizational commitment, and intent to stay by modeling their job characteristics to include intrinsic motivation such as autonomy, meaningfulness, or even just a love for the job in itself.

Limitations

Additional research is needed to develop confidence in the validity of the present study's findings. One validity concern may be the use of a single Northeastern undergraduate college. This college's sample may not

extend to the greater population of Generation Y students who will soon be entering the workforce. This sample consisted of 87% Caucasian students. Over half of the students will have under \$30,000 in debt when they graduate college. This sample has very little diversity compared to the diversity of most college undergraduate students. Siena students are also primarily from the Northeast, causing a bias due to geographical location.

Another possible validity concern could be attributed to the survey itself. The responses were based on a hypothetical job characteristics description. If the students would have been reviewing job characteristics descriptions for actual job offer, they may have reacted differently. For the current study, the respondents were also asked to assume they had accepted the job, and then answer questions based on the description. These reactions were how satisfied they would be with the job, how committed they would feel to the organization, and if they intended to stay. Since these reactions were based solely on what they envisioned their response to be, they may not have produced the same effects. For the existence, relatedness, and growth section, the questions were based on the description of the theory and had not been previously tested. This may have caused the low coefficient alpha estimate of reliability for these items.

Conclusions

In summary, the present study makes contributions to the literature on extrinsic and intrinsic motivation, the span of time in which the reward is acquired, Generation Y, and job choice. The present study has found evidence that there is a main effect between the type of reward (extrinsic vs. intrinsic) and satisfaction, organizational commitment, and intent to stay. The results supported the claim that positive intrinsic rewards will have a higher degree of all three of these dependant factors. This further adds to the evidence that intrinsic factors will make an employee more motivated in his or her job. While reviewing effects, a main effect was also found between intent to stay and the time span in which the reward is acquired. If the reward will be received in the long term, the respondent has a higher measure of intent to stay.

Although hypothesis 3 was supported, the evidence did not support Hypothesis 1 or 2 of the present study. There was no statistical difference in acceptance of the job if the rewards were received in the short term verses the long term. This did not agree with Hypothesis 1 which stated that the acceptance rate would be higher for Generation Y if the rewards were received in the short term. There was also the evidence did not support that the respondent would have a higher acceptance rate if the scenario had positive extrinsic rewards and negative intrinsic rewards verses negative extrinsic rewards and positive intrinsic rewards.

There are practical implications of this study. First, when presenting graduating college seniors of Generation Y with a job offer, every job has the same likeliness to be accepted. The job offer could have extrinsic or intrinsic rewards that are received in the short term or the long term, but none of these options has a significant effect on the likeliness of acceptance. However, once the job is accepted, attitudes about the job are significantly different. If an organization not only wants to find the best students, but also wants to have a low turnover rate, they should shape their job characteristics to have positive intrinsic motivators. If the rewards are received in the long term, Generation Y intends to stay with the current organization even longer. Recruiters and managers in an organization should be aware of these findings so that they can best attract and retain Generation Y.

APPENDIX

Appendix 1

Introduction

This experiment will explore the factors that motivate college graduates to accept a first job. You will be given a hypothetical job description and asked to answer a few questions based on your perceptions of this job. This survey is part of a study I am performing to write my undergraduate thesis, which greatly depends on the results I obtain.

Your responses are completely anonymous and will be used purely for academic purposes. Should you wish at any time to stop the survey you are free to do so. This should take no more than 10 minutes and is voluntary. Your participation is greatly appreciated. Thank you!

Scenario

Assume you have just received a job offer. Review the following characteristics of the job you have been offered.

The job you are offered has a lower starting salary than expected but in the long term there will be opportunities for rapid salary increases. Your job offers stock options as a significant benefit but it will take effect in the long term. You will most likely be in this job at your current position for the short term, but in the long term there will be opportunities for promotion.

This job is something you do not particularly enjoy doing. Your boss must have the final say in how you perform your tasks. Your job will not have any impact in the lives of others.

Survey

How likely are you to accept this job? (circle one) Very Unlikely 1 2 3 4 Very Likely 5

Now consider that you **did** accept the job. Answer the questions based on how you believe you would feel if the description was your current job. Place the number in the appropriate box:

For Example: If you "strongly agreed" with the following statement you would place a "5" in the box as shown below.

Generally speaking, I am very satisfied with my job	5
---	---

1	2	3	4	5
Strongly Disagree	Moderately Disagree	Neither Agree nor Disagree	Moderately Agree	Strongly Agree

1. Generally speaking, I am very satisfied with my job	
2. I frequently think of quitting my job	
3. I am generally satisfied with the kind of work I do in my job	
4. Most people on this job are very satisfied with the job	
5. People on this job often think of quitting	

1	2	3	4	5
Strongly Disagree	Moderately Disagree	Neither Agree nor Disagree	Moderately Agree	Strongly Agree

6. I am willing to put in a great deal of effort beyond that normally expected in order to help this organization be successful	
7. I talk up this organization to my friends as a great place to work	
8. I feel very little loyalty to this organization	
9. I would accept almost any type of job assignment in order to keep working for this organization	
10. I find that my values and the organization's values are very similar	
11. I am proud to tell others that I am a part of this organization	
12. I could just as well be working for a different organization as long as the type of work were similar	
13. This organization really inspires the very best in me in the way of job performance	
14. It would take very little change in my present circumstances to cause me to leave this organization	
15. I am extremely glad that I chose this organization to work for over others I was considering at the time I joined	
16. There is not too much to be gained by sticking with this organization indefinitely	
17. Often, I find it difficult to agree with this organization's policies on important matters related to employees	
18. I really care about the fate of this organization	
19. For me, this is the best of all possible organizations for which to work	
20. Deciding to work for this organization was a definite mistake on my part	

21. I intend to stay with this organization	
22. I am currently looking for another job outside of this organization	
23. I intend to leave this organization as soon as I can	
24. I am always looking for different jobs outside of this organization	
25. I am going to continue to work for this organization for a long time	

26. How important is it that you: (circle)

- a. Take personal satisfaction in your job
- b. Become financially sound through your job

27. Think about what you are looking for in a full time job after you graduate from college. Rate these factors from very important to not important :

	Not Important				Very Important
	1	2	3	4	5
Salary	1	2	3	4	5
Interest in the job	1	2	3	4	5
Personal significance in the company	1	2	3	4	5

Personal power in the company	1	2	3	4	5
Bonuses	1	2	3	4	5
Advancement opportunity	1	2	3	4	5

The following questions should be answered based on how you feel about your current life situation. The scenario you have been given should not have an impact on how you answer these questions. Place the number in the appropriate box:

1	2	3	4	5
Strongly Disagree	Moderately Disagree	Neither Agree nor Disagree	Moderately Agree	Strongly Agree

1. I'm worried my budget won't cover what I need to buy	
2. I always have enough money to cover all of my expenses	
3. I wish my home were more comfortable	
4. I worry about being covered by insurance once I graduate	
5. Money is not a problem for me	

1. I am usually accepted by others	
2. People are influenced by my opinions	
3. I am not comfortable sharing my thoughts and feelings with others	
4. People understand me as a person	
5. I usually feel distanced from people	

1. I like to learn new things	
2. Volunteering in the community is not something I like to do	
3. I search to find where I can be of help	
4. I enjoy using what I know to solve problems	
5. I wish I was more useful	

Demographics:

Please tell us about yourself by answering the following questions.

1. What is your age(circle)? 18 19 20 21 22 23 24 or over
2. Gender(circle) Male Female
3. Race
 _____ Caucasian _____ African American
 _____ Asian or Asian American _____ Hispanic American
 _____ Native American Indian _____ Other
4. What is your GPA? Below 2.0 2.0-2.5 2.6-3.0 3.1-3.5 3.6-4.0
5. Are you the first person in your family to go to college? Yes No
6. What is your estimated debt after college?
 \$0-14,999 \$15,000-29,999 \$30,000-44,999 \$45,000-59,999 \$60,000-74,999 above \$75,000
7. What percentage of your tuition will you personally pay for?
 0-25 % 26-50% 51-75% 76-100%
8. How many years have you worked full-time? 0 -2 3 -5 6 -8 9 or more
9. How many job offers do you believe you will receive? 0-2 3-5 6-9 10 or more
10. What school are you in? _____ Science _____ Business _____ Liberal Arts
11. Did the job scenario you read above provide good salary and benefits? [yes/no]
12. Did the job scenario you read above provide a satisfying work environment where you could engage in meaningful work? [yes/no]
13. Did the job scenario you read above focus on short term or long term benefits [short term/long term]

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ANALYSIS OF AMERICAN INTERNATIONAL GROUP

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COMPANY OVERVIEW

American International Group (AIG)

PRICE: SIENA Target Price: S&P500: DJIA: S&P"Industry":
\$1.00 **\$2.58** **809.75** **8,017.59** **123.12**

Location: 70 Pine Street, New York, New York, 10270; United States

Industry: Property and Casualty Insurance

Description:

American International Group operates on a global scale generating profits across its four different market segments. They include: General Insurance, Life Insurance and Retirement services, Financial services, and Asset Management. Its most profitable segment has been its General Insurance which gives insurance services on almost all types of physical and intangible assets. Recently, its Financial Service segment has driven the company into massive debt and near bankruptcy, but thanks to government intervention the company continues to operate. It employs more than 100,000 people around the world and is headquartered in New York City.

Company Website: www.aig.com

MARKET DATA

Market Cap	\$2,690,000,000	1 Yr Price App.	-97.80%
Price to book	\$.05	Country	Global
Beta	2.84	Industry	Property and Casualty Insurance
Dividend yield	N/A	Industry Price	27.74
Shares O/S	2,690,000,000	Industry Beta	.75
Current price	\$1.00	Country Risk Premium	8.98%
52 week range	\$.33 - \$49.50	Risk Free Rate	2.87%

Valuation	Current	2009E	2010E
EPS	\$-37.85	\$.21	\$.23
P/E	4.48	5.55	5.01
CFPS	N/A	N/A	N/A
P/CFPS	N/A	N/A	N/A

RECOMMENDATION

- Outperform the Industry → BUY

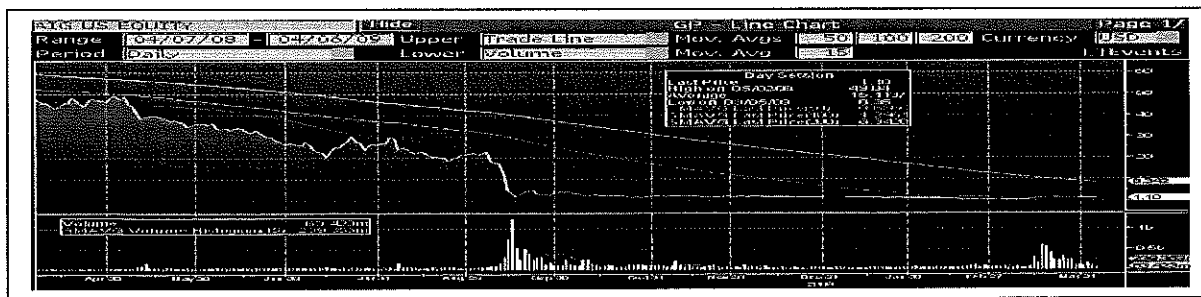


Figure 1: 1 Year Stock Price Performance

COMPANY DESCRIPTION

Products

The General Insurance Segment offers insurance products to individuals and businesses on its property, excess liability, workers, health, automobile, aviation, and residential mortgage products. The Life Insurance segment provides consumers with group or individual life insurance, payout annuities, health policies, retirement savings, and endowments. The Financial Service Segment leases aircraft and equipment, consumer financing, and capital market operation services. Finally, its Asset Management segment gives investment related services to individuals and businesses and works with individual pension funds.

Strategy

Its insurance products have been offered since 1967; however, due to the recent financial crisis that the housing market and these financial institutions have spurred, AIG has had to change its strategy and is being forced to sell a large majority of its assets to continue its operations. AIG continued to operate as an insurance company, but it levered its debt to equity ratio 11 to 1 in its financial services due to the insurance provided on credit default swaps. In short, AIG now has to reapply its original strategy of selling general insurance and cease its riskier financial service segments.

Customers

AIG provides insurance to individuals and businesses across the globe. Its largest geographic segment is in the United States followed by Europe. In recent years, it has shown increased interest in India and China; however, due to its predicament it is now being forced to scale back its operations. It plans to keep its U.S. Property and Casualty Insurance, its Foreign General Insurance, and its ownership in foreign life operations. This is important for long term future growth when looking to expand into far eastern markets again.

Suppliers

Through its Supplier Diversity Program, it has expanded its operations over the past few years to acquire the employees that are most qualified to work in its different market segments and insurance businesses to turn a profit. After scaling back its operations it has had to cut employee jobs, but still remains diversified across its financial markets.

Market and Insiders

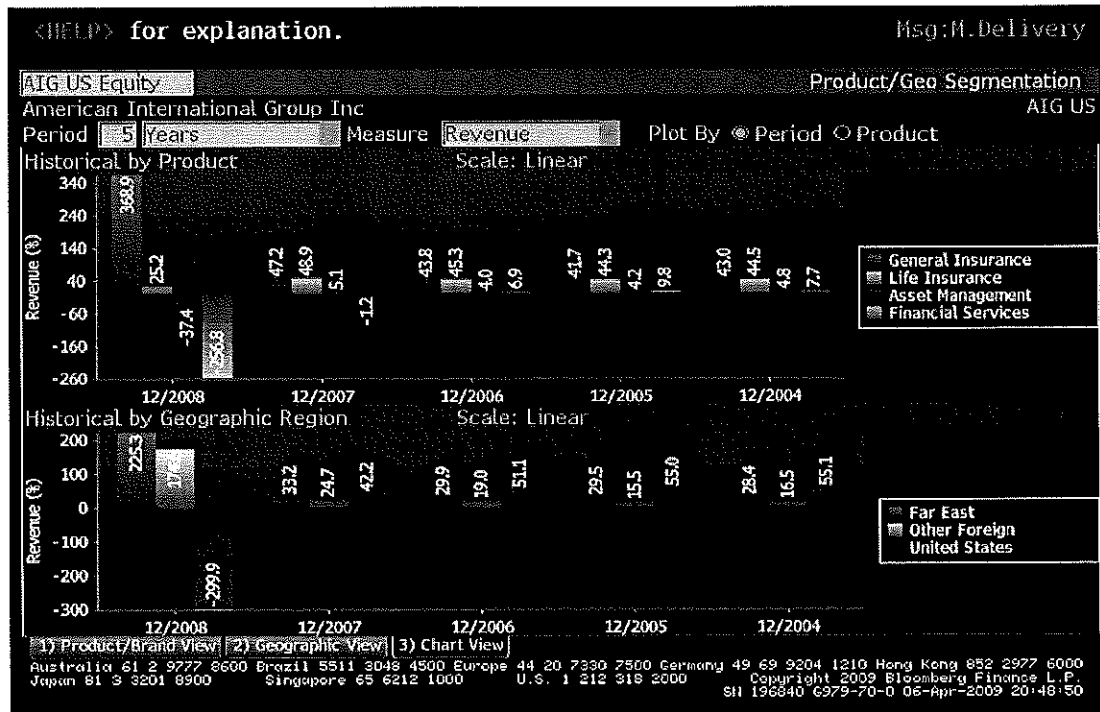
The current CEO is Edward Liddy who took office in September of 2008 after the company had announced that it would need government assistance to maintain its operations. The CFO is David Herzog who was appointed in October of 2008, and it appointed Paula Reynolds as its Vice Chairman of Restructuring at the beginning of this year. Over the past five years AIG has been traded at low volume with a share price over \$60 per share. In the past seven months its trading volume more than doubled and its share price has fallen to below \$1 per share. Its company image has been under constant criticism since it has received so much public money and has not immediately scaled back its normal business operations.

Geographic and Market Segmentation

The macro economic factors have definitely caused large changes in trading volume and share price over the past seven months. AIG's implications with so many financial institutions have put it at the center of the financial crisis and public scrutiny. The most recent stock split was made in July of 2000 for a 3:2 common stock increase. Institutions have sold more than 555,000,000 shares before the last quarter as the price fell sharply, but the largest buyer of the company has been Starr International Co. which owns more than 190,000,000 shares. The entire inside traders hold a total of 270,000,000 shares but in the last six months they have sold more than 41,000,000 shares.

Latest Developments

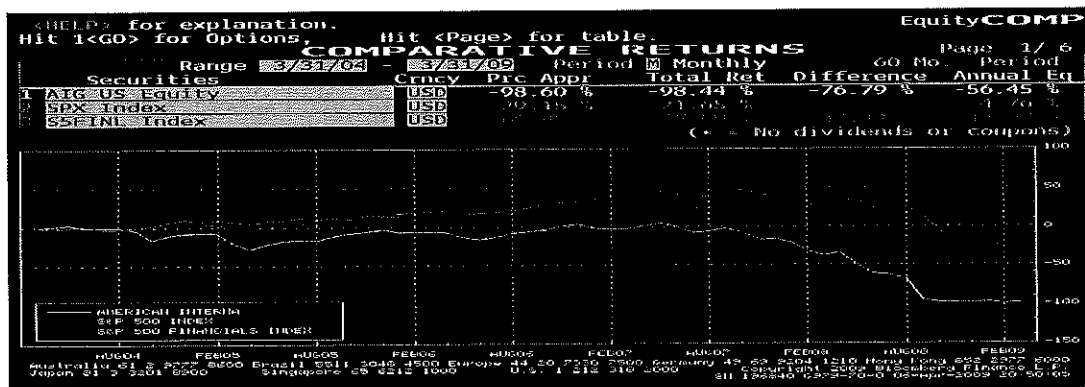
The majority of AIG's operations are based in the United States, but its influence in the Far Eastern countries was expanding in the past few years. Its other foreign influences include Latin America and Europe, but both have been stalled as well. As stated previously, its four market segments are its General Insurance, Life Insurance, Asset Management, and Financial Service positions. As you can see from the graphs below, the Financial Service segment in 2008 was the primary contributor to the company's financial problems.



INDUSTRY ANALYSIS

Overview

AIG has received a total of \$180 billion from the government as of early March 2009 making the government stake in the business 80 percent. The company receives constant attention due to its actions attributed to its bonus payouts and large stakes in mortgage backed securities instead of selling insurance. In the past several months the company has posted more than 35 separate assets available for sale ranging from Property Insurance companies in Latin America to Life Insurance companies in the Far East to private banks in the Middle East. All of this has been done in an effort to raise capital to pay off the government debt in the next five years. The terms of the government loan is set at an interest rate of four percent each year (equivalent to \$4 billion in interest payments per year) for the next five years. Although the firm is in troubling times, it is confident that the terms of the loan are appropriate for the revenue generated from the sale of its assets and its continued insurance business. However, it has been very difficult to find any information regarding expected earnings for next year or the year following due to the scattered sale of its assets and how the company image has been affected and the effect that it will have on future revenues. Since the government has taken such a large position in the company it has forced the company to become more transparent with how it is spending the money it received. It announced in March that more than \$12 billion were given to companies like Bank of America, Citigroup, Goldman Sachs and JP Morgan to pay off their position in the company.



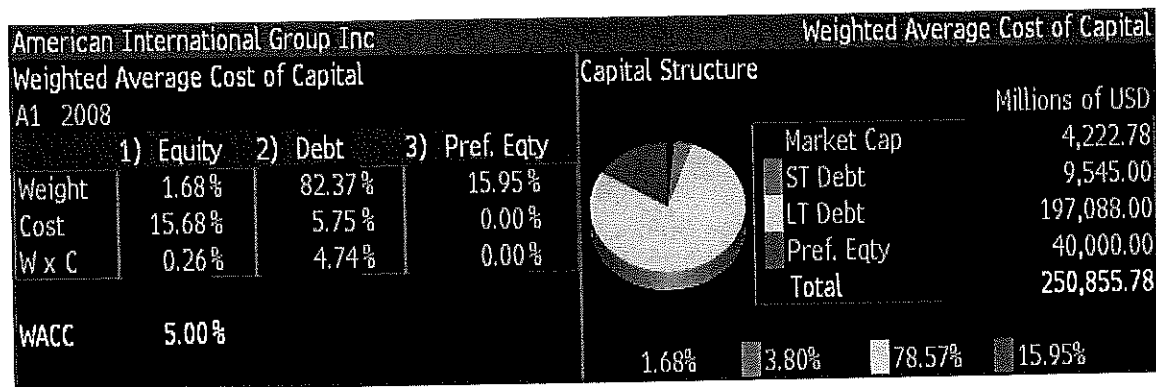
Critical Issues

The finance sector has been traded in some of the heaviest volume over the past year due to its high volatility and potential for profitability. In the past seven months it saw high volume on the sell side as investors tried to save some of the money that they were losing as the economy turned bearish. However in recent months, financial volume has started to turn in another direction. Insurance companies are not traditionally traded as high as banks and are dependent on slow growth over time like Axa and Allianz have proven. Banks are under the most pressure right now and have been flooded with financial injections from the government in order to maintain their liquidity. Wells Fargo, Bank of America, Citigroup, and JP Morgan are just a few banks that received more than \$25 billion each from the government.

The upcoming year should look positive for financials if the worst of the recession has been seen; however, it still remains to be seen as housing prices are still below normal levels and unemployment continues to rise. The U.S. Congress has met numerous times to discuss how to regulate these "exotic" securities like credit default swaps, and has forced companies to become more transparent about its operations. It recently passed regulations that forced financial companies to display its foreign holdings and investments to have a better idea of a company's exposure to foreign markets.

Drivers of Profitability

AIG's profitability comes from its General Insurance Segment. The insurance business is very simple because it involves collecting premiums from individuals and paying out claims when they arise. Normally, growth in these companies is slower than banks or other financial institutions, but they have normally been relied on as a safe addition to a portfolio. Only recently has the rise in claims due to institutions overvaluing their assets caused most insurance companies to be crippled by the financial crisis. As we look at the debt structure of AIG it is obvious that the Long Term Debt outweighs the rest of the capital structure due to the large injection of cash provided by the government. Its preferred equity of \$40 billion is marked by the shares it sold to the Treasury as part of the money received from the government. The WACC for the industry is only 3.27 percent, while AIG now has a WACC of almost 5 percent.



It is hard to define the long term growth potential in comparison to earnings for AIG since there are so many variables that could greatly affect the future growth of the company. In this case we use the Long Term Growth rate in comparison to the Price to Book Value per share. This will give us a better understanding of how its physical assets that generate profit are factored into the price of the company. This should give us a fair price for the company.

Capital Structure Industry		
WACC Structure	Debt (After taxes)	Equity
Weight	83.79%	11.64%
Cost (after tax for debt)	3.90%	
WACC	3.27%	
Capital Structure Firm		
WACC Structure	Debt (After taxes)	Equity
Weight	82.37%	17.63%
Cost (after tax for debt)	5.43%	
WACC	4.47%	

Barriers to entry

Starting an insurance company as diversified as AIG takes a very large capital investment in order to initially pay out claims. Competition is mostly based in regional insurance companies, but some of the larger companies like Axa, Allianz, and AIG are well known throughout the world. Due to the region based companies in the U.S., larger insurance companies need to offer lower rates on more services. Companies that remain specific to one segment of insurance are likely to see a smaller growth rate over time.

Competitors

Some of the biggest competitors in the industry operate on a global scale and are primarily based in the U.S., Europe, and China. Some of the Far Eastern countries are growing at higher rates than U.S. companies even during the recession. Axa, Allianz, Aflac, MetLife, and AIG are the primary leaders in the insurance business and the graph below shows a list of other large competitors listed by market cap.

Ticker	Last Px	Chg Pct 1D	Ret YTD Pct	Mkt Cap I	Rev - 1 Yr Gr:Y (%)	EPS - 1 Yr Gr:Y (%)	P/E	ROE:LF	Dvd Ind Yld - Gross
Average	2.50k	-1.18	-22.95%	13.20B	-15.09%	-41.28%	9.52	-2.66%	2.48
AIG US	1.10	-3.51%	-29.91%	15.26B	-89.91%	N.A.	N.A.	-133.73%	0.0000
1) BRK/A US	91400.00	-1.18%	-5.38%	142.51B	-8.85%	-62.28%	14.69	4.34%	0.0000
2) ALV GR	69.06	-3.82%	-7.92%	43.55B	-10.22%	-51.06%	7.84	-6.00%	5.0950
3) CS FP	10.09	-6.75%	-36.32%	30.27B	-6.07%	-82.64%	22.93	10.78%	3.9640
4) TRV US	42.14	-1.10%	-5.96%	24.92B	-5.92%	-30.40%	8.04	11.29%	2.8720
5) ZURN VxK	196.5	-0.61%	-13.44%	24.71B	-41.25%	-44.26%	7.93	12.24%	5.6270
6) MFC CN	16.71	+1.89%	-18.00%	21.27B	-7.34%	-88.61%	52.22	1.93%	6.3300
7) 8766 JP	2655.00	+1.9%	3.83%	21.17B	5.62%	19.13%	41.30	1.86%	1.8110
8) MET US	25.10	-0.95%	-28.00%	20.73B	8.12%	-13.70%	6.45	11.71%	2.9600
9) CB US	41.79	-2.88%	-17.38%	15.16B	-6.27%	-29.87%	7.52	12.94%	3.3530
10) INGA NA	5.30	-2.80%	-27.69%	15.01B	-54.31%	N.A.	N.A.	-2.26%	0.0000
11) ACE US	43.66	-0.48%	-16.50%	14.64B	-3.41%	-54.17%	5.66	7.68%	2.3100
12) ALL US	20.54	-0.99%	-36.49%	11.40B	-20.06%	N.A.	6.44	-9.74%	3.8910
13) AOC US	39.90	-0.25%	-12.31%	10.94B	3.70%	-2.24%	13.81	25.64%	1.5000
14) FMC US	20.51	-2.10%	-14.65%	10.82B	3.67%	N.A.	14.76	-1.00%	3.9270
15) PRU US	22.81	-4.32%	-24.62%	10.11B	-14.90%	N.A.	9.79	-5.82%	2.5970
16) AFL US	20.66	-1.85%	-54.31%	9.84B	7.54%	-20.90%	5.18	16.25%	5.4850
17) PGR US	13.82	+0.66%	-6.68%	9.29B	-12.56%	N.A.	10.80	-1.53%	0.0000
18) AGN NA	3.26	-0.31%	-27.90%	6.91B	-80.91%	N.A.	N.A.	-7.80%	0.0000

COMPANY ANALYSIS

Ratios

The ratio analysis for AIG is difficult to understand since the company has faltered so much in 2008. Looking at the ROE and ROA both are tremendously low due to the net loss in 2008 of almost \$100 billion. The ROE shows a loss of more than -133 percent and the ROA is at -5.5 percent. The Price to Book ratio and Price to Sales ratios are only .06 and .29, respectively. Reuters expects the long term growth of the company to be 11 percent which would mean that sales are expected to increase in comparison to costs in 2009.

1-year Estimates	Sales per share	Earnings per share	Profit Margin
Industry Mean	22.09	22.51	10.74%
Firm Mean	39.93	0.23	0.58%
Firm Median	39.93	0.25	0.63%
Fim High	41.56	0.35	0.84%
Firm Low	38.29	0.00	0.00%
Firm Standard Deviation	1.63	0.12	7.36%
1-quarter Estimates	Sales per share	Earnings per share	Profit Margin
Industry Mean	23.38	0.174	0.74%
Firm Mean	-	0.03	-
Firm Median	-	0.03	-
Fim High	-	0.05	-
Firm Low	-	0.00	-
Firm Standard Deviation	-	0.02	-

AIG has halted its dividend since its financial situation deteriorated and the government issued debt has set the company weighted more than 80 percent in debt. The debt is not very flexible since the U.S. government has such a large stake in the company and it will have to pay back the money it gained as a result. However, it has already been proven that if the company needs more funding to continue business, the government will continue to oblige. Unfortunately, since there are no projections to earnings for AIG for 2009, the DuPont Analysis remains incomplete, but there is an expected increase in profit margin for the next two years.

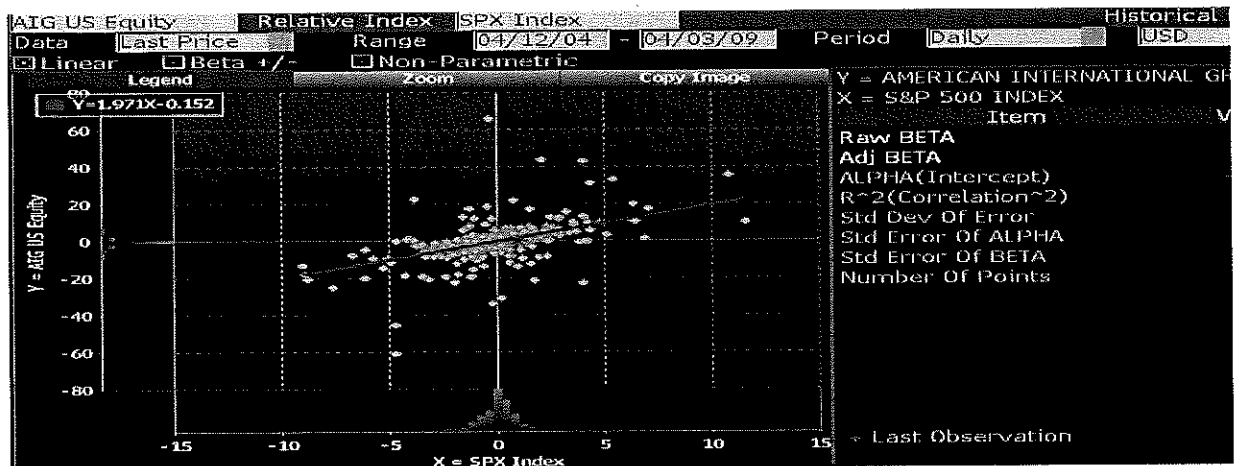
Citigroup	Profit Margin	Total Asset Turnover	Equity Multiplier
2006	14.70%	0.09	15.73
2007	2.34%	0.08	19.28
2008	-26.18%	0.05	13.69

2009 Q1	1.96%	-	-
2009 Q2	4.28%	-	-
2009 Q3	3.17%	-	-
2009 Q4	6.49%	-	-
2009	-3.86%	-	-
2010	7.79%	-	-
AXA	Profit Margin	Total Asset Turnover	Equity Multiplier
2006	5.33%	0.1464	14.5024
2007	4.98%	0.1569	14.6937
2008	0.89%	0.1489	16.6225
2009 Q1	N.A.	-	-
2009 Q2	N.A.	-	-
2009 Q3	N.A.	-	-
2009 Q4	N.A.	-	-
2009	3.35%	0.119415	26.7225
2010	4.63%	0.108026	24.374
JP Morgan	Profit Margin	Total Asset Turnover	Equity Multiplier
2006	14.57%	0.0777	11.6722
2007	13.21%	0.0799	12.6776
2008	5.52%	0.0543	13.0333
2009 Q1	10.14%	-	-
2009 Q2	10.97%	-	-
2009 Q3	11.86%	-	-
2009 Q4	12.62%	-	-
2009	7.59%	0.044944	16.2845
2010	11.74%	0.041325	18.9299

Risk

The Beta value for AIG has risen greatly due to its volatility in comparison to the S&P 500 and its higher trading volume over the past seven months. The debt ratings issued by Moody's, Standard and Poor's, and Fitch's all show a credit rating that is still very respectable for a company in such financial trouble. The Altman Z score for AIG is unavailable due to the government intervention in the company. All of these ratings are primarily due to the government aid that it has received and the projection about the company's ability to pay back its loan.

American International Group Inc			
select 'Company Tree Ratings' above for related companies			
MOODY'S		FITCH	
1) Outlook	NEG	12) Outlook	ST
2) Issuer Rating	A3	13) LT Issuer Default Rating	A
3) Senior Unsecured Debt	A3	14) Senior Unsecured Debt	A
4) JR Subordinated Debt	Ba2	15) Subordinated Debt	NR
5) Preferred Stock	WR	16) JR Subordinated Debt	BB
6) Short Term	P-1	17) Short Term	F1
		18) ST Issuer Default Rating	F1
STANDARD & POOR'S		A.M. Best	
7) Outlook	NEG	19) LT Credit Outlook	NE
8) LT Foreign Issuer Credit	A-	20) Long Term Issuer Credit	bb
9) LT Local Issuer Credit	A-		
10) ST Foreign Issuer Credit	A-1		
11) ST Local Issuer Credit	A-1		



Valuation

A look ahead at some of the key financial ratios that compares AIG to the industry can offer a better understanding of how distressed the company has become. Once the financial crisis starts to dissipate and other insurance companies start to expand and acquire assets, AIG will have a more positive look on its future cash flows. AIG will not be a leader in the economic turn-around even though it plays a great role in most financial institutions. It will be a long term leader in insurance once again after it pays back its government loans. Its size is still a large factor when looking at the future outlook of the company.

	Current	Next quarter Estimate	Next year Estimate
Firm EPS	-\$37.85	0.21	\$0.23
Firm PE	4.48	4.58	3.57
Firm CFPS	-	-	-
Firm PCF	1.10	1.10	4.30
Firm SPS	-	-	-
Firm PS	0.12	0.12	0.13
Firm BS	\$11.21	\$11.23	\$14.17
Firm PB	0.09	0.09	0.07
Firm DY	0.00%	0.00%	0.00%
Industry EPS	29.13	1.08	16.71
Industry PE	\$5.56	\$4.82	\$4.82
Industry CFPS	N/A	N/A	N/A
Industry PCF	\$6.93	\$8.54	\$11.07
Industry SPS	N/A	N/A	N/A
Industry PS	\$0.51	\$0.53	\$0.61
Industry BS	\$25.20	\$24.89	\$28.09
Industry PB	\$0.71	\$0.70	\$0.59
Industry DY	3.96%	4.25%	10.48%
Industry LT Growth	10.40%	10.40%	10.40%
Sector PE	13.2	-	8.1
Sector PCF	10.70	-	8.40
Sector PS	0.70	-	0.70
Sector PB	0.70	-	0.70
Sector DY	3.60	-	3.60
Sector LT Growth	10.40%	-	10.40%
Market PE	13.3	-	13.3
Market PCF	7.5	-	7.50
Market PS	0.9	-	0.90
Market PB	1.3	-	1.30

Market DY	5%	-	5%
Market LT Growth	11%	-	11%

SWOT ANALYSIS

Strengths

AIG is a diversified company that operates its business across many different segments. Its most profitable segments are its General Insurance and Life Insurance segments which are highly diversified within the company; they offer insurance on just about any type of product or asset whether it has physical existence or not. The restructuring of some of the officers in the company can provide AIG with a new approach about how to handle its securities so that another problem like this will not occur again.

Weaknesses

AIG has a huge amount of debt suffocating its balance sheet and forcing the company to be controlled by the government. Although the debt is temporary and the government does not wish to continue to hold a stake in the company, it causes the actions of the company to be under more scrutiny when making decisions. Also, some of its operations are not in line with the insurance business such as the airplane leasing revenues that it has generated over the past few years. Again it can be seen in its Financial Service segment that caused the enormous losses that the company incurred in 2008.

Opportunities

The government aid to the company has kept them from declaring bankruptcy and the opportunity for future growth still remains even after the bailout ceases. Its acquisitions over the years have provided the company with a large amount of assets that they can sell when the market turns bullish and will give AIG a great platform to raise capital. Also, it operates on a global scale, so the market diversification of the company could work in its favor when expansion starts again.

Threats

The global exposure has hurt the company on all fronts since the recession is not limited to the United States. As some of its larger competitors resume their expansion into foreign markets, AIG will be behind in that regard because it will have to concentrate on domestic profits. Also, it could be selling some of its best foreign assets to some of its competitors which would give them the advantage in the long term.

Target prices

Target Prices

- Yahoo target price: \$5.36
- Reuters target price: \$2.46
- Bloomberg target price: \$1.22
- Thomson one target price: \$1.65
- Siena College CGFS target price: \$2.58
- Siena College CGFS target price volatility: 1.26
- Siena College CGFS 68 percentile target price: \$1.32
- Siena College CGFS 95 percentile target price: \$.06
- Siena College CGFS 99 percentile firm target price: N/A
- Siena College CGFS industry target price: \$19.44

RECOMMENDATION

I recommend a **BUY** for **AIG**. There are so many variables to consider when looking at the future growth potential of this company. One thing is certain and that is the company will not fail due to the government aid it receives. Adding this company to your portfolio ensures a low capital investment with the potential for a large percentage return in the future. Gains can be expected to be seen sooner rather than later due to its steps taken to regain positive cash flow.

Company Name	American International Group	Ticker	AIG
Current Price	\$1.00	Target Price	\$2.50
Recommendation	BUY	Date	3/31/2009
I. Market Data			
Market Cap	\$1,000,000,000	52 Week High	\$1.00
Market Rank	2000	Market Cap	\$1.00
Days	254	Industry	Insurance
Market Yield	5.0%	Market Industry Price	0.75%
Market US	100%	Industry Beta	1.15
Dividend Yield	0.0%	Country Risk Insurance	2.00%
52 week range	\$0.75 - \$1.00	Five Year Beta	0.75%
Major Holdings			
Stock	100% American International Group	Subsidiaries of Stocks	
American International Group	100%	American International Co	100%
Bank of America	100%	American International Co	100%
Wells Fargo Bank	100%	American International Co	100%
JP Morgan Chase & Co.	100%	American International Co	100%
Bank of New York	100%	American International Co	100%
Breakdown			
Market held by all holders	100%	Market Stock	100%
Market held by institutional investors	0%	Market Insurance	100%
Market held by individual investors	0%	Market American International Co	100%
2. Country Macro Analysis			
	5 years historical	Current	1 year Estimate
USA			
GDP Growth	3.76%	1.10%	2.00%
Inflation	3.84%	4.40%	3.14%
Foreign Debt as % GDP	47.83%	46.00%	46.30%
Unemployment Rate	5.10%	5.60%	6.00%
Current Exchange Rate	1.32	1.47	1.47
Political Risk Rating (out of 100)	60.13	63.50	61.50
Financial Risk Rating (out of 100)	63.50	66.00	66.00
Economic Risk Rating (out of 100)	76.40	62.00	61.50
UK			
GDP Growth	2.80%	1.10%	2.10%
Inflation	3.20%	4.50%	2.50%
Foreign Debt as % GDP	21.00%	20.00%	21.00%
Unemployment Rate	5.70%	5.70%	5.70%

	2008	2007	2006	
Country Exchange Rate	0.92	0.92	0.92	
Country Risk Rating (out of 100)	71.0	71.0	71.0	
Financial Risk Rating (out of 100)	75.0	75.0	75.0	
Economic Risk Rating (out of 100)	77.6	77.6	77.6	
Return	5-years (average)	Historical	1-year historical (average)	3-year forecast
AKG	-3.23%	-1.04%	-1.04%	158.11%
Industry	-1.79%	0.05%	0.05%	-19.45%
USA	-0.53%	0.30%	0.30%	-78.84%
UK	-0.34%	1.03%	1.03%	0.06%
World	-0.4715%	0.49%	0.49%	-79.36%
Volatility	5-years (average)	Historical	1-year historical (average)	3-year forecast
AKG	3.21%	1.53%	1.53%	20.51%
Industry	1.20%	1.75%	1.75%	20.05%
USA	0.50%	1.07%	1.07%	18.01%
UK	0.34%	1.03%	1.03%	18.01%
World	0.47%	0.49%	0.49%	18.01%

3. Company Ratios (Cross-sections and time series)

DuPont Analysis			
AKG	Profit Margin	Total Asset Turnover	Equity Multiplier
2006	12.29%	0.1738	8.9125
2007	5.6111	0.1086	9.8402
2008	-494.17%	0.0116	13.7171
2009 Q1	0.44%	-	-
2009 Q2	0.60%	-	-
2009 Q3	0.19%	-	-
2009 Q4	0.81%	-	-
2009	1.03%	0.457743	1.41
2010	4.18%	0.119408	3.26314
Chatterbox			
Year	Profit Margin	Total Asset Turnover	Equity Multiplier
2006	1.21%	0.15	1.25
2007	1.21%	0.15	1.25
2008	1.21%	0.15	1.25
2009 Q1	1.21%	0.15	1.25
2009 Q2	1.21%	0.15	1.25
2009 Q3	1.21%	0.15	1.25
2009 Q4	1.21%	0.15	1.25
2009	1.21%	0.15	1.25
2010	1.21%	0.15	1.25
AXA			
Year	Profit Margin	Total Asset Turnover	Equity Multiplier
2006	5.33%	0.1468	14.5014
2007	4.00%	0.1560	14.6917
2008	0.89%	0.1489	16.6115
2009 Q1	N.A.	-	-
2009 Q2	N.A.	-	-
2009 Q3	N.A.	-	-
2009 Q4	N.A.	-	-
2009	3.51%	0.119415	26.7125
2010	4.63%	0.109716	24.914
IF Morgan			
Year	Profit Margin	Total Asset Turnover	Equity Multiplier
2006	1.15%	0.15	1.25

Year	Profit Margin	Total Asset Turnover	Equity Multiplier
2006	17.63%	0.0996	0.0958
2007	15.03%	0.1014	0.0759
2008	5.14%	0.0548	0.0511
2009 Q1	10.31%	-	-
2009 Q2	11.55%	-	-
2009 Q3	14.03%	-	-
2009 Q4	15.71%	-	-
2009	7.25%	0.072181	0.071489
2010	15.54%	0.065519	0.054221

Bank of America	Profit Margin	Total Asset Turnover	Equity Multiplier
2006	15.23%	0.092222	0.092222
2007	15.23%	0.092222	0.092222
2008	15.23%	0.092222	0.092222
2009 Q1	15.23%	0.092222	0.092222
2009 Q2	15.23%	0.092222	0.092222
2009 Q3	15.23%	0.092222	0.092222
2009 Q4	15.23%	0.092222	0.092222
2009	15.23%	0.092222	0.092222
2010	15.23%	0.092222	0.092222

4. Company Risk			
Capital Structure Industry			Relative Dispersion (Industry)
WACC Structure	Debt (After Taxes)	Equity	EBITDA C.V.
Weight	41.79%	11.64%	0.57
Cost (after tax for debt)	3.90%		Free Cash Flow C.V.
WACC	3.27%		0.52
Capital Structure Firm			Relative Dispersion (Firm)
WACC Structure	Debt (After Taxes)	Equity	EBITDA C.V.
Weight	42.57%	17.63%	0.7
Cost (after tax for debt)	3.47%		Free Cash Flow C.V.
WACC	4.47%		0.62
Debt Rating Industry (rank)		Center Risk (Industry)	Risk
AAA	10	100%	N/A
AA+	1	0%	N/A
AA	0	0%	N/A
AA-	0	0%	N/A
Debt Rating Firm (rank)		Center Risk (Firm)	Risk
AAA	10	100%	N/A
AA+	1	0%	N/A
AA	0	0%	N/A
AA-	0	0%	N/A
Revenue and Cost Structure and Estimates			
1-year Estimates	Salary per share	Earnings per share	Profit Margin

Industry Mean:	22.08	23.31	10.74%
Firm Mean:	29.93	0.23	0.58%
Firm Median:	29.93	0.25	0.63%
Firm High:	41.56	0.35	0.84%
Firm Low:	24.29	0.06	0.06%
Firm Standard Deviation:	1.63	0.12	7.36%
Quarter Estimates	Value per share	Earnings per share	Profit Margin
Industry Mean:	21.28	0.174	0.74%
Firm Mean:	-	0.03	-
Firm Median:	-	0.03	-
Firm High:	-	0.05	-
Firm Low:	-	0.00	-
Firm Standard Deviation:	-	0.02	-

5. Valuation

	Current	2009	2010
Firm EPS	\$17.85	0.21	\$0.21
Firm PE	243	4.56	2.87
Firm CFPS	-	-	-
Firm PCF	1.12	1.12	1.71
Firm SPB	-	-	-
Firm PS	2.12	2.12	2.12
Firm BS	\$11.2	\$11.2	\$11.2
Firm PB	2.22	2.22	2.22
Firm BV	\$105	\$105	\$105
Firm LT Growth	10.40%	10.40%	10.40%
Industry EPS	29.11	1.03	16.71
Industry PE	\$3.56	\$4.82	\$4.82
Industry CFPS	N/A	N/A	N/A
Industry PCF	\$4.93	\$4.54	\$11.07
Industry SPB	N/A	N/A	N/A
Industry PS	\$0.51	\$0.53	\$0.61
Industry BS	\$24.20	\$24.89	\$28.09
Industry PB	\$0.71	\$0.70	\$0.59
Industry DY	3.96%	4.25%	10.48%
Industry LT Growth	10.40%	10.40%	10.40%
Market PE	13.3	-	13.3
Market PCF	7.5	-	7.50
Market PS	0.9	-	0.90
Market PB	1.3	-	1.30
Market DY	5%	-	5%
Market LT Growth	11%	-	11%

6. Target Price and Return Estimates

Target Industry Price	\$10.44
Target Industry Return	10.40%
Target Industry Return Volatility	10.40%
Target Firm Price	2.24
25 percentage Target Price	\$1.12
50 percentage Target Price	\$1.12
75 percentage Target Price	2.24

Topic: Entrepreneurial Opportunity	12/17/08
Event: Entrepreneur	12/17/08
Event: Entrepreneurial Opportunity	12/17/08
Analyst: James F. Barron	

UNITED STEEL CORP.

Johan Bonnet, Siena College

ABSTRACT

This analysis covers United Steel Corp. (X), involving in the steel production (tubular and flat roles). As one of the biggest beta in the US due to its high leverage to industrial production, it might be a good opportunity to fully benefit a probable rally of the market.

OVERVIEW

PRICE:	SIENA	Target	Price:	S&P500:	DJIA:	S&P"Industry":
\$23.47	\$27.49		815.94	7,776.18	18.65	

Location: Pittsburg, PA

Industry: Metal production

Description: US Steel is a producer of flat role and tubular steel in Europe and North America. According to its sales it is the tenth producer in the world.

Company Website: www.ussteel.com

Market Data

Market Cap	\$2,727.17M	1 Yr Price App.	-81.03%
Price to book	0.56	Country	USA
Beta	2.81	Industry	Metal Production
Dividend yield	5.11%	Industry Price	\$21.56
Shares O/S	116 M	Industry Beta	1.6
Current price	\$23.47	Country Risk Premium	8.96%
52 week range	\$16.66 - \$196	Risk Free Rate	2.89%

Valuation	Current	2009E	2010E
EPS	\$18.11	\$-0.07	\$4.71
P/E	1.36	1.30	33.06
CFPS	\$23.70	\$1.35	\$6.45
P/CFPS	.99	17	3.64

RECOMMENDATION

The company is not the one with the best efficiency of the sector, but is most likely that the critical issue of liquidity management may be fulfilled. US steel has proven to pass several downturns and have profit of the past year to increase its profitability, asset and vertical integration.

Being one of the highest beta in a market historically low, I recommend a risky buy to profit a maximum from a market rally if one except that the steel demand will grow again in 2010.

COMPANY DESCRIPTION

Founded in 1901, the company is implanted in North America and Europe. It has a capability of 31.7 million tons a year for 49,000 employees (29,000 in US and 20,000 in Europe). Us Steel produces flat role, one of the based component for many steel based products (from car to loan moaner or boats), tubular products that are mostly used in the oil and gas sector. Us Steel is also involving in other minor business such as railroad companies that count for less than 1% of their income.

Strategy

Us Steel is focused on the return of shareholders and to generate competitive return on capital. They want to be a world leader in safety and environmental protection. This last goals might be a good thing in case on environmental import taxes, countries may use this argument to protect their local companies and fight against low labors cost coming from China and India, their factories being known for toxic gas emission.

In the short term they are focus on the crisis management, reducing significantly their production, freeze the salary increase, reduce their capital expenditure, and put on standby some plants. Their objective is to maintain liquidity and they do think to be well positioned when the market will recover.

On the long term they plan to increase the quality of steel, probably to differentiate themselves from low cost countries and be able to supply high quality industries.

The European segment is focus on the supply to the fast demand increase in the Eastern Europe.

Customers

Customers for flat role are essentially coming from the automotive industry and have been highly affected by the current markets. US Steel believes that they may encounter difficulties to find credit and pay the company, although US steel increase only slightly their doubtful account.

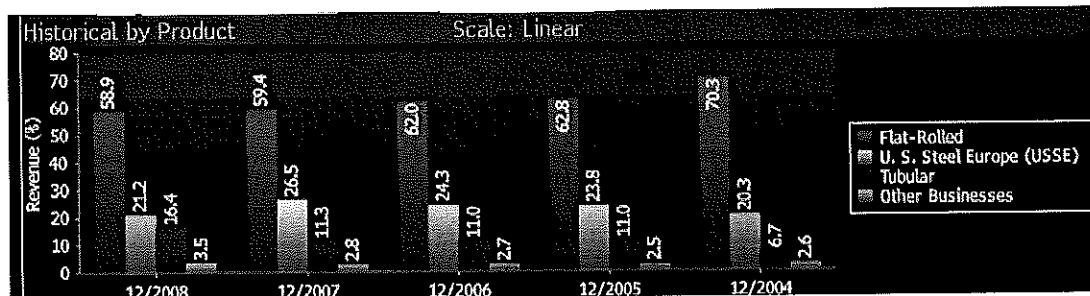
Suppliers

They declared to be able to be self efficient in 2009, in iron ore, the base product for their flat role and tubular segment. The company is developing the mine in order to be able to extract more raw materials for the future. In the case they were not able to develop it sufficiently, they would purchase iron ore on the market. In Europe US Steel is receiving Iron ore from mostly Us, but also Ukraine and Russia. The company thinks that they get it at competitive price and that it should continue in the future.

Coal is required to make steel, their suppliers are located in north America and eastern Europe. There is no significant threat from this product as it is cheap, relatively stable, and with good production capacity.

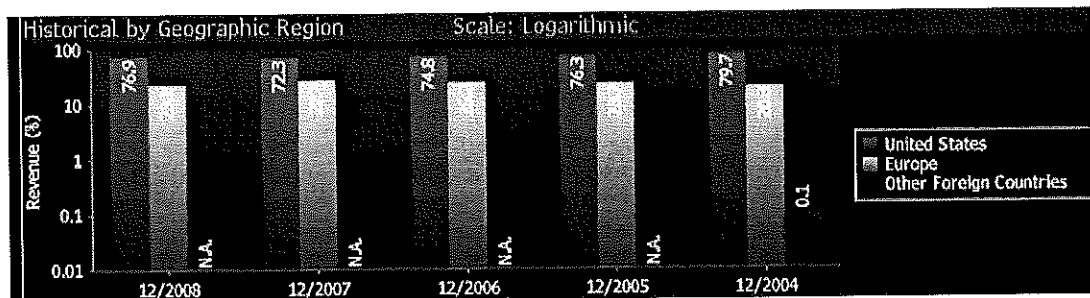
According to them, other supplies such as natural gas, zinc or other materials fulfill the requirement at competitive market prices.

Products



Flat role is the biggest revenue even if the company tends to diversify more and more. It is a good thing for the future that the company try to increase the tubular segment as it seems the most promising segment since as said earlier, it is linked to gas and oil industry.

Geographic and Market Segmentation



The company has a significant part of its income coming from Europe. A significant part of the asset is located in Slovakia which allows the company to benefit from cheap labor in a relative stable country. Moreover it can take benefit from the growing market in Eastern Europe and is able to supply in steel industrial country like Germany with high quality steel.

Latest Developments

The company has taken benefit from the high price of steel to double its capacity of steel production, buying competitors and becoming more integrated. Us Steel has acquired National Steel and USSS in 2003, and Lone Star and USSC in 2007. Those acquisitions have increased their capacity of production of the tubular segment.

The company is building new plant that will create electricity from the steel production, reducing the environmental impact and saving energy cost.

Us Steel is working on centralizing and standardizing the business through software package, increasing productivity.

The company has bought back for \$1B of shares and increased their dividend from \$0.2 to \$1.2 since 2001.

INDUSTRIAL ANALYSIS

Overview

The metal production had had a trend to concentrate those past years. China is leading the market supported by the government and a fast growing demand. The leader of the market is ArcelorMittal that has recently acquired the French company Arcelor.

Critical Issues

Products are not clearly differentiable; therefore the lowest cost of production is the biggest issue. Low labor cost in China is a threat for the entire industry, and successive government has tended to pass law protecting occidental factories. It is for example prohibited to sell steel at a lower cost than in its own country. US Steel is regularly suing competitors that do not respect those principles.

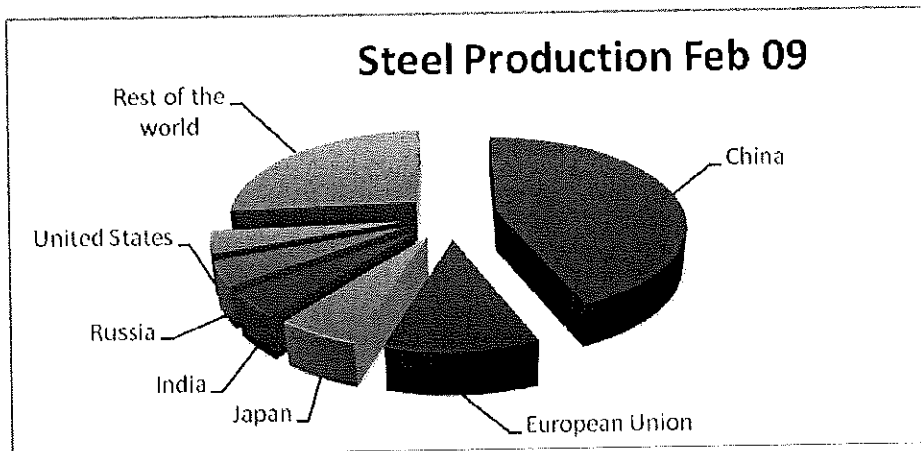
Barriers to entry are very high, and as said earlier, the industry tends to concentrate. Operating cost are very high due to infrastructure and the hazard of the type of production. Weak companies are bought back, and strong companies increase their asset dramatically as did US Steel or Arcelor Mittal.

Drivers of Profitability

The main driver of profitability is the overall growth demand in steel and general demand for final goods. More final customers will ask for goods such as cars or households, more the flat role demand will increase.

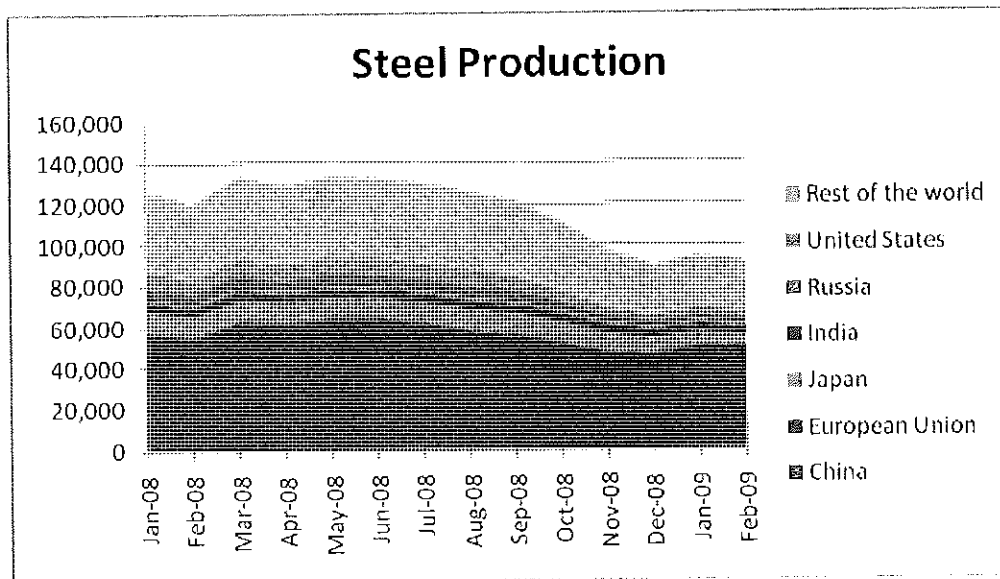
The price of oil may also have an impact on the demand for tubular. The growing demand for hydrocarbon increase the research for new fields and equipment to exploit them, therefore oil companies will need more steel products.

Steel Production



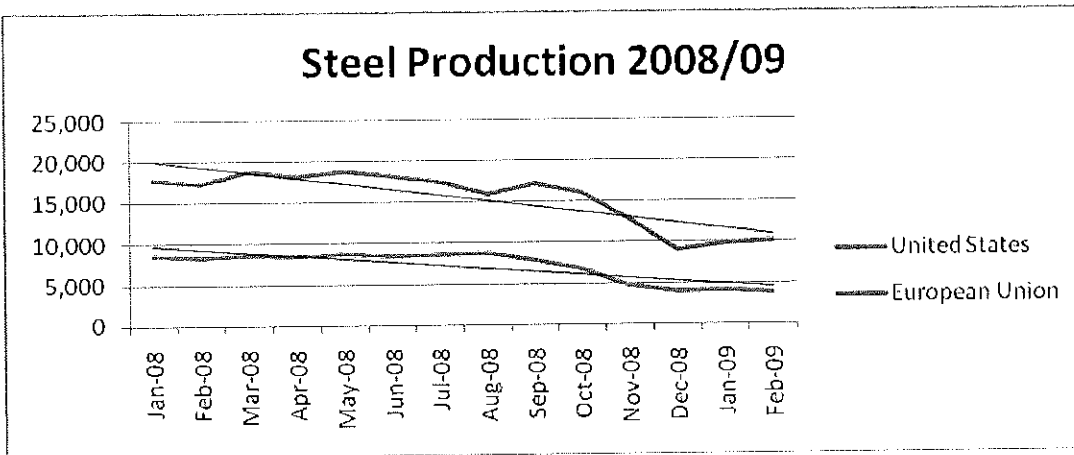
China has the biggest part of the production, as it has for the demand. The growing economy is an excellent market for Chinese companies. Although there is an overproduction in China, and it is expected to see many companies going bankrupt in the coming years.

Steel Production Evolution



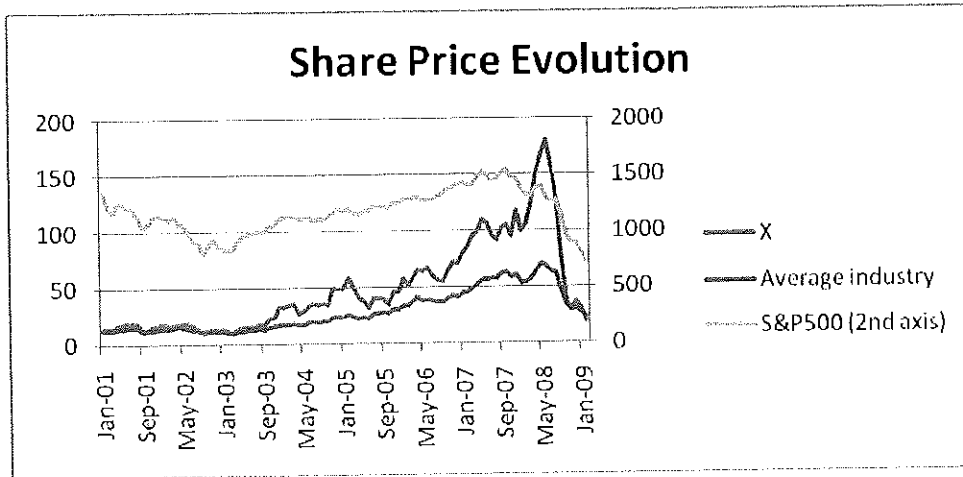
The overall steel production is decreasing this year while the China, although decreasing, stay relatively steady.

Steel Production in US Steel Region



As for the primary market of US Steel, assuming that production reflect the demand (note that there is a gap with supply that create overproduction), it is most likely that steel price will continue to decrease in the coming year.

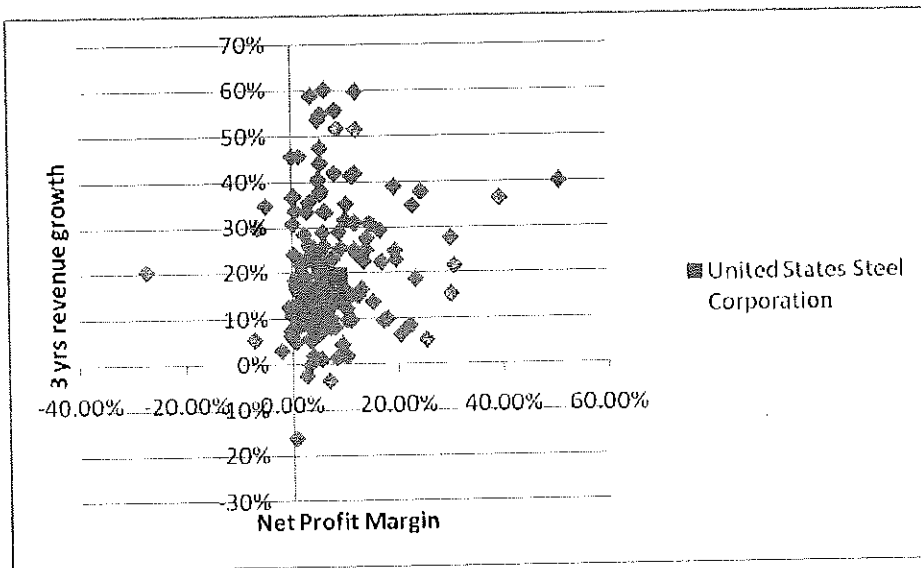
Share Price Industry vs. US Steel Price



The graph shows the high beta of US Steel, due to its high leverage the company suffers and benefit widely from the increase in steel demand or decrease.

The pick in steel price happened after the beginning of the crisis. Mainly edge funds were edging the decrease of the stock market by investing in commodities assuming that the demand will continue to grow. Metal industry benefited from it, but companies that were not aware of the bubble could have made to high expenditure and issue too much debts.

Profitability and Growth of the Industry

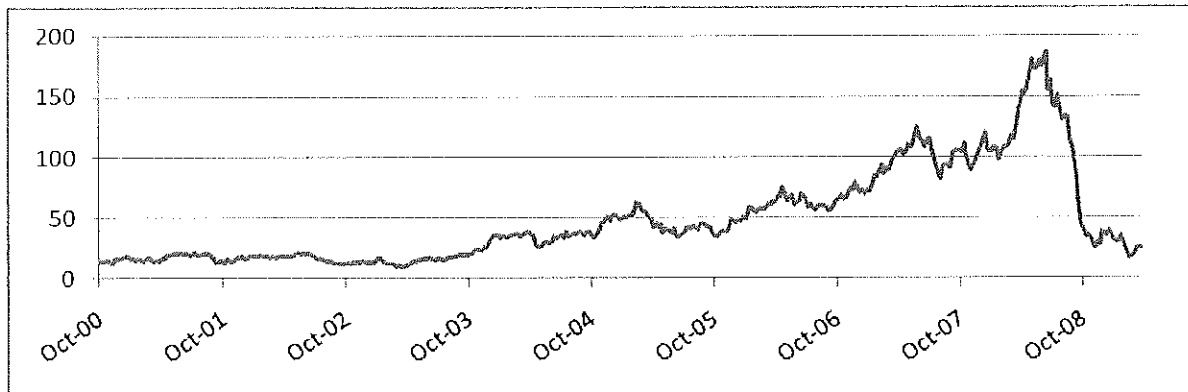


Us Steel is in the average of the industry according to the last 3 years growth rate and the net profit margin. Nevertheless, the company might have a higher fix cost than the competitors as it will be show later, and a decrease in steel price will have a higher leverage. US Steel shown to have clearly take advantage of the last 3 year increase in commodities price. Most of the company with high revenue growth and low profit margin are government aided, mostly in China. The overcapacity, and therefore the high fixed cost implied by the growth and bad management should threat a significant amount of those companies.

COMPANY ANALYSIS

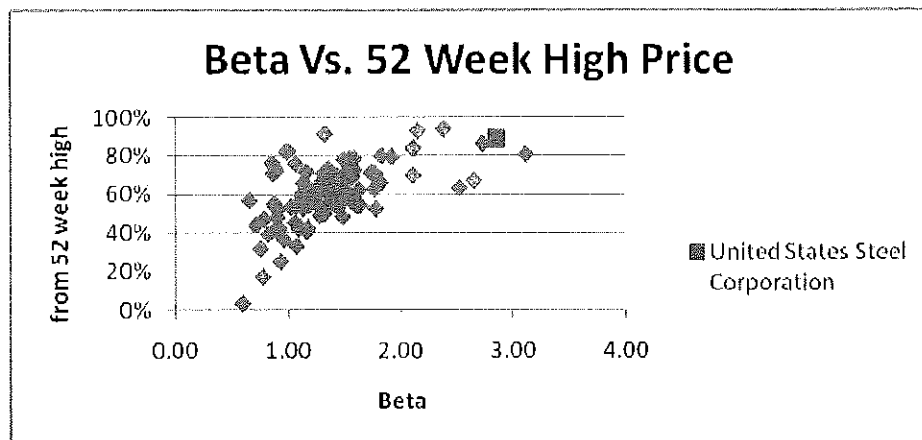
4th Annual Siena College Student Conference in Business
April 17, 2009

Price Evolution



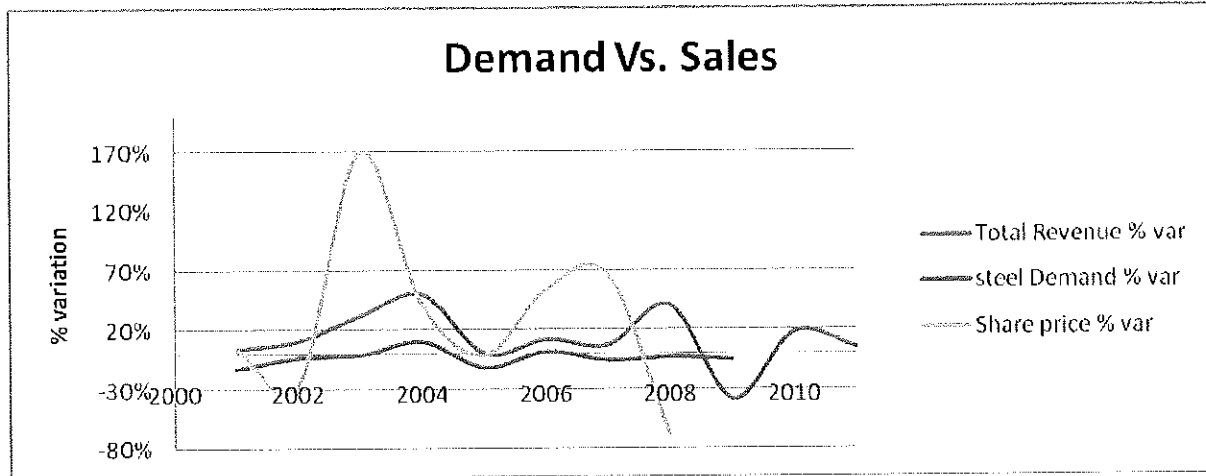
The evolution of the share price shows clearly the bubble in commodities prices and its burst. The increase being not entirely link to the bubble but also an increase in infrastructure and equipments, the demand in steel should increase rapidly as soon as the economy will recover, driving the price up faster than the increase from 03 to 07.

Beta



Above is a graph showing the position of the company compare to its competitors according to the beta and its 52 week price high. It shows how the company is volatile and reacts to the market. If one assumes that the market is oversold and a rally in the stock market will push the price of steel up again, US Steel might be the company to have in its portfolio in order to take full advantage of a rally. This graph is the main reason to choose US Steel rather than one of its competitors.

Relation between Demand and Sales



It is obvious that there is a correlation between the change in demand and the change in revenue (end of year) of the company as it is for the price. The multiplication change in share price is also greater than the revenue compare to demand. Nevertheless it is interesting to notice that while the demand decrease, the company still manages to increase its revenue. An increase in the demand will have a greater impact on the sales than a lower demand. It might be explained by the type of customers of US steel that will tend to have a more regular demand.

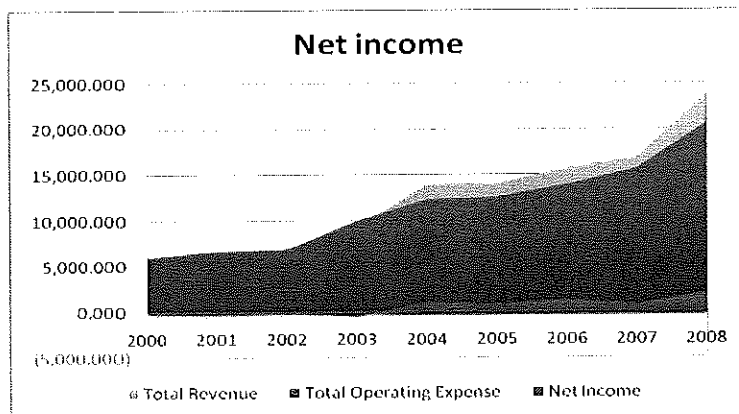
2008 shows a stop in the correlation of the sales and the value of sales of the company. It is the commodities bubble that is at the origin of the anomaly. 2009 shows the recession, and the decrease in revenue compare to the revenue is due to the high price of steel.

One may assume that as soon as the market will rebound and the steel consumption will rise again, their sales will follow if they did not suffer too much from the crisis.

The share price having an advance on the sales, it is highly likely that the share price may rise significantly in the coming year as next year is planned to increase again their sales.

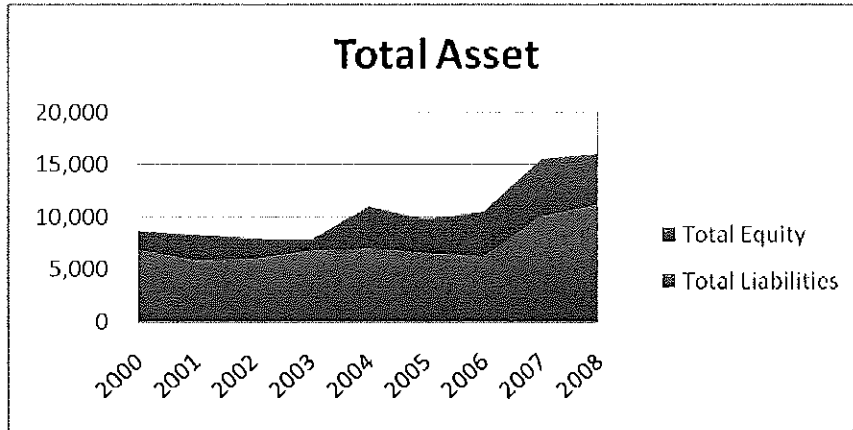
Finally, the price of the share is definitely correlated to the price of steel, and naturally precedes the revenue announcement.

Operating Expenses and Net Income



One can see on the graph a very high operating expense, mainly due to the fix cost from factories. Although the net income increased before the commodities bubble and kept growing in 2007. The company is committed to reduce their cost and be more efficient. The crisis and the fall in steel price may turn the net income negative once again.

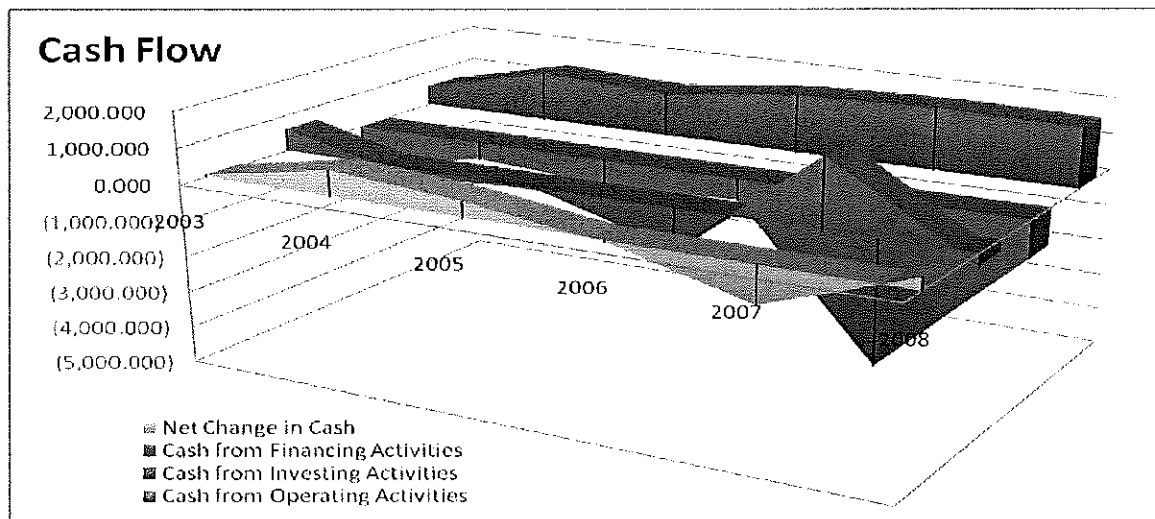
Liabilities vs. Equity



The total asset is more and more financed by debt if one compares 2008 with 2001; the company is therefore more and more leverage and may encounter some difficulties to pay interest. US steel acquired Lone star technologies and Stelco for \$2B each.

The company may encounter difficulties in the current market to find debts, especially has Lehman Brother has a commitment in a credit line, and will be unlikely to fulfill the contract.

Cash Flow



The cash flow reflects the acquisition of 4 competitors during the past 4 years. The cash from operation is relatively regular and US Steel is trying to create a maximum of liquidity to pass the crisis.

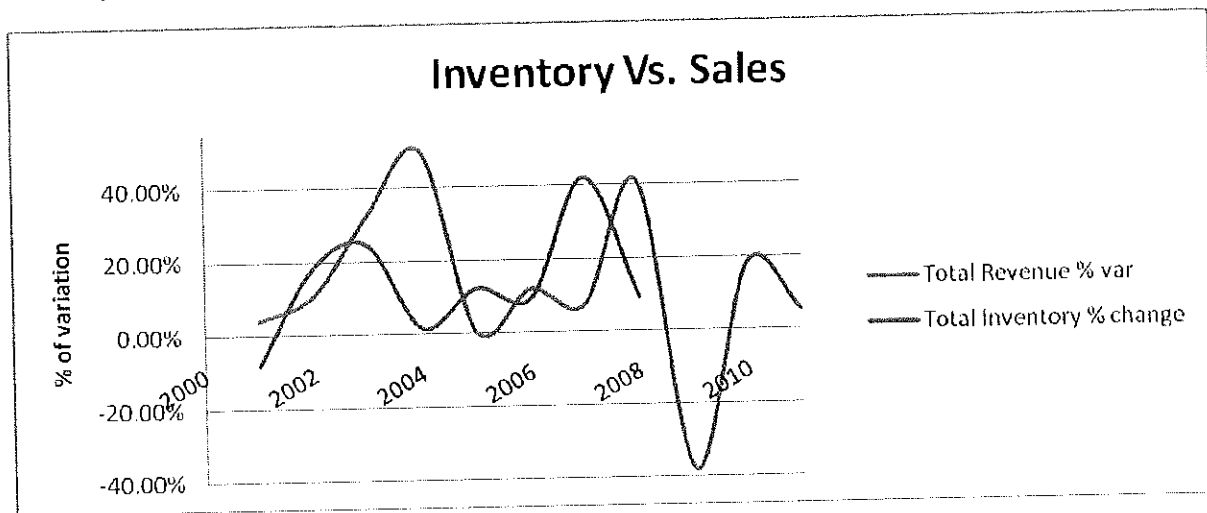
Cash Flow from Operation

In 2008 the company had for the first time a net income higher than the cash from operating operation, that is not a good sign and this is probably due to the difficulties that customers had to pay excessive high cost steel. The price of steel having sharply decreased during the past months, the problem that US steel is encountering for recovering its account receivable may declining. Although the crisis may have threatened their customers that may have difficulties to pay the supply, the company did not increase significantly their account for bad debts.

It seems that the company, as focus on the liquidity, seems to manage to keep a decent liquidity.

In case of a new commodities bubble, it should be remembered that customers may have trouble to pay the steel, and that US steel may have therefore treasury problem.

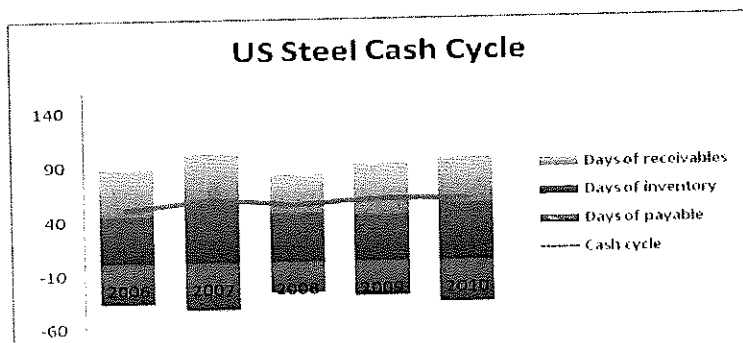
Inventory Management

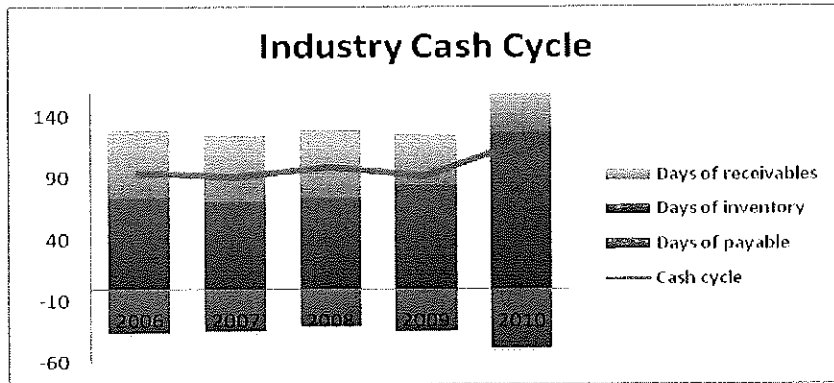


The graph of variation of inventory Vs. Sales shows clearly a positive correlation. That firstly means that the inventory is relatively well managed. Secondly, one can notice that the move in inventory precedes the sales. For example, in 2005 inventory increase by about 10%, while the sales increased in 2006.

The inventory does not follow the trend for 2009 due to the crisis, and the fact that the inventory remaining is relatively expensive as acquired during the commodity bubble. If they did not planned the burst of the bubble, it may means that they will have trouble because of their inventory, increasing cost, therefore reducing drastically the margin. In the other hand, 2009 being an estimation of analysts, the company may forecast.

Cash Cycle

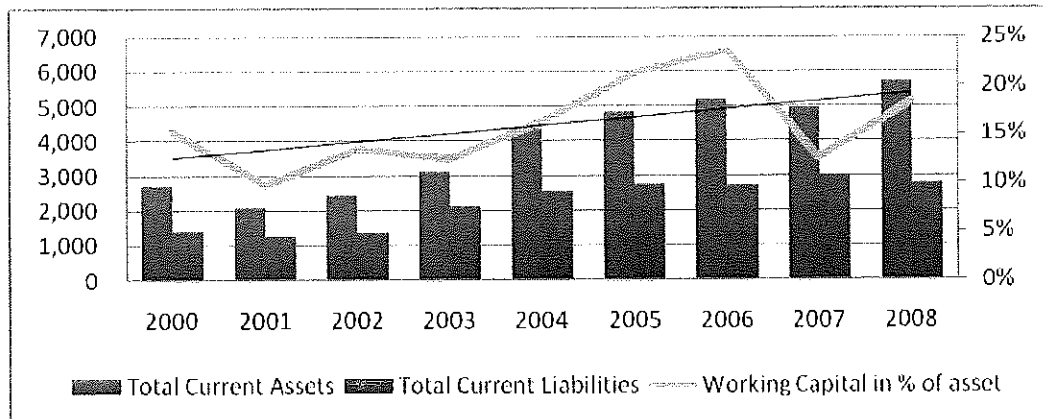




Inventory for 2009 are computed according to the historical percentage of balance sheet. Due to the crisis it is unlikely that those graphs reflect the reality. It is most likely that day of inventory will increase significantly for 2009. The price of the inventory was acquired at a high cost and will reduce the margin of the company.

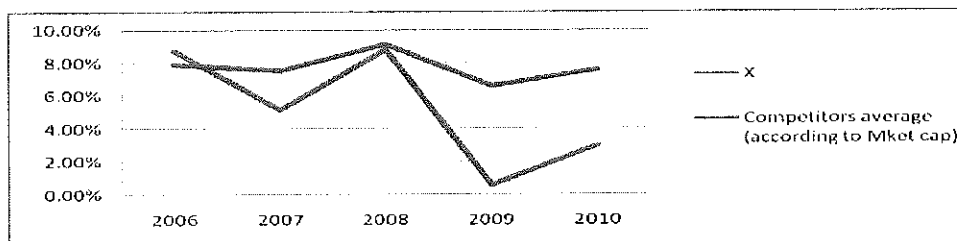
Nevertheless, one can notice that the company has a better efficiency in their cash cycle management compare to their direct competitors. Moreover, their cash cycle has been relatively stable over the past year despite several acquisitions of other companies.

Working Capital



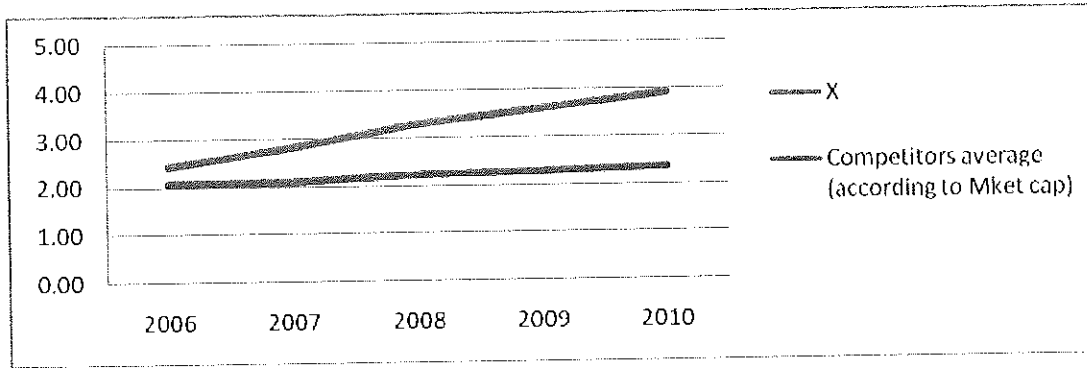
The company is managing to increase the net working capital according. The fact to compare the increase in working capital with the total asset is in order to see if or not it is increasing due to a better management or just because US Steel is increasing the size of its asset. According to the trend the company manages to fill its goals to increase its liquidity.

Profit Margin



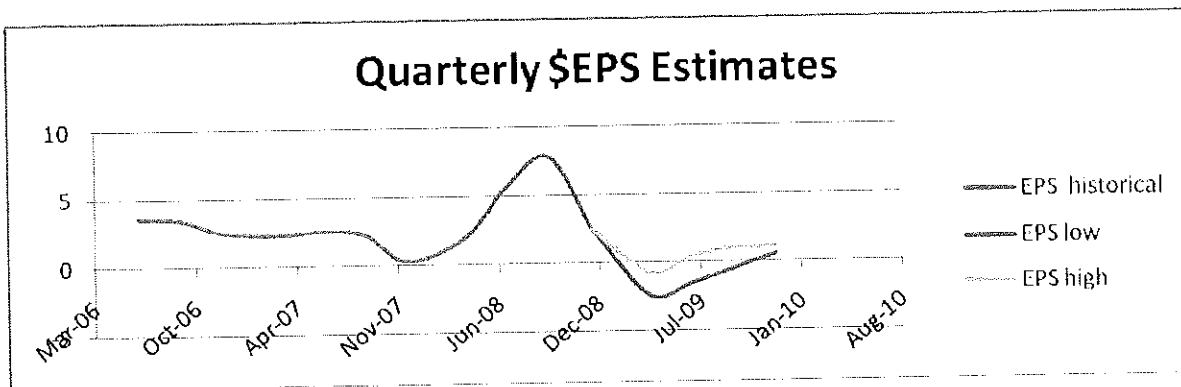
Profit margin forecast are not a good things for US steel, and are essentially explained by the decrease in sales and their high fixed cost. Nevertheless, according to their annual report, the company has taken dramatic move to reduce the cost, such has closing factory and to lay off a significant amount of workers.

Equity Multiplier

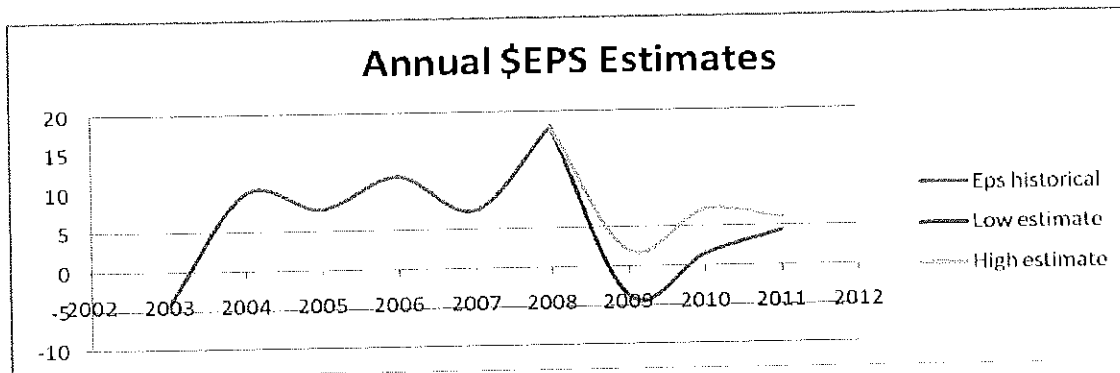


Here is a graph that explains the relatively high volatility of the company. Note that 2009 and 2010 are forecasted. The company has issued several debts to finance their acquisition. It was risky but if one looks at the change in net income, the move seems to have been wised. The company is clearly risky, nut according to steel association; the demand will continue to increase after the crisis driving the price up.

EPS Estimates



The curve shows that most of the gain was made during the summer at the pick of the commodities bubble. All the analysts forecast a negative EPS for the first half of the year, but a positive and of year.



Analysts disagree on the result of 2009 but there is a consensus for 2010 as they probably assume an economic recovery. The company should not have trouble to pass the downturn and should going out of it stronger than before with a profitability increased. The company is using the downturn to shut down inefficient factories and may fully benefit the market rally.

Latest News

China has opened a future steel market. Steel companies are not really sensitive to the creation of a new market estimating that American and European market were sufficient. Nevertheless, some analysts think that it may be a factor to create a new commodities bubble.

Deutsche Bank maintains cautious view on steel sector.

US Steel has announced agreement in early retirement program.

Upcoming Events

Earnings announcement for Q1 2009 will be release the 04/28/09.

SWOT ANALYSIS

Strength

Improving safety for worker: The rate of worker injured on the workplace is sharply decreasing (-65% last 5 years), reducing the cost of potential law suit and health insurance.

Facilities are improving their performances.

Good relation with unions.

Supply of good quality raw materials

Despite the fact the product cannot be significantly differentiated from the competitors, the steel produce by the company is high quality.

Their majors customers in the tubular segment are related to the gas and oil production, those sectors are profitable and the price of their products is highly likely to increase in the future according to the EIA.

Weakness

The company does not have the best efficiency compare to its competitors,

Higher than average cost of labor due to union.

Highly polluting industry therefore might have high cost to comply with increasing environmental standards.

Its customers in automotive and containers industry are highly affected by the economy and may create cash problems.

Opportunity

The stimulus package of the current US administration may prefer US companies in order to launch reconstruction project to the benefit of companies like US steel.

The downturn weakened everybody in the industry, and may allow the “survivors” to reduce the competition.

China is forecast to have an increasing demand in steel even in 2009, offsetting possible overproduction.

Threat

Financial crisis: The demand in steel is leveraged as a decrease in demand for finish goods will impact significantly the supply of steel.

Price of steel: the price of steel was abnormally high compare to the historical demand/supply in 2008; those prices may not be reached again before several years.

China has increased its capacity during the past years and since they are currently in overcapacity, the price of steel may fall further.

Target Prices

Target price Siena	\$27.49
Target price Reuters	\$27.31
Bloomberg target price	\$29.21
Morningstar target price	\$32
Yahoo target price	\$37

Company Name	United States Steel Corp.	Ticker	X
Current Price	\$33.47	Target Price	\$52.45
Recommendation	BUY	Date	11/1/2009
1. Market Data			
Market Cap	\$2,777,000,000	1 Yr Price App	21.00%
Free float	78%	Country App	USA
Beta	1.41	Index	INDUSTRIAL
Dividend Yield	5.10%	Market Industry Price	\$11.50
Market Cap	\$1,200,000,000	Industry Beta	1.4
Turnover	\$13.47	Country Risk Premium	2.0%
12 month change	\$ 1.99 - \$1.80	Industry Beta	2.0%
Major Holdings			
Holder	% of Shares Outstanding	Name and Title	Address
Capital Research Global Investors	5.4%	CHRISTINA JOHN G Director	12410
State Street Global Advisors (US)	4.1%	ANTHONY RICHARD A	12410
Capital World Investors	4.1%	TERESA HAMILTON	12410
UBI Investment Management	3.9%	FRANK JACQUES MONROE	12410
Chardan, LLC	3.8%	Director	12410
Vanguard Group, Inc.	3.6%	Director	12410
Barnes Global Investors, N.A.	2.9%	Director	12410
UBI Investment Management	2.9%	Director	12410
UBI	2.2%	Director	12410
Investment Technology Corp	1.9%	Director	12410
Barnes Global Investors (UK) Ltd	1.8%	Director	12410
Bank of Montreal & Co.	1.0%	Director	12410
Directors			
Industrial	\$1,000		
Energy	\$1,000		

2. Country Macro Analysis				
	5 years (average)	historical	Current	1-year Estimate
USA				
Real GDP Growth	3%		1%	-2.20%
Inflation	3.0%		0.2%	0.6%

Foreign Debt as % GDP	41.3%	21.1%	25.0%
Unemployment Rate	5.7%	8.1%	9.9%
Currency Exchange Rate	1.29	1.28	1.32
Political Risk Rating (out of 100)	80.5	83.5	81.5
Financial Risk Rating (out of 100)	64.1	66.0	66.0
Economic Risk Rating (out of 100)	71.1	62.0	63.0
Europe	5-year historical (average)	Current	1-year historical
Real GDP Growth	1%	1%	-1.90%
Inflation	3.1%	3.7%	1.7%
Foreign Debt as % GDP	38.8%	42.0%	46.2%
Unemployment Rate	7.3%	6.4%	8.0%
Currency Exchange Rate	1.3	1.35	1.16
Political Risk Rating (out of 100)	83.0	87.0	82.0
Financial Risk Rating (out of 100)	78.0	70.0	69.1
Economic Risk Rating (out of 100)	80.0	80.0	80.0
Return	5-year historical (average)	1-year historical (average)	1-year forecast
X	11.80%	10.00%	-17.20%
Industry	10.10%	8.10%	-9.80%
USA	10.20%	10.20%	-4.61%
World	10.85%	8.70%	-8.50%
Volatility	5-year historical (average)	1-year historical (average)	1-year forecast
X	28.50%	19.80%	31.10%
Industry	23.10%	22.70%	23.70%
USA	19.20%	21.90%	19.20%
World	23.20%	19.80%	19.10%

3. Company Ratios (Cross-sectional and time series)

DuPont Analysis			
X	Profit Margin	Total Asset Turnover	Equity Multiplier
2006	8.75%	0.67	1.43
2007	5.12%	0.90	2.83
2008	8.87%	0.88	3.79
2009 Q1	-3.27%	4.73	3.17
2009 Q2	-0.80%	4.83	3.26
2009 Q3	1.00%	4.45	3.25
2009 Q4	2.11%	4.20	3.24
2009	0.36%	1.33	3.59
2010	2.95%	1.28	3.98
ROA			
	Profit Margin	Total Asset Turnover	Equity Multiplier
2006	10.27%	1.08	1.75
2007	12.15%	1.03	2.85
2008	14.45%	1.05	3.20
2009 Q1	14.00%	3.44	1.20
2009 Q2	16.90%	3.29	1.05
2009 Q3	15.00%	3.11	1.04
2009 Q4	14.50%	3.02	1.05
2009	14.50%	3.04	1.05
2010	15.25%	3.15	1.04
ROE			
	Profit Margin	Total Asset Turnover	Equity Multiplier
2006	4.15%	0.93	2.07
2007	3.45%	0.93	1.89
2008	3.53%	0.90	2.14
2009 Q1	2.74%	3.09	2.13
2009 Q2	3.37%	2.88	2.11
2009 Q3	4.43%	2.83	2.10
2009 Q4	3.71%	2.91	2.09
2009	3.61%	0.78	2.10
2010	4.77%	0.86	2.13
VM			
	Profit Margin	Total Asset Turnover	Equity Multiplier
2006	2.95%	1.02	2.02
2007	3.87%	1.30	2.16
2008	3.00%	1.30	2.13
2009 Q1	2.81%	1.03	2.08
2009 Q2	3.00%	1.76	2.04
2009 Q3	3.75%	1.75	2.05
2009 Q4	4.00%	2.02	2.07
2009	3.44%	1.33	2.07
2010	3.75%	1.00	2.05
MATW			
	Profit Margin	Total Asset Turnover	Equity Multiplier
2006	3.97%	1.00	1.92
2007	3.42%	1.03	1.81
2008	3.67%	1.12	2.11
2009 Q1	7.77%	4.72	1.85
2009 Q2	9.65%	4.57	1.99

Year	Profit Margin	Total Asset Turnover	Equity Multiplier
2005 Q3	9.19%	4.74	1.94
2005 Q4	7.32%	5.14	1.90
2006	8.10%	4.24	2.17
2007	9.21%	4.30	2.19
Competitors average (according to Wikat corp)			
2006	7.87%	0.82	2.05
2007	7.54%	0.84	2.09
2008	9.12%	0.79	2.23
2009 Q1	5.73%	3.79	2.28
2009 Q2	6.67%	3.67	2.18
2009 Q3	7.22%	3.66	2.16
2009 Q4	6.58%	3.74	2.14
2010	6.67%	4.04	2.20
2011	7.38%	4.10	2.34
Days of Inventory			
2006	76	51	78
2007	78	50	84
2008	75	55	77
2009	74	53	65
2010	102	52	72
Days of Receivable			
2006	61	61	96
2007	61	62	92
2008	62	63	103
2009	61	48	88
2010	111	44	105
Cash Cycle			
2006	15	15	15
2007	17	16	17
2008	13	16	13
2009	13	16	13
2010	17	28	17
Competitors average			
2006	78	55	94

2007	71	54	91
2008	74	55	99
2009	85	41	92
2010	128	39	119

4. Company Risk			
Capital Structure Industry			Relative Dispersion (Industry)
WACC Structure	Debt (After taxes)	Equity	EBITDA C.V.
Weight	55.38%	44.62%	
Cost (after tax for debt)	4.34%	15.01%	Free Cash Flow C.V.
WACC	9.15%		
Capital Structure Firm			Relative Dispersion (Firm)
WACC Structure	Debt (After taxes)	Equity	EBITDA C.V.
Weight	70.08%	29.92%	
Cost (after tax for debt)	7.95%	14.06%	Free Cash Flow C.V.
WACC	8.97%		
Debt Rating Industry (model)		Credit Risk (Industry)	
Moody	N/A	Agency	1.1%
S&P	N/A	BBB	5.2%
Fitch	N/A	BBB	6.0%
Debt Rating Firm (model)		Credit Risk (Firm)	
Moody	N/A	Agency	0.1%
S&P	BBB	BBB	5.1%
Fitch	BBB	BBB	6.0%
Business and Cost Structure and Estimates			
1-year Estimates		Sales per share	Earnings per share
Industry Mean		\$27.28	\$2.50
Firm Mean		\$126.30	\$0.70
Firm Median		\$126.54	-\$0.45
Firm High		\$155.60	\$2.00
Firm Low		\$91.38	-\$1.10
Firm Standard Deviation		\$18.53	\$1.63
1-quarter Estimates		Sales per share	Earnings per share
Industry Mean		\$12.70	\$0.44
Firm Mean		\$10.32	-\$1.23
Firm Median		\$27.50	-\$1.56
Firm High		\$32.00	-\$0.74
Firm Low		\$21.00	-\$2.37
Firm Standard Deviation		\$5.04	\$0.59
5. Valuation			
	Current Price	Discounted Cash Flow	Market Estimate
Current Price	\$18.22	\$2.31	\$0.7
Firm Price		\$2	\$1.0

Price/CPS	2.14	N/A	\$7.45
Price/CF	11	N/A	7.45
Price/SPS	2,084.25	2,211.84	2,084.25
Price/PS	0.12	N/A	0.12
Price/CS	277.65	N/A	277.65
Price/PB	0.9	N/A	0.9
Price/DY	4.44%	N/A	4.44%
Industry EPS	3.45	0.47	\$7.25
Industry PE	N/A	N/A	7
Industry C/PB	4.47	N/A	2,025
Industry P/CF	4.52	N/A	7.5
Industry SPS	65.00	12.70	2,011.21
Industry PS	0.33	N/A	0.32
Industry BS	4.70	N/A	1,610
Industry PB	2.43	N/A	2.43
Industry DY	1.53	N/A	1.53%
Industry LT Growth	14.20%	N/A	N/A
Sector PE	11		7.4
Sector P/CF	5.20		7.70
Sector PS	0.14		0.20
Sector PB	1.50		1.20
Sector DY	5.20%		5%
Sector LT Growth	10.50%		10.50%
Market PE	10.74		11.79
Market P/CF	6.7		6.70
Market PS	1.7		0.60
Market PB	3		1.40
Market DY	3.84		3%
Market LT Growth	10%		11%
A. Target Price and Return Estimates			
Target Industry Price	2,220.00		
Target Industry Return	11.24%		
Target Industry Return Volatility	47.01%		
Target Firm Price	20.9		
95 percentile Target Price	142.07		
90 percentile Target Price	114.27		
90 percentile Target Price	103.20		
Target Firm Price Volatility	2.52		
Target Firm Return	12.24%		
Target Firm Volatility of Return	51.70%		
Analyst:	John Bonnet		

Schedule A
EXTREME SATISFACTION/DISSATISFACTION

STUDENT SATISFACTION SURVEY - RESULT ANALYSIS
SIENA COLLEGE - 01/2008

1 = Very Much
5 = Not at all

ACADEMIC QUESTIONS:

- 1. Your study habits
- 2. The availability of tutors
- 3. The availability of labs
- 4. The helpfulness of faculty members
- 5. The amount of group work
- 6. Your GPA
- 7. The quality of the education at Siena
- 8. The level of education that the high school/colleges you were at prior to coming here prepared you academically for Siena
- 9. The level of academic difficulty
- 10. The workload at Siena comparable to that of your last school

PERSONAL QUESTIONS:

- 11. Your ability to manage time
- 12. Your organizational skills
- 13. Your stress level
- 14. Your ability to manage stress
- 15. Your ability to balance school work load and extracurricular activities
- 16. The friendliness at Siena College
- 17. Your ability to set goals
- 18. The difficulty of your classes
- 19. The parking on campus
- 20. The parking availability on campus (for residents)
- 21. The parking availability on campus (for classes)
- 22. The number of parking lots on campus
- 23. The amount of security on campus
- 24. The Welcome Booth on campus
- 25. The amount of security cameras on campus
- 26. Your safety on campus

SOCIAL QUESTIONS:

- 27. The social environment
- 28. The opportunity to socialize on campus
- 29. The opportunity to join clubs
- 30. The opportunity to join a sports team
- 31. The types of clubs on campus
- 32. The types of sports teams on campus
- 33. The living arrangements on campus
- 34. The activities on campus

Table with columns for Academic, Personal, and Social questions, and sub-columns for Commuter, Resident, Transfer, and Non-Transfer categories. Each sub-column includes Mean, Std Error, Lower Bound, Upper Bound, Higher Level of Satisfaction, and Comparison (Mean, Std Error, Diff).

Key: 3.0 < mean -> EXTREME DISSATISFACTION
mean < 2.0 -> EXTREME SATISFACTION

SIENA STUDENT SATISFACTION

Therese Buyaskas, Siena College

INTRODUCTION

Students attending an institution of higher learning are faced with certain situations. Some challenges faced by these students include socialization, expectations, study habits, organizational skills, and time management. Given my experience as a resident transfer student, and after numerous conversations with other students, including transfer students, it is my perception that transfer students are less satisfied than non-transfer students.

The first situation to be considered and addressed is socialization, defined by a student's ability to interact with other students, evidenced by social gatherings such as clubs and college team sports. The issue of socialization especially needs to be addressed when the student is living on campus, in a dorm or town house with roommates. Another factor that needs to be considered is that the student must determine expectations for him/herself when it comes to academic performance, GPA, clubs, sports, and just how active the student wants to be at the college he or she attends. People that have high expectations of themselves, will usually set higher goals, and be more likely to be able to achieve them. People that have low expectations of themselves, will usually set lower goals, and may be less likely to achieve their goals. The next situation that needs attention is establishing study habits. Study habits can lay the foundations for academic success, or set you up for failure. The student must determine the place where he or she can study best, such as the library, home/dorm room, or college provided study lounges. The student must also decide if they need to study alone, in groups, or with a tutor. Another challenge faced by students is balancing their school work load with their studying and extra curricular activities. This can be one of the hardest situations for the student. It is not uncommon to have to juggle multiple assignments such as two tests, one paper, and two quizzes all in different subjects, and all due in the same week. One final key point is organization while attending college. Good organization will likely result in less stress for the student. On the other hand, lack of organization could cause the stress level to become tremendous and overbearing for the student. New students are immediately confronted with many challenges that will set the tone for their college experience.

The situations that students are faced with can be different based on the type of institution that they attend. A different experience will be found at a two year community college, than at a four year college or a larger university. The time management skills of a community college student are often more of an issue because they may be balancing their education, a full or part-time job, a family, or other obligations. A college or university student's time is usually more focused on the college experience. Another relevant comparison is between a commuter and a resident. A commuter's experience either at a community college or at a four year institution is probably very similar. They often spend very little time at the school other than for classes or for resources. A resident's experience, however, is often more consumed by social aspects. Perhaps the student's first time away from home is a time of freedom and experiencing new things. One last category of students to mention is transfer students. Although they may come from many different places they are all in a position to compare their past academic experiences with their current situation. For some people their new school may be larger or smaller, more difficult or easier, friendlier or not, closer or farther away from home. Adjustment can be a major obstacle for a transfer student.

Satisfaction of a student in higher education can come at many levels. At a resident level, the student judges the building and grounds, living accommodations, parking, and the dining hall. At an academic level, the student judges the labs and academic intervention services, academic advisors, teaching staff, classes/class time, as well as the amount of guidance offered. One last level would be the social level where the student makes judgment on the social clubs, college events, and sports. High satisfaction in all of these areas is the goal of the college administration.

The research was aimed at discovering the challenges students are facing, and what type of students are facing these challenges, such as commuters, residents, transfer students and non-transfer students. In order to do this, a questionnaire was developed highlighting three main aspects of college life; academic, personal and social.

Within each area, a series of questions were geared towards examining the different components of an average Siena student's experience, and how it may have met, exceeded, or fallen short of their expectations.

MEASURES

A survey was developed to help identify the difference in satisfaction between commuter and resident as well as transfer and non-transfer students. Originally, several questions were developed and pilot tested with over 30 students. The students were asked to complete the survey and to help identify confusing or misleading questions.

The responses from the pilot test were used to develop the final survey. The survey had 10 demographic questions. In addition the survey was designed to assess three different areas: (1) assessing satisfaction with academic services (e.g. tutoring, quality of education, academic difficulty); (2) assessing general satisfaction (e.g. friendliness, parking, security); and (3) assessing satisfaction with the social environment (e.g. clubs, sports teams, activities). The internal consistent reliabilities (measured by Cronbach's alpha) for the three areas were .80, .83, and .87, respectfully. According to the standard established by Nunnally and Bernstein (1994), all reliabilities were above the standard for scale development.

SAMPLE

To assess the student satisfaction, the final survey was distributed to students in five different undergraduate classes. The surveys were completely confidential and anonymous, and were consecutively numbered for data entry with no student identification. Out of the surveys administered, we received 105 useful responses. The students were almost evenly split by gender (56 percent male, 44 percent female) and class (22 percent sophomore, 30 percent junior, 48 percent senior). Freshmen were largely not included in the survey because of their lack of experience with the various elements assessed by the survey.

RESULTS

The Statistical Program for the Social Sciences (SPSS) was used to facilitate interpretation of the responses. While analyzing the data, average means, mean differences, and standard deviations (sigma) were calculated and compared. Responses were grouped and compared based on two different sets of criteria; commuters vs. residents, and transfer students vs. not transfer students.

"Extreme" mean responses are highlighted on the attached Excel file, Schedule A. Extreme satisfaction is identified as a mean response less than 2.0 (highlighted green), and extreme dissatisfaction is identified as a mean response greater than 3.0 (highlighted blue). Two separate, perhaps overlapping, groups visibly stand out as satisfied in all three categories. Commuters and transfer students are generally more content with their Siena experience than their counterparts. The social category has the most instances of extreme satisfaction in these groups. Almost all areas of dissatisfaction involve parking availability and access on campus, and are consistent among all categories of students.

In addition, a univariate analysis of variance was conducted to assess statistically significant differences between commuter and resident as well as transfer versus non-transfer students. The results can be found in Table 2.

There was only one statistically significant difference between commuter and resident students (parking). On that question, commuters were statistically significantly less satisfied than resident students.

Concerning the differences between transfer and non-transfer students, there were several statistically significant differences (see Table 3). However, the statistically significant differences were largely centered on parking, security, and the ability to join clubs and sports teams. In all cases, transfer students indicated that they were more satisfied than non-transfer students.

This result could be due to one of two different reasons. First, students may have transferred to Siena College because of their clubs and sports, or the students could be coming from a community college with very few programs available to them in the areas of sports and clubs. In either case, Siena's program would be a more rich opportunity than their previous experience. Secondly, the survey results could be because transfer students are

upperclassmen and are less interested in sports teams and clubs. This would result in a satisfaction level that is easier to meet. The only accurate way to determine which the cause for the finding is would be for more statistical data to be gathered on the students currently participating in sports teams and clubs, to see if the mix of the students represents a higher percentage of transfer students.

The actual survey results were inconsistent with the anticipated responses. It was predicted that transfer students were less satisfied than non-transfer students. I question that the sample is a true representation of the whole student body. It would be my recommendation to redistribute the survey during a future semester to see if the results are consistent. Also, since Siena College strives for maximum satisfaction of all of its students, attention should be given to the noted areas of dissatisfaction.

Table 3
Univariate ANOVA – Commuter versus Resident

	Mean Difference	Std. Error
Q1	(0.12)	0.44
Q2	(0.50)	0.39
Q3	(0.23)	0.42
Q4	(0.05)	0.42
Q5	(0.03)	0.45
Q6	0.48	0.43
Q7	0.14	0.35
Q8	0.09	0.48
Q9	0.25	0.39
Q10	(0.47)	0.46
Q11	(0.22)	0.42
Q12	0.20	0.40
Q13	(0.32)	0.48
Q14	(0.14)	0.45
Q15	(0.17)	0.42
Q16	0.48	0.38
Q17	(0.52)	0.37
Q18	0.01	0.39
Q19	0.19	0.51
Q20	0.54	0.46
Q21	1.01*	0.46
Q22	0.51	0.49
Q23	0.54	0.51
Q24	(0.09)	0.51
Q25	0.59	0.50
Q26	0.02	0.49
Q27	(0.26)	0.39
Q28	(0.29)	0.39
Q29	(0.10)	0.37
Q30	0.05	0.45
Q31	0.07	0.34
Q32	(0.26)	0.37
Q33	0.45	0.48
Q34	0.45	0.39

Note: Mean difference equals mean for Resident minus mean for Commuter

* $p < .05$

** $p < .01$

Table 3
Univariate ANOVA – Transfer versus Non-Transfer

	Mean Difference	Std. Error
Q1	0.36	0.44
Q2	(0.02)	0.39
Q3	0.15	0.42
Q4	(0.24)	0.42
Q5	(0.22)	0.45
Q6	(0.57)	0.43
Q7	(0.39)	0.35
Q8	(0.20)	0.48
Q9	(0.32)	0.39
Q10	0.11	0.46
Q11	(0.37)	0.42
Q12	(0.85)*	0.40
Q13	(0.65)	0.48
Q14	(0.42)	0.45
Q15	(0.41)	0.42
Q16	(0.38)	0.38
Q17	(0.14)	0.37
Q18	(0.57)	0.39
Q19	(0.72)	0.51
Q20	(1.27)**	0.46
Q21	(1.32)**	0.46
Q22	(1.06)*	0.49
Q23	(0.94)*	0.51
Q24	(0.99)*	0.51
Q25	(1.03)*	0.50
Q26	(0.03)	0.49
Q27	0.12	0.39
Q28	(0.05)	0.39
Q29	(0.15)	0.37
Q30	(1.00)*	0.45
Q31	(0.79)*	0.34
Q32	(0.45)	0.37
Q33	(0.36)	0.48
Q34	(0.69)	0.39

Note: Mean difference equals mean for Transfer minus mean for Non-Transfer

* $p < .05$

** $p < .01$

“HONOR THY ELDERS”: DOES THIS APPLY TO SERVICE ENCOUNTERS?

Jason Scharf, Siena College

INTRODUCTION

There is change occurring in the ageing process we were all once so familiar with; life expectancies are growing and the improved overall health of individuals has started to provide opportunities for continued employment beyond conventional retirement ages. The Baby Boomer generation, people born between 1943 and 1960, is just beginning to retire into an active lifestyle that involves: vacationing, focusing on a healthier way of life, being consumers with high levels of discretionary income, all while, in many cases, still providing for both their parents and their children simultaneously. As if all of the aforementioned activities weren't enough to keep any newly retired Baby Boomer busy, members of the Baby Boomer generation aren't ready to stop working. In general, Baby Boomers are mentally sharper and more physically capable than people their age were a century ago. This is partially due to the fact that more Boomers are retiring out of office work as opposed to the farming, factory, and other jobs of high physical labor that the Traditionalist generation, born between 1925 and 1942, held and retired out of. These less physically demanding lifestyles they led prior to retirement coupled with improved standard of living, especially with respect to health care, has led to the start of an important trend that should be of interest to the business world – Baby Boomers are returning to the work force and are taking service positions. Previously, there has been much research done on how to react to this new generation and their consumption habits; how to market products towards a generation that controls such a large portion of the nation's discretionary income. Little is being done, however, to understand the Baby Boomer generation as service providers and how younger customers will react to this new workforce.

Now with the recent economic crisis, the life savings Boomers had has in many cases dwindled down to nearly nothing and simply will not be enough for them to retire on; this is creating the need for Baby Boomers to return to the workforce to earn a steady income. However with Baby Boomers taking menial service jobs, such as sales positions in retail stores or cashiers at grocery stores, little research is being done to see how Generation X and Generation Y consumers, born between 1961-2002, will react to buying their products from people their parent's age. Baby Boomers are here and are ready to work; it is now a matter of whether or not younger generations are ready to engage in transactions for their goods and services from salespeople that may be twice as old as they are!

The reality of the situation is that both teenagers and people sixty five years and older are waiting tables in the same restaurants, working the same cash registers in the same grocery stores, and working in your favorite fast food restaurants; the question now becomes, how will younger consumers react to this age gap? This research intends to find a starting point to better understand how the Baby Boomers will be perceived as service providers by Generations X and Y. Will they be perceived as effective and efficient or discriminated against? Such perceptions may determine whether Baby Boomers will be accepted back into the workforce as service providers or if they will be discarded from service jobs because of the lack of tolerance from younger generations. We attempt to determine how younger generations perceive the elderly and if ageism plays a role in these perceptions. The findings of this study become especially important when you take into consideration the volume of Baby Boomers who are returning to the work force rather than stepping out of it, unlike the traditional elderly who have, most commonly, simply retired. How our generation X and Y consumers react to Baby Boomers as service providers will dramatically change the way in which companies hire, the way marketers strategize and formulate their marketing mix, the way consumers shop for their goods, and may even guide public policy and laws about age discrimination in the workplace.

Most recently, with an enormous upset in the world economy and more and more stories about fraudulent investors coming about in late 2008 through 2009, most Baby Boomers will have no choice other than to return to the workforce. A Newsweek article published January 26, 2009 claims that “by 2050 we'll have only two working-age Americans paying into the Social Security system for each individual collecting checks,” compared to the 16.5

workers to Social Security beneficiaries in the year 1950. This will make Social Security unreliable as a sole source of income for many people eligible for Social Security. The same article projects that people age 65 and older will comprise over 20% of our total population by the year 2050, compared to the less than 10% of total population this age group contributed in the year 1950. These numbers bring truth to the fact that there will be a greater portion of our population that are over the age of retirement and will more than likely not have the means to retire completely, forcing these individuals to return to the workforce, the next logical step is to examine how these individuals will be received as service providers by the younger generations that will make up the rest of our population.

RATIONALE FOR THE STUDY

Feagin and McKinney (2003) define discrimination as follows: "Discrimination can be defined as the actions arising from institutions and individuals that disproportionately and systematically harm members of socially marginalized groups." In other words, discrimination is a behavior that is influenced by the society one belongs to and by the experiences an individual has with any particular group of people; that behavior becomes a tool, a reference point, an influencer, and an inhibitor.

Discriminating a person based on age is considered Ageism. Ageism is no different than discrimination based on sex, race, or disabilities, although little has been done to educate people about the implications of age discrimination. Building on sociological conception of discrimination, several decades ago Robert Butler (1975) defined ageism as the "systematic stereotyping of and discrimination against older people because they are old, just as racism or sexism accomplished this with skin color and gender." Ageism can destroy productivity in the workplace and can have a negative "snowball effect" in the fight against age discrimination. Simple things that are ordinarily considered comical such as an "over the hill" birthday card, or even things not comical such as not giving someone a chance at the new computer training course being offered because you assume they wouldn't take on as quickly as the younger generations, all have very negative implications. In Europe, laws are being passed to proscribe acts of ageism with the European Union's Equal Treatment in Employment and Occupation Directive, which was enacted in December of 2003, and in the UK, anti-ageist legislation has been passed as recently as October of 2006.

The problem Ageism causes is the association of old age with incompetence, and making that association is no better than assuming that a woman couldn't work on a construction site, or an African American wouldn't be as educated as a Caucasian. Even reading the analogy of the woman and the African American probably makes you feel uncomfortable, because we've been conditioned to know that discrimination based on sex or race is wrong. Age discrimination is a more socially acceptable form of discrimination; it is just not considered as taboo as some of the other forms of discrimination we've been exposed to. Andreas Kruse and Eric Schmitt (2006) cites Butler and builds upon his notion of ageism by stating that: "Butler coined the term *ageism* to refer to a global phenomenon that had three distinguishable but inter-related prejudicial components: negative attitudes about older people; negative views about one's own old age and the ageing process; and 'age discrimination', including the institutional practices and policies that (even without malice) perpetuate stereotypical beliefs about older people." Kruse and Schmitt (2006) provide a multidimensional scale on ageism that displays psychometric properties that lend to generalization across empirical settings. The reason why this scale is so valuable is because it measures perceptions of old age from old age being extremely beneficial to society to being an extreme burden on society. It is also important to note that Ageism is not limited to old age and that age discrimination against younger generations also exists outside of legal constraints as pointed out by Marshall (2007). The research conducted in this paper, however, will remain focused on the Generation X and Y perceptions of the Baby Boomer Generation.

In many court cases of age discrimination we find that there is alleged discrimination, focused on old age, from an employer towards an employee. There are two lawsuits: Gallo v. Second Taxing District, City of Norwalk, 2007 WL 2428623 (D. Conn. 2007) and Berquist v. Washington Mutual Bank, 2007 WL 2460350, which are excellent examples of what constitutes age discrimination in the workplace. These two cases work remarkably well with one another because one provides an example of clear cut age discrimination and the other shows an example of what is not considered age discrimination. In the opinion of the courts, the word choice, the person from whom the words come from, and the time frame and setting of where the transaction of words occurs are the determining factors as to whether age discrimination has occurred or not. From the cases we learn that "old geezer" would

probably be considered a term that would constitute age discrimination but the term "senior employee" would not, for instance.

In both of those cases, the discrimination occurred because an employee felt their employment was terminated because of their age. In some other cases, Baby Boomers are finding it tough to find jobs in the first place. In an article published May 27, 2007 in the New York Times, Kelly Holland found that In 2006 the average person over age 55 looking for work took 22 weeks, a heavy increase from the 16 weeks it took the average person under age 55 to find work. Also in the same article, "a study by the Center for Retirement Research at Boston College, sampling employers in Massachusetts and Florida, found that younger workers were about 40 percent more likely to be called in for job interviews than were candidates 50 or older." This statistic would clearly indicate that there is a preference for younger workers. This problem, however, will only intensify as the number of workers age 55 and older in the USA is expected to increase by 11 million from 2004 to 2014!

SURVEY DESIGN AND DATA COLLECTION

The survey itself was designed with ease in mind. The survey is formatted in a way that was both easy to administer and attractive enough for respondents to be willing to participate in the survey. The internet was the mode of media used to design, host, and analyze the survey, the internet was also used to recruit the participants in our sample. Through the use of a survey hosting website, the nine multiple part question survey was sent via email and social networking websites to members of Generation X born between the years 1976 and 1990. After the survey questions, participants were asked to answer a few additional questions about themselves pertaining to age, race, level of education, gender, undergrad major, income level, and family size. These questions proved to be helpful in further dissecting the Generation X perspective of Baby Boomers as Service Providers and figuring out which demographics within the Generation X demographic responded favorably and unfavorably to a variety of situations involving people in the Baby Boomer Generation. Additionally, a better understanding of which Generation X members responded was attained.

SAMPLE PROFILE

The survey sampled people born between the years 1976-1990. Within that age demographic just over eighty five percent of respondents were born between 1986 and 1990 (86%), nine percent born between the years 1981-1985, and the remaining five percent between 1976 and 1980. Over half of the respondents' highest level of completed education was sophomore, junior, or senior year of college (56.2%). Seven and a half percent of respondents had completed Masters or PhD program and just over twelve percent had only completed a high school level of education; this gives the survey a healthy variety of level of education. Of those respondents still in college, thirty three percent are business majors, nearly twenty three percent major in natural sciences, just over twenty one percent are social science majors, just fewer than eighteen percent are humanities majors, and just about five percent are double majors. Eleven states are represented in this survey, but nearly ninety percent of respondents answered that they were originally from New York. A great majority of respondents were self-described Caucasian (92.4%) and fewer than 3 percent of the respondents answered that they belonged to any one of the following racial demographics: African American, Asian American, Native American, or Latino / Hispanic. Nearly three quarters of respondents report income levels of less than twenty thousand dollars annually.

FINDINGS AND DISCUSSION

For the purposes of this essay, question number four and five of the survey were chosen for analysis. Both questions contain a series of sub-questions pertaining to two different purchasing decisions, one with a high level of customer involvement and one with low customer involvement. The participants were asked to imagine themselves in a shopping situation where they were checking out at a grocery store and a situation where they were purchasing a new computer. The questions were designed to gain an understanding of the participants feeling about engaging in these two different purchasing decisions when the person providing the service is from the Baby Boomer Generation.

To gain a more accurate understanding of how people within Generation X perceive Baby Boomers as service providers, the research was cross-tabbed with various demographics related to race, age, level of education,

geographic origination, majors in college, and income level. The findings from this further analysis yielded interesting results. For example, within Generation X there is a pattern from respondents that shows people with high school educations feel more comfortable purchasing a computer from someone in the Baby Boomer generation than people with a Masters Degree or a PhD; the slope of these findings is linear, descending from high school education towards PhD. This may indicate that people with higher levels of education are more skeptical and particular about whom they purchase items with high customer involvement from. In general, however, participants from all education levels seemed to prefer buying a computer from someone in their own generation. On a purchase decision involving low involvement items, such as a grocery store purchase, participants from all education levels agree that they felt comfortable with someone from the baby boomer generation as their cash register attendant.

With regard to level of income, those respondents earning less than \$20,000 dollars a year report that they would somewhat prefer not to buy a computer from someone in their own generation, while those who earn more than \$100,000 dollars a year would more strongly agree that they would feel more comfortable purchasing a computer from someone in their generation. Income had slightly different results for the grocery store scenario; generally speaking, a majority of participants tended to prefer having someone in the grocery store checkout aisle of their own generation. This could possibly suggest that Generation X members feel more comfortable purchasing everyday items from employees they can relate to demographically, where as they would not mind a more formal interaction with a member of the Baby Boomer generation in the purchasing situation that involves high customer involvement, such as described in the computer purchasing situation. Conversely a little more than half of all respondents strongly agree that age had no effect on their purchase decisions in the grocery store scenario while more respondents seemed to feel that age did have an effect on a computer purchase decision.

Perhaps the most interesting results (as well as the most balanced) are those pertaining to gender. A majority of both male and female respondents report they would feel comfortable purchasing groceries from a member of the Baby Boomer generation, like they were being properly helped, and like they were receiving good service. A majority of both male and female respondents also report that they generally disagree about preferring to purchase groceries from someone within their own generation, they generally disagree that they would be hesitant to purchase groceries from someone in the Baby Boomer generation, and a majority of both males and females agree that age of the cash register attendant has no effect on their purchase decision. In opposition, when male and female participants were asked similar questions about purchasing a computer from a member of the Baby Boomer generation, males tended to feel less comfortable than females, and they tended to feel like they weren't getting the right computer. Both males and females said they would prefer to buy a computer from someone in their own generation but more males tended to feel this was than females.

CONCLUDING REMARKS **(-MAIN FINDINGS, -LIMITATIONS, -FUTURE RESEARCH)**

Participants in this study, overall, seemed to be relatively comfortable with the idea of purchasing their computers and groceries from members of the Baby Boomer generation. Within the sample, further analysis of specific demographics yielded interesting results, the most interesting and measurable of which were males and females. It appears that females tend to feel more comfortable with purchase decisions with higher involvement than males do. These finding could possibly be applied to other industries and further researched.

While the limitations of this survey bound the research to a sample which consisted mostly of Caucasian college students from the North East who earned less than \$20,000 dollars annually, our findings could very possibly be representative of a much larger Generation X sample.

This survey only began to scratch the surface of an area of market research that has many possibilities for further exploration. Our efforts to further understand exactly how members of Generation X are reacting to Baby Boomers as service providers are continuing. These preliminary findings are in no way conclusive, but rather are a beginning and are intended to act as a starting point and a motivator for further, broader research to be done.

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RFID TECHNOLOGY

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WHAT IS RFID TECHNOLOGY?

RFID, radio frequency identification tags are used in host of applications to track and identify products, animals and even humans. The tags transmit unique identifiers (8 – 12 bytes or characters) using radio waves. This technology contains two elements, the actual RFID tag and a reader to receive the signal.

Current applications using RFID technology include; proximity cards used for building access, automated toll-payment transponders (EZ-Pass), ignition keys of many millions of automobiles, American Express ExpressPay & MasterCard PayPass, and approximately fifty million house pets around the world have RFID tags implanted in their bodies to track them when lost.

There are two general types of RFID tags. The primary difference is how they are powered. Active RFID tags contain a battery that allows them to transmit the signal autonomously. In contrast, passive RFID tags, which do not have a battery, require the transmitter signal for power. The passive tags are less expensive to the active counterparts. Passive tags cost about twenty cents and active tags can cost upwards to \$2 - \$3 dollars per tag. While passive tags have a long life, they are also limited in the transmission range. Passive tags can transmit up to 12 inches in comparison to active tags, which can transmit up to 1km.

RFID BENEFITS

With RFID technology there is less human intervention. This technology allows for real-time information flow as an item changes states through the supply chain. RFID technology also allows for machine to machine communication and can prevent lost or stolen inventory.

RFID & DAIRY FARMS

Background information

Dairy farms began using computerized record management systems in the 1950's. They progressed and began using smart tags and sensors to manage dairy herds in the early 80's. Dairy farm operators are now using communications technologies such as wired Ethernet, Bluetooth, Wi-Fi, & RFID to improve their business efficiency. Since 1991 the number of dairy farms has declined, however the remaining farms are getting bigger. This has triggered an increase in reliance on IT systems, sensors and wireless technologies to support the growth of farms. With the help of new technology, milk output per cow has increased by 15% (U.S. Dept. of Agriculture).

Cow tagging

In 2007, 9% of dairy cows were tagged using RFID tags only costing between \$2-\$3. The major tag producer is Flex USA Inc. Several different types of tags are utilized for cow tagging. Ear tags are used to monitor when cows are entering the milking-parlor gate. Mobile wand readers are used by workers to read the RFID tag. Stomach tags are used to monitor heart rate, stomach PH, and body temperature. Rear leg tags allows a person to use a mobile scan wand and perform several tasks at the same time. For example, vaccinations (usually performed at the cow's rear) are performed more efficiently since a tag is located in the rear leg. Having more than one tag allows for

work that is more efficient for monitoring different aspects of dairy production.

An example of RFID implementation at a farm is Thomas Farms of Garland Maine Inc., that uses RFID technology to identify cows, to check food consumption and even as a pedometer. The pedometer can tell if cow is sick or is in heat. An overly active cow may be ready to breed. At Thomas Farms the VAS (Valley Agricultural Software) Dairy-Comp 305 management system is used to process the RFID tag information. This information system measures milk weight, identifies the cow and transfers this information to another computer system to match veterinary information. The system produces reports and to-do lists as output.

RFID roundup

RFID tags are also being used with handheld computers and scanning wands. The tags on the cow's ear are read and then the data, including the ID number is transmitted to the computer via Bluetooth wireless technology. The computer then checks the ID number against a work list and sends an audio message to a Bluetooth headset. This determines what the cow needs, for example vaccinations or pregnancy tests. Data is then uploaded into the dairy management system via a USB or Wi-Fi connection. This system improves accuracy and saves on labor costs.

Bovine biometrics

New technology is allowing dairy farm operators to monitor each cow's heart rate, PH levels and temperature in real-time. TenXsys Inc. is developing a temperature sensor called SmartBolos. This pill-shaped device sits harmlessly in a cow's first stomach and is battery operated, lasting about four years. It takes temperature readings and uses a transponder to transmit that data 96 times a day to a solar-powered repeater in the corral. This repeater relays the readings to a PC in the office and the data is integrated with a DHI dairy management program. Bella Health Systems is in the process of developing a similar device that uses a passive RFID tag. These tags log the cow's temperature when she passes by a reader gate in the pen or milking parlor. They can also detect a cow in heat and help with early detection of pregnancy or illness. Early detection of illness can reduce the time it takes a cow to recover and ultimately return to milk production.

Issues

Temperature sensors have not been proven to increase efficiency (Jim Reynolds, Clinician at School of Veterinary Medicine - University of California). Animal temperatures can fluctuate rapidly. Specifically, cows allow their temperatures to rise and fall with environmental conditions. The temperature in their stomachs also changes quickly when drinking. These new systems must allow for such variation in order to prevent false alarms.

Dairy farms could suffer from information overload. As dairy farms expand, they must add more sensors and systems to their farm. These additional sensors increase the amount of data produced and could overload the system. Creating lists of cows that might have problems based on biometric readings could be considered a distraction.

RFID & WAL-MART

How it all started

In 2003, RFID tagging was mandated for all suppliers by CIO Linda Dillman. RFID tagging started with the top 100 suppliers. The targeted suppliers had to tag all pallets and cases with RFID chips. As of 2007, 600 Suppliers are using RFID. This is $\frac{3}{4}$ of Wal-Mart's sales volume. Wal-Mart started out wanting to implement RFID in Distribution Centers and at the Store level. As of 2007, Wal-Mart wanted 12 out of 120 distribution centers to be RFID equipped but only 5 have been setup for RFID. As of 2007, 1,000 out of 4,000 stores are equipped with RFID technology. Focus has switched from the distribution centers to the store level.

Purpose of using RFID technology for Wal-Mart:

Manage inventory

If pallets and cases are tagged with RFID chips they are detected by a tag reader antenna when entering the store or distribution center. The information that the tag reader picks up is sent to a computer and is entered into inventory management software. When purchases are made, the RFID tag will be scanned and the inventory system will deduct the item from the inventory count. This alone has reduced out-of-stocks by 8% and has allowed Wal-Mart to resupply 3 times as quickly. This type of management of inventory shows perpetual inventory improving by 20%.

Collaboration between suppliers and Wal-Mart

Promotional offers; Helps with product placement in the actual store (End-cap displays). Makes sure promotional items are in-stock without sending a sales manager to check each store. Suppliers can spend time doing more value-added activities instead of "babysitting" the store (Webster 36).

Helps suppliers manage time sensitive merchandise; Helps manufacturers work with retailers to put certain products in special locations. An example of this is, Procter and Gamble can collaborate with Wal-Mart to stock and place batteries around Christmas or cleaning supplies in the Spring in locations that are most likely to get customers to purchase them.

Benefits to Wal-Mart:

Through efficiencies gained by using RFID technology, Wal-Mart enjoys increases in revenue, and more products on shelves to sell. Wal-Mart has also experienced faster and more efficient inventory management. The technology eliminates a lot of manual procedures, such as counting inventory. With the implementation of RFID technology Wal-Mart has noticed better communication with suppliers. They have been able to offer better promotions and more effective placement of products in the store.

Another benefit Wal-Mart has experienced is lower out-of-stock merchandise levels. This has directly translated into a growth in sales as their customers are not being forced to go elsewhere to find their desired product because out-of-stock items.

Benefits to Wal-Mart suppliers

Wal-Mart Suppliers have also enjoyed an increase in revenues; RFID technology has aided in communication between them and Wal-Mart. By using RFID technology suppliers maintain a current view of what their product status is in all Wal-Mart stores and distribution centers.

Challenges

While RFID technology offers numerous advantages it is not without challenges. The price of implementing a RFID system can be prohibitive for some suppliers. When RFID tags were first mandated they cost about \$1.25 each. The cost is currently about 7 – 10 cents each. It is argued that "RFID won't really make financial sense for suppliers until the cost of tags drops to 2 cents" (Webster 36). The price of the reader/antennas is currently about \$1000 each. Big companies like Wal-Mart and many of their suppliers require thousands of readers for all their factories, warehouses, and retail stores.

There were no real standards for using RFID technology when it first developed. This meant that there was no assurance that tags and data readers would work together. Since Wal-Mart was on the bleeding edge of RFID technology they helped to create standards.

Another problem is that the accuracy of data collected was only about 60%. The RFID readers were having difficulty picking up the RFID chip when dealing with glass, liquid, or metallic materials. The current accuracy is now at 90% to 99% levels.

RFID & Wal-Mart: The future

Wal-Mart has seen itself on the bleeding edge on the exciting new RFID technology. However, it may have been too hasty to mandate that all of its suppliers to tag pallets and cases with RFID chips. The cost for smaller companies to get the necessary equipment to follow this mandate is \$100,000 - \$300,000, and the cost to a large-scale manufacturer can be as high as \$20 million.

Even though out-of-stocks have decreased by 8% and inventory reliability has improved by 20%, the simple truth is that RFID tags are too expensive for many suppliers. First generation chips were \$1.25; today second generation chips are 7 to 10 cents. However, RFID won't make pure economic sense until the cost of tags drops to 2 cents.

Wal-Mart has recently been reluctant to talk about its RFID project. Some think this is because the RFID revolution is more costly and difficult to implement than before. Another possibility is the penetration of other competitors in the market; Wal-Mart wants to keep competitive advantages secret. This is the more likely scenario, as Wal-Mart is probably keeping its secrets very close to the vest. Regardless, RFID technology is more effective than the old standard of bar codes, but the price of the RFID tags has to be deemed economically feasible by suppliers before it becomes the standard.

Wal-Mart is attempting to extend RFID technology internationally. They are starting in Canada, because their RFID standards are similar to ours. If this initiative is successful, they will extend further into the global market. Wal-Mart is no longer the center of the RFID universe - rather it is now a competitor. With no longer a link to Wal-Mart, RFID now has the potential to grow exponentially (http://www.scdigest.com/assets/On_Target/08-09-15-1.php?cid=1924&ctype=content). Once return on investment improves (i.e. the technology, so costs are less), we can expect to see a flourishing of RFID activity within many small and large-scale consumer staples. (http://www.scdigest.com/assets/On_Target/08-09-15-1.php?cid=1924&ctype=content).

COLLABORATIVE RESEARCH PRESENTED IN CSIS-114

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COMPUTER MEDIATED COMMUNICATIONS (CMC)

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INTRODUCTION

A new trend among businesses and educators, worldwide, is the increasing use of computer mediated communications to accomplish tasks and reach objectives. Computer mediated communications (CMC) can be defined as a “communicative transaction” which takes place through the use of networked, or linked, computers. There are two modes of CMC use, synchronous and asynchronous. Synchronous means that all the participants are online simultaneously, whereas asynchronous refers to a mode of CMC where they are not online at the same time. Examples of synchronous CMC tools include chat rooms, webinars and video conferences. Blogs, email, and discussion boards are examples of how to communicate using asynchronous CMC tools.

Increased availability of the internet, along with globalization, has driven CMC growth over the years, especially in the commerce and academic industries. There are many advantages to using these tools; one of the most obvious is that they allow participants time and place independence. This means that in order to collaborate with others using CMC tools, people are not required to be physically together, instead residing at individual locations. Further, in the case of asynchronous tools, participants do not have to be communicating at the same time. Time and place independence provides users with more freedom and cost savings. Before these tools were available people were required to travel long distances or spend large sums of money attempting to bridge location and time differences (Good Practice 2008).

Specific to academic use, CMC is increasingly being used for distance learning, or online classes. It provides students with the opportunity to attend classes and events online. It is also, typically, less expensive of an approach and does not restrict attendance based on location. Many distance learning programs, which utilize CMC tools, are finding that students are capable of receiving the same level of education and learning via a computer as they can by attending a class. Students are able to learn the true meaning and benefits of collaboration. Without being near each other, participants are able to set goals, monitor those goals, share ideas and documents, make decisions and take accountability for their work (La Bonte 1999). Through CMC, students are able to collaborate at a distance, forcing them to embrace the technology and work together.

Continued growth and expansion of computer mediated communications is inevitable as many businesses and academic institutes are adopting the technology to make improvements to their internal and external operational processes. Globalization and increasing travel costs due to fuel and economic conditions will continue to drive the expansion of computer mediated communications. Computer mediated communications can provide access to new ideas and collaborative sessions to anyone, anywhere. Its benefits far surpass traditional methods of communication and collaboration, which included a flurry of emails, scheduling appointments on paper with time and place restrictions. The organized and structured CMC applications and tools are providing people with a more efficient way of communicating.

SKYPE

Skype is a free software application that allows users to communicate with anyone in the world. It was founded in 2003 by Niklas Zennstrom and Janus Friis and has offices around the world, including Sweden, UK and Europe. Skype was sold to EBay in 2005 for \$2.6 billion but operations have continued under the same mission and strategy. Skype can be used for:

- Chatting using text messaging (group and public)
- One-on-one chat sessions
- Video communication sessions
- Public: Choose a topic, set rules, promote chat

Skype calls are free when made to another Skype member. Users are identified through names instead of numbers and talk through a headset and microphone attached to computer. When a webcam is set up Skype calls can also include video chatting. Skype enables PC-to-PC Calling and VOIP (Voice Over Internet Protocol) Technology.

Although Skype is free, the company generates revenues through local and international calls to landlines and cell phones. Skype calls are encrypted with strong encryption algorithms to ensure privacy. Currently there are over 338 million registered users, with a growth rate of 54% since July of 2007. 75% of Skype users are male. Skype users are encouraged to practice web etiquette at all times when using the program (Skype 2009). Skype users are restricted from:

- Using vulgar, profane, or offensive language
- Post or request sexually explicit images
- Exploit a minor in any way
- Use racially, religiously, or sexually offensive language
- Discuss illegal activity
- Impersonate or represent Skype
- Request personal info from a minor

Some of Skype's most recent developments include:

- Introducing Subscriptions
 - Launched in July of 2008, this service allows people to pay a monthly fee and get unlimited calling to landlines in their home country or worldwide
- Skype On Your Mobile
 - Since September 2008, Skype can be downloaded onto many existing Motorola, Nokia, or Samsung devices
- Skype on PSP (Playstation Portable)
 - Downloadable from Sony.com, this allows you to call and take calls in Wi-Fi supported areas
- 3 SkypePhone
 - Enables users to make free unlimited calls to any Skype User; functions as a normal phone

ELLUMINATE, INC.

"Where Bright Ideas Meet"

Elluminate's CMC tools provide a solution for distance learning via real-time online learning and collaboration. The company was founded in 2000 by Mike Mabey and Nashir Samanani. The headquarters are located in Calgary, Canada and Fort Lauderdale, Florida. Elluminate provides elearning and web collaborations for academic and corporate markets.

Elluminate technology incorporates a "No User Left Behind" Philosophy which is completely cross platform means it can be accessed from any desk or lap top computer and it operates at low bandwidth.

Elluminate MvSpaces' permit users to host a virtual classroom or office, hold virtual office hours and collaborate in small teams. Elluminate can be accessed free for a MvSpace seating three people at maximum (Synchronous 2008).

Elluminate works to ensure that users with disabilities are able to fully participate in sessions. This includes having:

- Keyboard access to menus
- Multiple streams of closed captioning
- Enlarged Video
- User defined color
- Screen reader compatibility
- Audio notification of events
- Capture and replay

Elluminate "Learning - Edge" Products:

1. Elluminate Live!

- Host live collaborations involving many participants and the use of multimedia

2. Elluminate Plan!

- Organize and practice delivering content and activities prior to real-time sessions
- Allows users to set "triggers" for actions before a session including, such as advancing slides or loading materials.

3. Elluminate Publish!

- The ability to take Elluminate Live! recordings on the go via an iPod or MP3 player
- Includes a function that creates stand alone recordings that need to be posted at a later time
- High definition video podcasts will enable users to convert sessions to video

4. Intelligent Integration!

- Elluminate can be integrated with a learning or content management systems
- Software development kit for customers and partners to integrate Elluminate in with their existing LMS or CMS
- Kits include "Application Programming Interfaces" (APIs) and specifications which permit users to develop an adapter to link to Elluminate

Elluminate Professional Services

1. Elluminate Essentials

- Includes implementation solutions and support, technical consulting and product training

2. Elluminate Training:

- Users can sign up for live training sessions or watch previously recorded ones for free
- For a fee, users can sign up for private sessions and customized courses

3. Custom Implementation

- Includes content conversions, content development, report writing, and integration (Elluminate SDK Architect)

4. Event Hosting:

- Hold online events such as sessions, conferences, or a combination of both
- Expert assistance in training presenters, conducting practice sessions, providing feedback and tips
- Technical support throughout entire process and for all users
- Creates the sessions, attendee registration, email reminders, and instructions for all participants
- Can generate reports on participant attendance and length of stay

5. Technical Support:

- Self-help portal and searchable knowledge base
- Incident reporting and monitoring
- Call center management

Illuminate - Fire & Ice Initiative

The Illuminate Fire and Ice initiative is a series of interactive exchanges between students in various countries around the world. The primary objective is inspiring students worldwide to embrace technology and work together to "combat climate change in their local areas". Offering "classrooms in a box" at affordable prices, Illuminate markets their products to developing nations in an effort to make a difference (Synchronous 2008).

TELEPRESENCE

Telepresence is a set of technologies that gives one the experience of being present; an immersive video communications experience that allows you to meet with remote participants as if you're sitting in the same room. Telepresence allows people to use technology to meet across distances with the same realism and interaction as an in-person meeting. Users feel as if they are literally across the table from one another and people appear life-size with excellent picture quality and detail. It requires that the senses of the user, or users, are provided with such stimuli as to provide the feeling of being in another, distant location. The user(s) may be given the ability to affect the remote location. The user's position, movements, actions, voice, etc. may be sensed, transmitted, and duplicated in the remote location to bring about this effect. Therefore information may be travelling in both directions between the user and the remote location.

The Ontario Telepresence Project, started in 1990, was headquartered at the University of Toronto and was a 3 year, \$4.8 million, pre-competitive research project. The project's objective was to design and test advanced media space systems in a variety of workplaces. This was done in an effort to gain insights into key sociological and engineering issues. The Ontario Telepresence Project ended in December 1994 and was part of the International Telepresence Project, linking Ontario researchers to counterparts in 4 European nations. The Project's major sponsor was the Province of Ontario, through the Information Technology Research Centre (ITRC), and the Telecommunications Research Institute of Ontario (TRIO).

Teleport, later renamed TeleSuite, was the first commercially successful telepresence company. TeleSuite was founded in 1993 by David Allen and Harold Williams. The original intent was to develop a system that could allow families to interact across great distances without the hassle or costliness of flying. The first systems (TeleSuites) looked more like something out of an upper class home rather than conference rooms in an office suite, which are what most systems are used for today. Hilton Hotels was suppose to be the first main company using telepresence in its hotels, but because usage was low Hilton backed out. Shareholders eventually acquired controlling shares of stock and were able to take over the company. David Allen purchased all of the assets of TeleSuite and started a new company, Destiny Conferencing. The idea of telepresence did not take off until mega-corporations like HP and Cisco released similar systems around the mid 2000's

Telepresence Features

1. **Vision** - Ideally, the entire field of view of the user is filled with a view of the remote location, and the viewpoint corresponds to the movement and orientation of the user's head. In this way, it differs from television or cinema, where the viewpoint is out of the control of the viewer.
2. **Sound** - Sound is generally the easiest sensation to implement with high fidelity, with the telephone dating back more than 100 years, and very high-fidelity sound equipment readily available as consumer gear. Stereophonic sound is more convincing than monaural sound, and surround sound is better still.
3. **Manipulation** - The ability to manipulate a remote object or environment is an important aspect of real telepresence systems, and can be implemented in large number of ways depending on the needs of the user.

Telepresence Teleconferencing

Using a multiway video phone it is now possible to teleconference and have a face-face meeting rather than traveling great distances. A good telepresence strategy puts the human factors first, focusing on visual collaboration solutions that closely replicate the brain's innate preferences for interpersonal communications, separating from the unnatural "talking heads" experience of traditional videoconferencing. This is already a well-established technology, used by many businesses today.

Teleconferencing involves:

- Life-size participants, fluid motion, accurate flesh tones and the appearance of true eye contact.
- Each member of the meeting, or each party, can see every other member on a screen or screens, and can talk to them as if they were in the same room.
- Enormous time and cost benefits, as well as a reduced impact on the environment by lessening the need for travel - a damaging source of carbon emissions.

Telepresence Users

The chief executive officer of Cisco Systems, John Chambers, compared telepresence to teleporting from Star Trek in June 2006 at the Networkers Conference. He saw the technology as a potential billion dollar market for Cisco.

Michael Venditte, Vice President of Engineering of Teleris defines Telepresence as a human experience of being fully present at a live real world location remote from one's own physical location. Someone experiencing video Telepresence would therefore be able to behave, and receive stimuli, as though part of a meeting at the remote site. The fore mentioned would result in interactive participation of group activities that will bring benefits to a wide range of users. Application examples could be sited within emergency management and security services, B&I, entertainment and education industries.

Telepresence Benefits

- Reduced travel cost
- Education advantages
- Reduced carbon footprint
- Increased satisfaction with employee workload
- Increased productivity
- Reduced time wasted on travel and lodging

ELECTRONIC WHITEBOARDS

An electronic whiteboard is a large interactive display that connects to a computer and projector. The projector projects the computer's desktop onto the board's surface, which allows the user to control the computer by using a pen, finger, or other devices. Typically, the board is mounted to a wall or on a floor stand. Electronic whiteboards are most commonly found in classrooms, corporate board rooms and work rooms, training rooms and broadcasting studios.

Accessories Used with Electronic Whiteboards include

- Projectors
- Wireless Unit
- Slate/Tablet
- Remote Control
- Personal Response System
- Printer

Electronic Whiteboard Technologies

1. *Optical and Infrared* — when pressed to the whiteboard surface, the finger or marker sees the infrared light. The software then manipulates the information to triangulate the location of the marker or stylus. This technology allows the whiteboards to be made of any material; with this system no dry-erase marker or stylus is needed.
2. *Laser* — an infrared laser is located in each upper corner of the whiteboard. The laser beam sweeps across the whiteboard surface by using a rotating mirror. Reflectors on the stylus or marker reflect the laser beam back to the source and the (X, Y) position can be triangulated. This technology may be combined with a hard surface, which has long life and erases cleanly. Markers and styli are passive, but must have reflective tape to work.
3. *Digital Pens* — the embedded IR-cameras of the pen can track a tiny dot-pattern which can be printed on a large piece of paper (or on a special rear-projection foil). This technology allows a highly accurate tracking with approximately 600 dpi. The tracking results are independent from the shape and from the size.

Advantages of Electronic Whiteboards

- Easy to use
- Interactive, accommodates with all ages
- Students tend to be more engaged in class

Disadvantages of the Electronic Whiteboards

- Too many wires to connect to computer
- PC friendly, not MAC friendly
- Long setup time
- Some problems with recalibration

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STATE OBESITY RATES: AN ECONOMIC EXPLANATION

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ABSTRACT

Obesity is an issue of increasing importance within the United States, as it has serious health, social, and economic implications. This empirical paper attempts to explain the variations per state in obesity rates, with a focus on economic indicators. Not only does it look at different health issues associated with obesity but also attempts to determine the relationship between obesity and economic factors. Using the method of Ordinary Least Squares, the relationship between state obesity rates and five quantitative variables is tested. These variables are: exercise, smoking, nutrition, income, and annual per person spend on fast food. The model also contains qualitative variables to explain state location. Dummy variables were set up for the 8 different regions in the United States: New England, Mid-East, Great Lake, Plains, South East, South West, Rocky Mountain, Far West. Analysis concluded that the variables exercise; spend per person on fast food, Great Lakes, Plains, South West, Rocky Mountain, and Far West. Smoking, nutrition, income, Mid-East, and South East were found to be significant in explaining state obesity rates. The overall model explains 71.9% of the variation in obesity amongst states.

INTRODUCTION

Obesity is an issue of increasing importance within the United States, as it has serious health, social, and economic implications. As stated in a report by the United States Department of Agriculture (2004), since the mid-1970s obesity has been a rapidly growing trend and today, nearly two out of three adults are either overweight or obese. While it is widely understood that the cause of obesity is a result of one's own choices, the purpose of this paper is to determine if economic factors impact a person's decision making process, leading them towards a life of obesity. As stated in the at the Economics of Obesity Workshop, "...economics, as a discipline that studies how individuals use limited resources to attain alternative ends, can provide unique insight into the actions and forces that cause individuals to gain excessive weight" (U.S. Department of Agriculture, 2004).

One of the leading forces in increased weight gain has been technology. Not only have there been innovations in the growth and production of food, technology has also created an increasingly sedentary lifestyle. People no longer have to exert the effort they once did to complete simple tasks. Eric Finkelstein, author of *The Fattening of America* in an interview with the New York Times (2008), gave an example from her own life, "I recently had an inexpensive printer installed in my office. So now I don't even have to walk the 100 steps to the community printer down the hall a few times a day." This loss of exercise coupled with cheap high caloric prepared foods are at the heart of the United States obesity problem. The model of this paper will test the significance between exercise and obesity, believing the relationship between the two to be inversely related. To test the theory of technological advances on the production of high fat, cheap, and quick food, the model will also look at the relationship linking obesity to per capita spend in fast food restaurants per state. It is the hypothesis of this paper that the relationship will be positively correlated, meaning: the higher the per capita fast food spend, the more obese people living in the state.

Smoking has often been considered an appetite suppressant, and is assumed to have an inverse effect on obesity, as smoking can be a substitute for eating. Nicotine, as tested in 2004 by Jessen, Bueman, Toubro, Skovgaard, and Astrup, is found to be negatively associated with hunger and potential food consumption and positively associated with fullness (p. 327). In a study by Cho, Grossman, and Saffer in 2004, it was discovered that as the real price of cigarettes goes up (therefore causing their quantity demanded go down) obesity increases significantly (p. 565). With increased taxes and new laws prohibiting the smoking of cigarettes indoors it is likely that because people are smoking less they are eating more. This model will also test for the relationship between a states number of smokers and obesity, believing the more smokers the less obesity.

Furthermore, the model will take into account how nutritious a person's diet is. This will be measure by the fruit and vegetable consumption per state. It is the hypothesis of this paper that obesity will be negatively related to the amount of healthy food a person is consuming. Also, since produce is more expensive than highly processed, fattening, foods, the model will look at state median per capita income. Someone who has limited funds is more likely to purchase cheaper foods that are more filling. Unfortunately, these cheaper mass-produced substitutes lack the vitamins and minerals contained in fruits and vegetables. In a study conducted by Gelbach, Klick, and Stratmann (2007) the effect of changes in relative food prices on individual behavior are analyzed. The results show that the change in price of healthy foods and unhealthy foods is directly related to the rise in obesity in the United States (p. 1). It is hypothesized that the relationship between income and obesity will be a negative one. People with higher incomes have the means to purchase food that is high in nutrients. It is under this assumption that because people have the incomes to buy healthy food they will be less obese.

Lastly, the regression model will look at the different U.S. regions. Using dummy variables, the United States will be divided into 8 areas to compare obesity rates by area. The reference region for this study will be New England. The reason for choosing New England is due to its recent success in a CalorieLab study, entitled *Mississippi is the Fattest State* (2008), showing it to be the healthiest place in which to live in the U.S.

REGRESSION MODEL AND HYPOTHESIS

$$\text{Obesity Rate} = \beta_1 + \beta_2 \text{Exercise} + \beta_3 \text{FastFood} + \beta_4 \text{Smoker} + \beta_5 \text{Nutrition} + \beta_6 \text{Income} + D_1 \text{MidEast} + D_2 \text{GreatLakes} + D_3 \text{Plains} + D_4 \text{SouthEast} + D_5 \text{SouthWest} + D_6 \text{RockyMountains} + D_7 \text{FarWest} + \mu_i$$

Variable	Definition	Hypothesized Slope	Source
Obesity Rate	% of adults per state with a Body Mass Index of 30kg/m ² or higher 2007	-	Center for Disease Control and Prevention, Behavioral Risk Factor Surveillance System Survey Data
Exercise	% of Adults per state participating in moderate physical activity five or more days per week, or vigorous physical activity for 20+ minutes three or more days per week 2007	Negative	Center for Disease Control and Prevention, Behavioral Risk Factor Surveillance System Survey Data
Fast Food	Per capita adult spend on fast food per state. 2002 data adjust for 2007 prices.	Positive	Economic Census population data and limited-service eating place data found in Geographic Area Series
Smoker	% of adults per state that smoke cigarettes everyday 2007	Negative	Center for Disease Control and Prevention, Behavioral Risk Factor Surveillance System Survey Data
Nutrition	% adults per state eating fruits and vegetables 5 or more times a day 2007.	Negative	Center for Disease Control and Prevention, Behavioral Risk Factor Surveillance System Survey Data
Income	Per capita median income per state. 2 year average 2006-2007	Negative	U.S. Census Bureau- People and Households Income Status by State
Mid-East	Dummy Variable for U.S. region. Delaware, Maryland, New Jersey, New York, Pennsylvania	Unsure	-
Great Lakes	Dummy Variable for U.S. region. Illinois, Indiana, Michigan, Ohio,	Unsure	-

	Wisconsin		
Plains	Dummy Variable for U.S. region. Iowa, Kansas, Minnesota, Missouri, Nebraska, North Dakota, South Dakota	Unsure	-
South East	Dummy Variable for U.S. region. Alabama, Arkansas, Florida, Georgia, Kentucky, Louisiana, Mississippi, North Carolina, South Carolina, Tennessee, Virginia, West Virginia	Unsure	-
South West	Dummy Variable for U.S. region. Arizona, New Mexico, Oklahoma, Texas	Unsure	-
Rocky Mountain	Dummy Variable for U.S. region. Colorado, Idaho, Montana, Utah, Wyoming	Unsure	-
Far West	Dummy Variable for U.S. region. Alaska, California, Nevada, Oregon, Washington	Unsure	-

Regression

A.) This model observes all the assumptions and rules of the OLS Method.

B.) Obesity Rate per State is the dependent variable in the model and was regressed on the independent variables.

MODEL SUMMARY AND OVERALL FIT

Table 1: Descriptive Statistics

	Obesity	Exercise	Fast Food	Smokers	Nutrition	Income
Mean	26.31	49.884	494.954	14.982	23.714	37172.56
Standard Error	0.406	0.691	21.111	0.421	0.497	780.161
Median	26.3	49.2	532.864	14.55	24.3	35566.5
Mode	28.2	48.9	#N/A	15.1	28.5	#N/A
Standard Deviation	2.868	4.887	149.279	2.977	3.517	5516.573
Sample Variance	8.223	23.882	22284.339	8.860	12.369	30432577.11
Kurtosis	-0.274	0.154	4.330	0.867	-1.048	0.884
Skewness	-0.235	-0.206	-1.882	0.516	-0.139	0.974
Range	13.3	22.2	804.670	15.2	13.7	25272
Minimum	19.3	38.6	0	8.3	16.3	28845
Maximum	32.6	60.8	804.670	23.5	30	54117
Count	50	50	50	50	50	50

Model	Multiple R	R Squared	Adjusted R Squared	Standard Error of the Estimates	Significance F
1	0.887704	0.788019	0.719269	1.5194	4.24583E-09

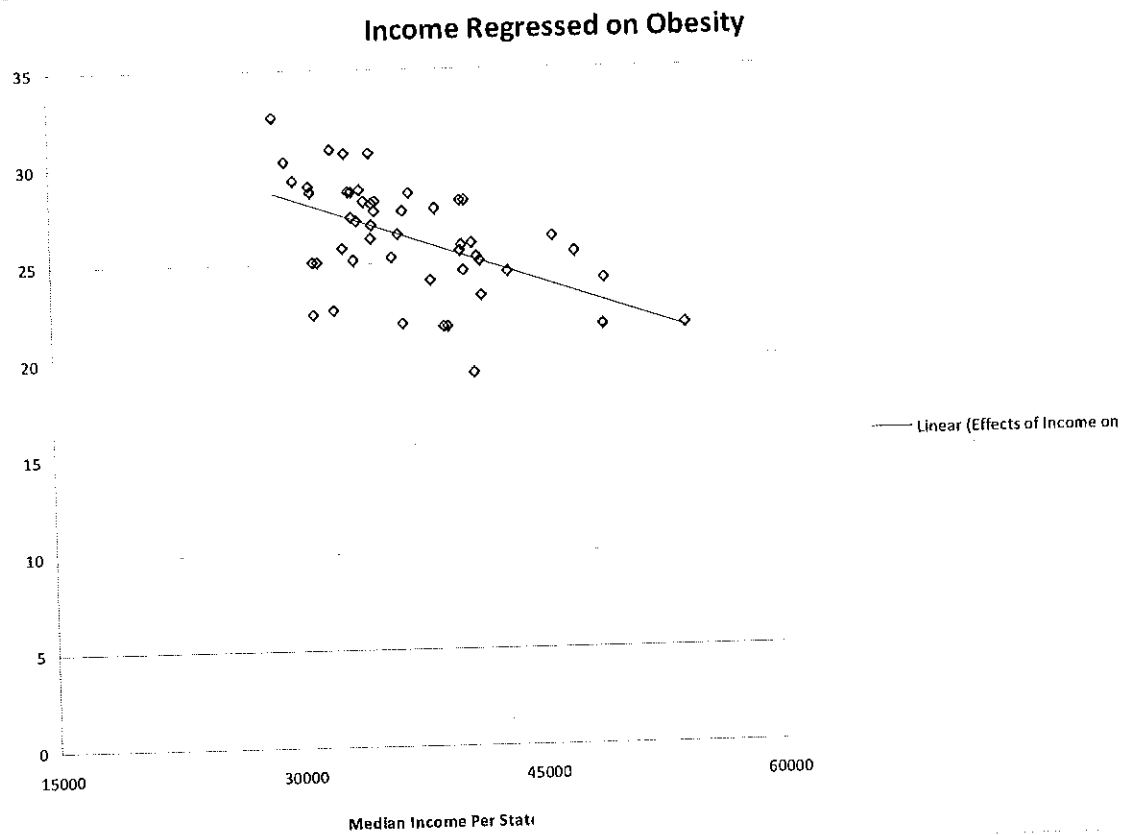
The overall goodness of fit for this model is 71.9%.

Table 2: Results

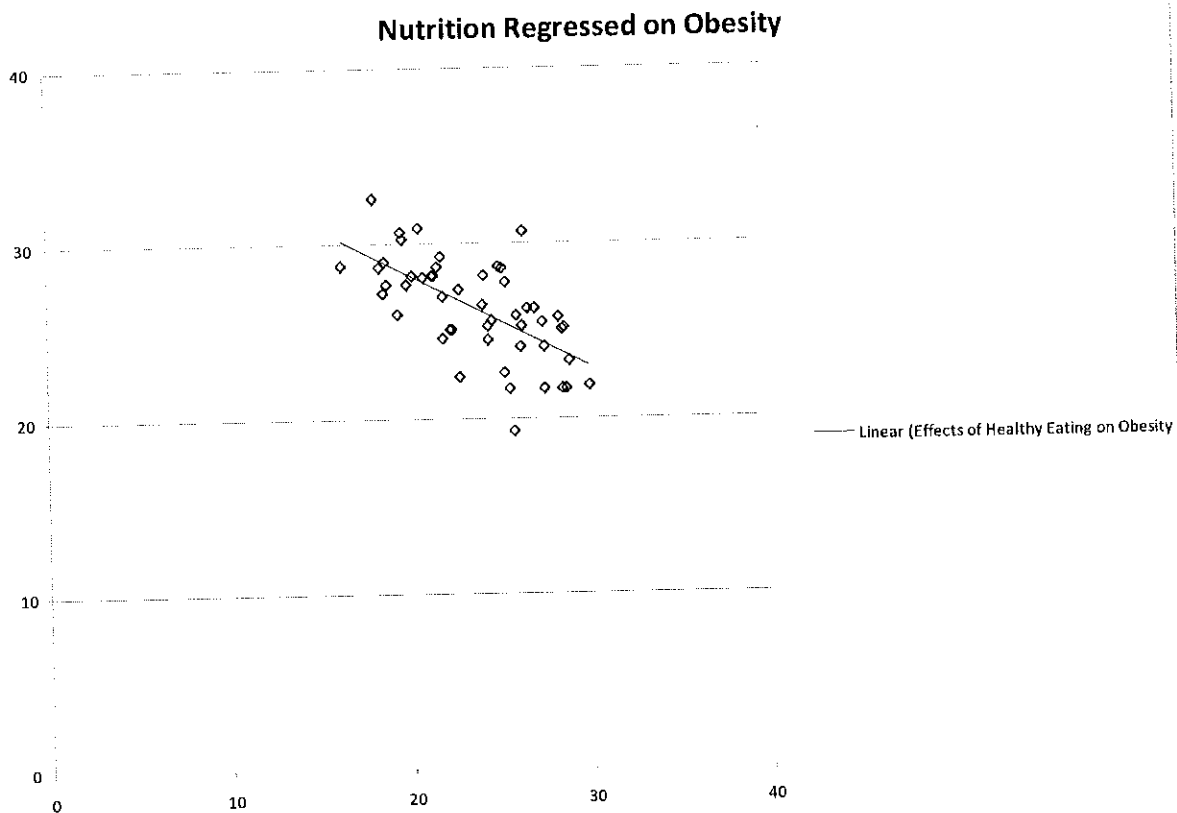
	Coefficients	Standard Error	t Stat	P-value
Intercept	33.67	6.05	5.56	2.48E-06
Exercise	-0.05	0.08	-0.71	0.48
FastFood	2.90-05	0.0017	0.017	0.99
Smokers	0.23	0.10	2.30	0.027
Nutrition	-0.18	0.11	-1.70	0.098
Income	-0.00013	6.06E-05	-2.22	0.033
Mid-East	3.05	1.019	2.99	0.0049
GreatLakes	1.40	1.09	1.29	0.21
Plains	1.46	1.13	1.29	0.20
SouthEast	2.26	1.21	1.89	0.068
SouthWest	1.52	1.19	1.29	0.21
RockyMnts	-1.62	1.12	-1.45	0.16
FarWest	1.41	0.92	1.52	0.14

The regression results show that the variables Smokers, Nutrition, Income, Mid-East, and SouthEast are significant based on their P-value and a 90% confidence interval. This means we can reject the null. These five variables have an impact on the obesity rate.

Partial Regression Graphs



This graph shows the relationship between Income per capita and Obesity. The two have an inverse relationship as hypothesized.



This graph shows the relationship between nutrition and obesity rates. The more people per state that consume the appropriate amount of fruits and vegetables a day, the lower the state obesity rate.

ANALYSIS

Overall, the model explains 71.8% of the variation in the obesity rate per state, which is significant. The variables: Smokers, Nutrition, Income, Mid-East, and SouthEast are significant in explaining the obesity variation by state, since they all have p-values smaller than 0.1. But in most cases the effect these variables have on the obesity rate is very small. The values predicted to have significance that proved insignificant after further analysis were: Exercise, Fast Food, Great Lakes, Plains, South West, Rocky Mountain, Far West. I feel their lack of significance can be explained by lack of available data.

It is no surprise that consuming fruits and vegetables has a significant effect on obesity rates. Someone who is making the conscious choice to eat healthy is most likely not going to be obese. Nutrition has a coefficient of $-.181$. This means for every one more person in a state eating 5 of ore fruits and vegetables a day, the obesity rate in that state will decrease by $-.181$. As hypothesized the relationship was negative. Along with this, median income per capita was also significant. As hypothesized it has a negative relationship with obesity rates per state. Its coefficient was -0.0001346 .

Smoking on the other hand, while significant, did not affect obesity rates in the way originally hypothesized. The coefficient for smoking was $.236$. This shows a positive relationship between those who smoke and those who are obese. This may have something to do with a state's overall mindset, perhaps, people in a state that like to consume fattier foods are also not concerned about the risks associated with smoking.

It was surprising that the fast food variable proved to be insignificant. With a p-value of 0.987, the null is not rejected at a 90% confidence interval. The data for this estimator was not as accurate as hoped.¹

The dummy variables were also interesting. The Mid-East and the South East seem to be much less healthy regions to live in than New England. Living in the Mid-East increases obesity rates 3.048 and in the South East by 2.26.

TESTS FOR VIOLATION OF ASSUMPTIONS

- A.) Ramsey and BP test performed in STATA
- B.) Residuals were graphed in Excel

Ramsey Reset Test

Null: model has no omitted variables
Prob > F = 0.7359

Since the null hypothesis is not rejected at a 90% confidence level, the model passes the Ramsey Test. This means no variables have been left out of the model, it is unbiased.

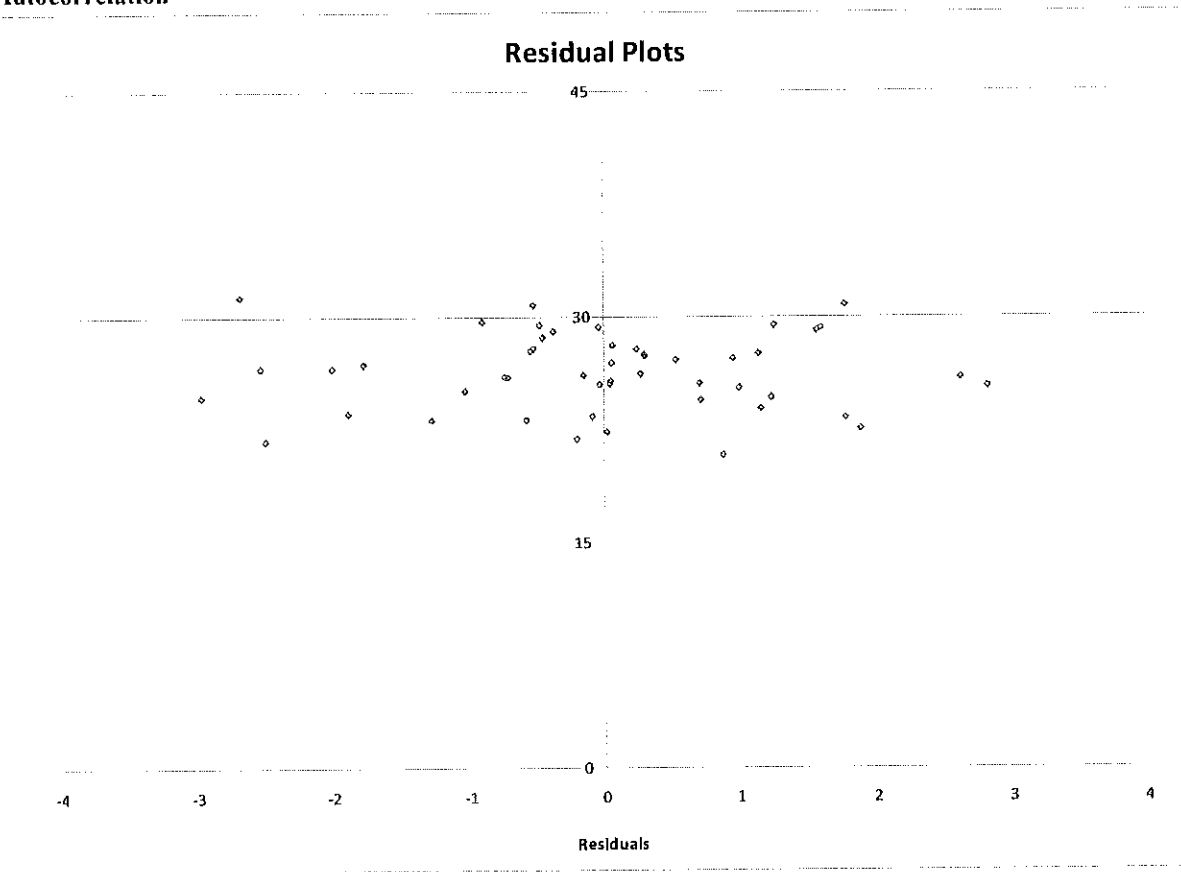
Breusch-Pagan / Cook-Weisberg Test for Heteroskedasticity

Null: Constant variance
Prob > chi2 = 0.6438

The null hypothesis is not rejected. This means the estimators are BLUE. The test proves homoscedasticity and that the estimators are efficient.

¹ 2007 Economic Census data will not be available until 2009. This forced the use of 2002 numbers.
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April 17, 2009

Autocorrelation



There is no pattern to the plotted residuals proving there is no autocorrelation in the model. This was to be expected as the model was cross-sectional not time series.

CONCLUSION

In conclusion, of the variables that proved to be significant, not all had the relationship with the dependent variable originally hypothesized. The model explained 71.9% of the obesity rate per state but the impacts of these effects were not large. The significant variables in this model are: Smokers, Nutrition, Income, Dummy Mid-East, and Dummy South East. The insignificant variables are: Exercise, Fast Food, Dummy Great Lakes, Dummy Plains, Dummy South West, Dummy Rocky Mountains, Dummy Far West.

If given the opportunity to run the regression again the same variables would be used but different data explaining them. Exercise should have an impact on obesity rates. Given the small amount of information available on this variable the numbers used to estimate state exercise rates may not be the most accurate or best valuation of how many and how much people are exercising. Also, there are variables that are hard to quantify that would most likely have a large impact on obesity. Family member weights could indicate a lack concern on a person's part towards health and obesity. These behavioral estimators can be hard to measure but would probably show to be important in explaining obesity rates. As this was a cross-sectional model, it would be interesting to run another test using time series data.

Lastly, the United States' increasing obesity rates is not a problem to be ignored. With causes like low incomes and effects like increased health costs to the population, obesity and its spread is decreasing the overall well being of the country.

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ENTREPRENEURIAL INTENTIONS

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ABSTRACT

The idea of owning your own small-business is very appealing to some people, however the measure of feasibility and practicality often differs among these individuals. Some believe that although it may be feasible, it would not be a practical decision based on other influences. Entrepreneurship is an interesting idea in that it is often associated strictly with the risk-taking abilities of an individual. Various studies in the past have looked into other explanations, such as trait-theory based hypothesis, motivation-theory based hypothesis, and more recently intention-based theories.

Intention-based testing has been conducted within the last decade in hopes of explaining entrepreneurial activity among individuals. It is argued that "intentions have proven to be the best predictor of planned behavior, particularly when that behavior is rare, hard to observe, or involves unpredictable time lags" (Carsrud et al. 2000). The creation of a new business takes both time and detailed planning, resulting in a behavior which intention-models often explain. Studies have tested their hypothesis among several intention-based theories, such as Ajzen's Theory of Planned Behavior and Shapero's Model of Entrepreneurial Event (Carsrud et al. 2000).

Our study will be an extension of previous work which examined 97 senior business students in an attempt to discover intentions and processes prior to the activity. We will examine a cross-section of undergraduate students from Siena College to compare our hypothesis and their relation to a more diverse population. It can be argued that students from the School of Business believe entrepreneurship is more feasible perhaps because of their business education or other influences. Along with our other hypothesis, our study will provide information regarding these relationships. Using the same intention-based theories, our work will be an extension using a different population and examining the relevance between this new population and the previous study.

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WOMEN AT THE GROUND LEVEL: A CASE STUDY IN RETAIL CULTURE

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INTRODUCTION

Regular observation at a children's retail clothing store served as the basis for a disguised case, applicable to college-level courses in retail, organizational behavior, and introductory-level management. Many of the observations made from the case include gossip in the workplace, gender stereotypes in organizations, and corporate culture in remote locations. Much of the research done for this case study showed that current publications focus on more technical aspects of the retailing industry, and there is currently very little published material relating to the management of retail stores.

CASE

Treehouse is an international children's clothing retailer with store locations in malls and shopping centers. During the current economic recession, the company has been struggling to produce the same profits it did in past years; however, unlike some of its retail competitors, the company is at least trending with the industry average, and is currently doing better than some, and are hoping to continue this trend.

At a mall location of Treehouse in the Northeast, two young managers were discussing their futures at the company- which at the moment, were in direct competition and threatened not only their relationship, but the stability of the store.

Since the store manager suffered a back injury two months ago, in early December, the store has been under the watchful eye of Associate Managers Jess, 21, and Kristin, 26. With only the help of a part-time Assistant Manager, Linda, and an all-female sales staff of fewer than 10 employees, they survived the busy Christmas season successfully. Without a Manager, tasks such as handling employee issues, maintaining store records and financial data, and scheduling shifts, have been shared by Jess and Kristin. They have also become responsible for all cash that goes in and out of the store, including merchandise theft. However, with the best interests of the store in mind, corporate managers have decided to replace the manager, who is expected to be out indefinitely due to back injury. This news has left Jess and Kristin in competition of each other for the Manager position, which comes with a generous raise that both women want.

Still a full-time college student, in addition to a full-time manager, Jess has been at the store since it's opening over a year ago. She has over five years experience in retail, having worked in the industry since the age of 16. For the past two months, Jess has assumed more of the of manager's responsibilities. She has been completing all paperwork, scheduling, and creating the floor displays since the departure of the manager.

Kristin has less experience in the retailing environment - slightly more than a year- and was promoted to her current position only a few months before the manager's departure. However, because Kristin has a child at home, she relates better to customers, and goes out of her way to greet and assist them. Unlike much of the sales staff, Kristin actively sells the products, and has been learning quickly since her promotion. She still defers to Jess for most questions, even going as far as calling Jess when she is alone in the store and has a question.

After working together for almost a year, Kristin and Jess have a close relationship, in and out of the store. They socialize outside of work, and discuss personal problems in between performing store tasks and selling to customers. On this particular day, they discuss the possibility that the other might receive the promotion, and the conversation turns tense. Jess sees herself as deserving of the promotion, and Kristin agrees; however, Kristin is upset that Jess does not agree that she is deserving of it as well. Economic situations are discussed (Kristin's need

for money to support her family, Jess's need for the money in order to move out of her home and away from an alcoholic father), with the women seemingly trying to outdo each other in terms of who would benefit more from the financial boost. They do concur that both should receive some form of retroactive pay from the company for doing the manager's job throughout the busiest season. However, when Jess claims to agree, she makes a clear point she believes she actually earned it, implying that perhaps Kristin did not. Their conversation ends with both women anxious and frustrated, with each other and with higher management for letting the situation go on as long as it has.

Over the next few days, gossip among the sales team increases from its already high level. Associate Managers, and Assistant Managers that might previously have limited the level of gossip are preoccupied with this drama themselves. As a result, gossip and sales floor chatting is going almost virtually unchecked. Adding to the store commotion is the demotion of an Assistant Manager and speculation of who her replacement might be. Despite the supposed "confidentiality" of these situations, almost the entire staff knows the details.

A few days after delivering the news, the District Manager, Robin, makes a visit to the store to check on things and, because Kristin happened to be the scheduled manager, ends up speaking to Kristin about the position. On this particular day, Jess is at school and is not scheduled at the store. Kristin and Robin move the discussion to the "back room" (the only form of 'office' setting the store has), and close the doors to the other Sales Associates. Robin refers to the decisions made by "corporate" in this situation, and what "corporate" is looking to do with this decision. She includes herself in this group.

Despite the fact that Jess made several statements to Kristin about becoming a part-time student in order to take the promotion, during their conversation, Kristin allows Robin to remain under the impression this is not an option. Kristin did, however, argue her own case for the promotion, and later recounted her "confidential" conversation with the District Manager to Ashley, a Sales Associate. Kristin seems to feel more comfortable in her position now, obviously under the impression that she has the edge over Jess due to her age, maturity, and as she herself said, "dumb luck", in that she happened to be the scheduled manager the day Robin came in.

When Jess arrives the next day, she is aware of the entire conversation that occurred between Kristin and Robin. In fact, Jess spent almost an hour on the phone with Ashley last night rehashing everything that Kristin said about her to Robin. She feels that Kristin deliberately sabotaged her chance at getting the promotion. Angry with Kristin, Jess is unable to work civilly with her today. She states to several Sales Associates that if Kristin gets the position, she will quit. As it stands, Jess believes she does a majority of the manager's work and hopes her departure would put the store in an even bigger crunch. Robin, and the other upper management, are clearly unaware of the turmoil of their store, the distracting work conditions full of gossip or the tensions between Jess and Kristin.

Three weeks later, Robin has still not made a formal decision regarding the placement of a new manager. Either she is unaware of the turmoil created by the Manager opening, or is unconcerned. As a result, corporate is either unaware or unconcerned as well. The atmosphere throughout the store remains tense, and the drama continues with everyone taking sides.

CASE NOTES

INTRODUCTION

A 2008 U.S. Bureau of Labor Statistics Survey showed that at the lowest levels of the retailing industry, women account for 52.2% of all employees; however, female first-line managers of retail sales workers (that is, store managers, assistant managers, etc.) drops to 43.3%. Furthermore, a majority of all employees in the retail clothing industry are under the age of 24 (31%). By studying the environment of a retail chain store on a day-to-day basis, we can see how well current theories on gossip (Michelson, 2000), gender in organizations (Bartunek, 2000), and corporate culture (Sorensen, 2002) apply to retailing as a specific business environment. Retailing texts and journals focus on the more technical aspects of the industry (merchandising, branding, supply chain management, etc.), rather than on store management. This case is relevant to college students, many of whom may have retail experience.

KEY TOPICS

Gender in organizations, organizational culture in remote locations, gossip in the workplace.

LEVEL AND PREPARATION

This case is appropriate for undergraduate-level business students. Previous readings on corporate culture would add depth to the discussion.

APPROPRIATE CLASSES

This case is appropriate for introductory-level management, organizational behavior, and retailing classes.

OBJECTIVES

1. Analyze why stereotypical behaviors develop in an all-women work environment.
2. Examine why it is difficult to create corporate culture at locations remote from the headquarters. Develop suggestions to create a culture that will be useful and replicated in stores that are in locations far from the corporate headquarters.
3. Develop suggestions to eliminate/lessen the level of gossip in a workplace.

CASE OVERVIEW

This is a disguised case that observes the day-to-day interactions and relationships in a retail store located in the Northeast. Over one week, we observed two twenty-something Associate Managers, Jess and Kristin, who are both vying for the position of store manager. The store is a female-only staff, and as a result the environment is dominated by excessive gossiping. The corporate headquarters in California, as well as regional upper management, are both unable to implement a formal culture in the store, but are either unaware or unconcerned with the level of unprofessional behavior in their store.

DISCUSSION QUESTIONS

1. What types of stereotypical behaviors were demonstrated in this case? What do you think led to these behaviors?
2. Why does the store not follow the same culture as upper level management (such as the district manager)?
3. How can headquarters and management replicate the corporate culture in remote locations?
4. How did the level of gossip hurt the store? How can this problem be alleviated?

ANSWERS

1. What types of stereotypical behaviors were demonstrated in this case? What do you think led to these behaviors?

Women in the workplace have a somewhat negative stereotype attached to them. They are often portrayed as catty, jealous, gossiping, and more concerned with office politics and popularity contests than with their work. Obviously, this is not true of all women; however, if this case demonstrated anything, it is that these stereotypes are not entirely fictional. Kristin demonstrates catty, "back-stabbing" behavior when she neglects to tell Robin about Jess's desire to attend school part-time in order to take the management position. Jess and Kristin both demonstrate a lack of proper conduct in the face of drama, choosing instead to share all of the details of the situation with their subordinates. The sales floor is completely consumed with the drama unfolding, and most of the women working there are more concerned with it than with customer service and making sales.

It is possible to hypothesize that an all-female workplace led to these behaviors; however, since there was no male presence, we cannot guess the effect a man on the staff may have had on the drama. What is fairly evident, though, is that corporate management was completely unaware of the possible reactions to this news. Robin

speaking to only Kristin about the position left Jess feeling unimportant and unworthy of the position, as well as demoralized. Hearing this news as gossip, through a subordinate and not a superior or equal, may also have made her evaluate herself as unworthy, as many people use office gossip to make comparisons to themselves (Michelson, 341). She became unconcerned with her job, and did not care how unprofessional her behavior was. Likewise, Kristin undertook win-at-all costs tactics, which might be called "cutthroat" of a man, but when applied to women, is considered "catty" and "back-stabbing" (Brenner, 668). The behavior of the sales staff may have less to do with the fact that they were female, and more to do with the influence and example set by their superiors, Jess and Kristin.

2. Why does the store not follow the same culture as upper level management (such as the district manager)?

Technology plays a large role in corporate cultures in modern-day business. Implementing a specific culture at a location remote from the company headquarters can be difficult, but many companies utilizing outsourcing or offshore offices achieve this through technology. Because the Treehouse corporate headquarters is in California, and this store is in the Northeast, there is a great deal of "noise" between the two locations. Likewise, the retail environment is still somewhat behind in utilizing technology for management purposes. They develop technology to make the store more efficient for the customer's experience, but they have very little in the way of employee technology. "The wide difference in competitive and economic benefits that companies gain from information technology rests on a management difference and not a technical difference," (Powell, 379). The only computers in the stores are the registers, which only use the companies' programs and intranets on the sales floor only; the "office" in the back room does not even have one. Employees do not have company emails by which to receive emails or information, only district managers and higher management. Retailers still rely heavily on UPS and FedEx to send information, such as floor displays, promotional details, and target goals.

Besides these memos from corporate, which can take several days to reach the store, the only other way they receive information is through the District Manager, who receives the information through a regional manager, and so on. By the time the information makes its way to the store, there has been a great deal of interpretation along the way. Relying on one person for information is very risky; there is no guarantee that the things corporate wants to relay actually find their way to the store. Furthermore, it gives the employees a further sense of detachment from corporate, and more of a focus on their own "world", which is the store. Without the direct communication with corporate on a regular basis, the store staff and management does not see the bigger picture.

3. How can headquarters and management replicate the corporate culture in remote locations?

It is becoming more and more evident that better technology and means of information sharing between the corporate headquarters and store locations is important, and under emphasized. A great deal of published material addressing the use of technology in retail emphasizes the customer aspects, such as e-commerce and in-store cash register efficiencies (for example, Sampler and Powell). However, very little of it focuses on the use of technology in-store for the staff, most likely because these instances are far and few between. As much as is written about the cutting edge technology utilized in the supply chain and e-commerce, store management is falling behind in technology.

The people working in these stores are the ones who ultimately determine the culture of the store, and unless they feel a sense of connection to the culture at the corporate headquarters, it is unlikely they will feel a need to change. Having their own corporate emails to be checked, by which they receive information and company newsletters, would not only give them a sense of belonging, but also keep them up-to-date with the bigger picture. Currently, they receive reports via the intranet, but only focusing on promotions and sales goals. "Informal social control is... more effective and cost less than formal control structures," (Sorensen, 73). Communicating with employees via email about company policies, even wellness programs and other HR programs, would make them feel included and give them a greater sense of the culture the company is actively trying to promote.

It would make it easier to bring the stores together as a cohesive company, because employees could communicate more often; right now, if a store manager wants to ask another store manager a question, they call. In

most office settings, this would seem the fastest option; however, in retailing, where the store manager is needed on the sales floor a majority of the time, it results in one of two things: either a prolonged game of “phone tag” because neither manager is free at the same time, or one manager neglects her duties and chats on the phone for a long period of time. E-mail cannot only be monitored by corporate (which would help eliminate gossip), but leads to less “chatting”, and more direct and to the point communication. Another aspect that could improve the culture in the store would be visits from corporate. Not only does the store rely on one person for relaying messages, but so does corporate management. More frequent visits from higher management (beyond District Managers, who only visit once a week on average) may lead to improved replication of corporate culture.

4. How did the level of gossip hurt the store? How can this problem be alleviated?

While not always negative, gossip in this instance was detrimental to the performance and stability of the store. According to Michelson and Mouly, 2004, gossip can be a way to spread informal information throughout the levels of employees; however, in this instance, the information was not something the staff needed to know, and it exacerbated an already tense situation between Jess and Kristin. There are two primary ways by which employees receive information: through formal channels and informal channels. In this instance, very little information was being received by store employees through formal channels such as corporate emails and newsletters, or information given directly through a manager. Rather, all information was being given to them through the informal channel, the “grapevine”, which can often be filled with “noise” (Michelson, 189). Sales decreased, customer service was not of the same level it normally is, information was misconstrued and people were not hearing the truth, but believing it nonetheless, emotions were high, feelings were hurt, and people became demoralized.

Gossip is not always detrimental, however. Managers can utilize it because information tends to travel faster through the informal channel, the grapevine, than through formal channels (Michelson 194). In this particular instance, due to the fact that the employees spend hours together, with very little formal boundaries (such as a cubicle), gossip is almost impossible to eradicate. However, it can be managed and harnessed, and it seems that Treehouse needs to focus on doing so. The key, in this case, is to separate rumor from gossip, irrelevant gossip from work-related gossip, and to make these boundaries clear and violations punishable.

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DRAWN TO THE GROUP— THE IMPACT OF PRODUCT CATEGORY ON BRAND FOLLOWING

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ABSTRACT

As the concept of a brand has gone far beyond a simple distinguishable name for a product, it has begun to unite individuals on a deeper level. From an initial understanding of the evolution of brand communities (Muniz and O'Guinn 2001) the next step in branding strategy may be taken, brand following. We define brand following as an individual's perceived sense of association to a group of persons, with an identifiable brand in common that fosters a strong bond to the group and in turn the brand. This research explores the concept of brand communities and looks to make this transition to a brand following. We also explore the impact that product category has on brand following. Our preliminary findings indicate that product category has an impact on a consumer's brand following. These findings are of interest to practitioners as well as academicians that study branding strategies.

INTRODUCTION

The concept of a brand has gone beyond a simple distinguishable name for a product as consumers look to gain more than fulfillment of needs or wants. A brand has become a mentality or way of life for its consumer following. It has become an extension of an individual, a reflection of them as a person. A brand has come to unite people who may share nothing in common besides their use of the same brand. From this evolution of a brand, arose Muniz and O'Guinn's (2001) notion of a brand community.

A great deal of past research has been based off Muniz and O'Guinn's (2001) brand community (such as McAlexander et al 2002) but today brand communities may be taken a step further. Well-established brand communities may go as far as exhibiting a cult-like behavior as these brand communities foster a strong bond between individuals associated with the same brand. Just as a brand serves as the focal point for its brand community followers (Muniz, Jr. and O'Guinn 2001), an idea or belief serves as the focal point for its cult followers. Individuals may form a strong bond between one another based on the ideas or beliefs of a cult. Individuals may revolve their lives and shape who they are around a single cult, becoming loyal followers bound to the group, just as some consumers may do so in a brand community. This cult-like mentality, created by a strong brand, may be adapted to the way consumers behave within this next step in brand community—*brand following*.

There has been a notion of cult brands (Munro 2006, p. 22) before but nothing empirically significant. Munro (2006, p. 22) argues that cult brands are something that require a little searching, do not have a marketing plan and are almost like a fad. This does not make sense from a sound marketing perspective. Bergami and Bagozzi (2000, p. 562) examine identity as a prestige issue "the perception a member of the organization has that other people, whose opinions are valued, believe that the organization is well-regarded (e.g. respected, admired, prestigious, well-known)." Along this reasoning towards a group, identity with a brand should be something that is well known and well admired. Therefore, the term cult brands should be disregarded for the purpose of this research and not confused with brand following.

The purpose of this research is to explore how a brand community transitions into a brand following to determine empirically if the notion of branding strategies leading to a cult-like following holds any validity. First, based on previous research, we describe the transition into brand following from brand communities and the relationship within their consumer following. From here, we delve deeper into the group relationships formed by individuals around a brand and the perceived sense of identity associated with this group, stepping away from this

notion of brand community and transitioning into the notion of brand following. Finally, we examine the impact of product category on brand following. The results of our finding are of interest to practitioners as well as academicians that study branding strategies.

BRAND FOLLOWING

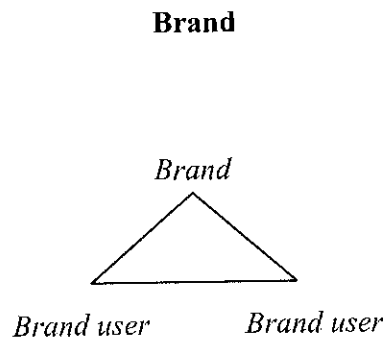
A brand community, such as Jeep Jamborees, is defined by Muniz and O'Guinn (2001, p. 412) as "a specialized, non-geographically bound community, based on a structured set of social relationships among admirers of a brand." With this concept of a brand community, Muniz and O'Guinn bring a brand into the context of social interaction. As people begin to come together around a particular brand, they look to gain some meaning or fulfillment beyond just the brand itself. From this interaction between individuals, initiated by a brand, lies the foundation for the possibility of a group whose bond strengthens beyond that of a community. This is where a brand community may attempt to turn into something else.

Muniz and O'Guinn (2001) identify three markers of a community exhibited by a brand community: shared consciousness, rituals and traditions, and a sense of moral responsibility. All three of these markers make sense when forming a strong bond within a group centered on a brand. Shared consciousness or consciousness of kind most effectively looks at how brand communities' social interaction among users moves a step further. Shared consciousness is, "the intrinsic connection that members feel toward one another" (Muniz and O'Guinn 2001, p. 413). This connection goes beyond just a simple interaction. It may not even be on a regular basis between users but a deeper underlying connection and sense of identity within the group. There is this sense where members feel a connection at some level even if they have never met (Muniz and O'Guinn 2001, p. 417). With this comes a strong bond that goes beyond a simple communal sentiment and moves towards something new.

The existence of a brand community, along with its meaningfulness, inheres in the experience of the customer rather than simply the brand (McAlexander et al 2002, p. 39). It is with this move that a transition is made away from the idea that brand communities occur by coincidental interaction between common users, but instead are rooted in this connection and affinity that the customer gains. This experience comes from the group and group identity. From the relationships formed between members of a group centered on a brand, there may be an increase in the personal investment of a customer's consumption of the product and brand (McAlexander et al 2002, p. 53). A strong affinity for the group becomes the driving force behind an individual's behavior in all circumstances and environments.

Based on the preceding discussion and a composite of past research we define brand following as *an individual's perceived sense of identity or association to a group of persons, with an identifiable brand in common that fosters a strong bond to the group and in turn the brand.*

The following figure displays the relationship created by a brand following as a brand is the unifying force between brand users.



Marketers need to understand the characteristics of a brand following to establish a strong consumer following based on conformity to the group. We now proceed to describe the empirical examination of our brand following construct and its relationship with product category.

METHODOLOGY

We collected data from a convenience based random sample of college students for this pilot study. Based on experience, one of the authors is personally able to attest to the great influence certain brands have on the chosen subjects, college students. Additionally, the college student population represents a substantially large consumer market that firms try to appeal to with their products on a daily basis. Finally, college students tend to exhibit some of the key characteristics of brand following and consumer conformity discussed above, providing a naturally rich sample frame. Using a web-based survey allowed for easier access to a large college student population to represent the real-world college student population.

Before administration of the survey, we ran a pretest to evaluate how the survey flowed. Based on pretest data, the survey promised respondents that it took no longer than 7 minutes to complete. Each page of the online survey was limited to only a few questions, in an attempt to alleviate the risk of losing respondents' patience and participation in the survey. We used the Likert-type response scale with anchors of "strongly disagree — strongly agree."

Once the survey went live, we recruited subjects from college social networks, such as those supported by Facebook.com in an attempt to achieve a convenience-based sample. Respondents were contacted through email accounts, both student and personal. Using a web link collector, a uniform email request with a link to the survey was sent to each potential respondent through one of the authors own personal email client. Requests for responses went out in five waves, two of which were to fellow research colleagues who forwarded a link to the survey to any prospective respondents that they identified. Of approximately 3,500 invited subjects 518 responded to the survey rendering a response rate of 14.8%, which compares favorably with past studies using an on-line data collection methodology. The effective sample size used for this study is 410.

Based on previous work, this study employed the familiar Churchill (1979) paradigm for developing a measure of brand following (Carlson 2007, p. 288). A modified version of the Bergami and Bagozzi (2000) two-item measure of cognitive identification measured identification with both the brands and the brand followers in order to understand identification with the brand. We developed six items to form the brand following scale. These items reflect product branding, corporate branding, community affiliation, brand loyalty, and brand satisfaction, all elements that go into developing a strong brand following.

A table of brands separated into categories, apparel, electronics, food/beverage, web, automobiles, and television provided at the beginning of the survey asked respondents to keep one brand in consideration when completing the survey. The use of categories and limiting each respondent to one brand collected data for multiple brands from multiple categories so that this research did not apply to just one brand. This category of brands appeared once at the beginning of the survey and then again, in the middle of the survey in order to remind respondents of what brand they were thinking about to ensure respondents kept one brand in mind the entire time they completed the survey. One item required that respondents indicate the category of the brand they considered while undergoing the survey.

RESULTS AND DISCUSSION

We checked the reliability and validity of the brand following scale using the inter-item reliability tests. The brand following scale was a first time scale we developed for this study. The overall brand following scale was a six-item scale that performed very well and exhibited good psychometric properties (Cronbach's Alpha 0.881).

We looked to examine whether a consumer brand following changes depending on the product category. In running a one-way ANOVA at the .05 significance level, we were able to test this hypothesis. Results indicate that product category does have an impact on a consumer's brand following ($F=3.204$ $p: 0.008$). Our results show that both electronics and television product categories demonstrate a strong and significant brand following.

The strong impact on brand following of electronics and television product categories may be reflective of our college student sample. College students may relate most to these product categories. Marketers dealing in these product categories should look to foster a strong brand following to target college students.

CONCLUDING REMARKS

This study contributes to marketing literature by examining theoretical constructs in an empirical setting. The scales developed for this study exhibited good psychometric properties for a pilot study and could certainly be refined and used in future studies. Additionally, the initial results from this study provide encouraging results regarding the theoretical construct of brand following.

The strong ties of a customer with the brand are further strengthened by providing a brand following with a group identity. Fostering a brand following will build stronger existing brands. Strengthening an already established brand, through an understanding of brand following, is less expensive, less of a risk, and far more strategically rewarding than trying to build new brands.

As with any research that relies on a limited student sample, the findings should be viewed with prudence. However, this research was actually enriched by a sample that showed distinct brand following and consumer conformity with the product categories that were researched. Future studies should focus on extending the preliminary findings of this research. Questions such as measuring the following among different product categories with specific brands would be of interest to brand managers. This research focuses on complex brands such as Harley or Saab, but it would be interesting to look at brand followings for convenience products. Additionally, one could seek to extend this study to enhance its generalizability on non-student samples, in international markets, and across cultural typologies.

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CREDIT CARD STATUS AMONG COLLEGE STUDENTS: A NATIONAL PERSPECTIVE OF MISUSE

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ABSTRACT

With our nation's financial future at stake, the topic of credit card misuse among college students has become a significant concern. This study explores students' current credit card status and explores misuse characteristics based on demographics. Proven and reliable scales assessing credit card misuse behavior are used to survey a random sample of 240 college students across 15 states. Results indicate a variety of significant relationships relating to demographic characteristics and the propensity of credit card misuse. This result makes theoretical contributions in refining, improving, and using theoretical scales in empirical context. In practical terms, the findings of this study have serious implications not just for students in college but for those engaged at the crosscurrents of marketing, social responsibility, and public policy.

INTRODUCTION

Our research strives to identify causes to the rising credit card debt among college students and can provide colleges, universities and public policy makers with ideas on what needs to be monitored more closely. The paper is organized as follows.

First we discuss secondary data relating to credit card usage by college students. We then introduce a brief literature review on the current status of credit cards among college students throughout the United States, followed by our theory development and methodology. Subsequently, we discuss the methods for data collection and provide a sample profile. Along with the sample profile, we introduce the key findings on credit card usage alongside credit card misuse based on demographics. In the succeeding section we explain present further discussion and conclusions on key findings. Finally, we explain limitations and possible future research and provide some concluding remarks.

Credit Card Usage in College Populations

Undergraduate college students are carrying credit cards in record numbers. In 2001, 83% of undergraduates had at least one credit card (Nellie Mae 2001). Some experts approximate the average credit card debt of a college student to be in close proximity to \$3,000, with 23% of students carrying balances between \$3,000 and \$7,000 (Weiss 2003). As a result, some students even open up new cards to pay off existing debt. The increasing number of outstanding balances among college students appears to have a number of causes.

Research indicates that students have a propensity to carry an inordinate amount of credit card debt as they progress through college. One study conducted by Qvisory, a nonprofit online advocacy and service organization that supports the financial well-being of young adults, found that students are growing more concerned about their financial standing. Results from their 2008 study showed that financial concerns top the list of problems facing students in their lives today. Out of their sample, 55% of respondents claimed this to be their number one concern, a 10-point increase from 2007 (Greenberg 2008).

Qvisory's study showed that young people feel a significant amount of stress and worry towards their financial status, with 48% of respondents saying they frequently worry about having enough money to pay their bills (Greenberg 2008). With the increase in debt and financial anxiety, students with higher consumer debt usually work more, resulting in poorer grades. As a result, these students often suffer from depression and sometimes even have to withdrawal from school (Manning 2000; Miller 2000; Roberts and Jones 2001).

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In relation to Nellie Mae's study, Qvisory's study showed that two thirds of its participants surveyed reported having a credit card, and over half of the participants surveyed said that they have credit card debt. The study also showed that 41% of young adults with credit cards are more likely to have accumulated debt in the last year than the 29% of young adults who do not have a credit card (Greenberg 2008).

College students represent a key customer base for many different types of organizations as well as serve as an intricate part of the future of our nation. The key issue, however, is how "America's future" is being shaped into a debt collecting society. From an economic perspective, students accumulating such high debt and trying to pay it off essentially cuts off revenue streams in other markets (Pirog & Roberts 2007). Roberts & Jones (2001) Credit Card Misuse Scale, which we introduce more thoroughly later, becomes my instrument in evaluating misuse in relation to student's current credit card status.

INTEGRATED THEORETICAL FRAMEWORK

Theory Development

In the review of past literature, we discussed specific findings compiled by a variety of researchers who focused on the overall status of credit cards with college students. Our main goal is to evaluate misuse characteristics in conjunction with a student's actual behavioral tendencies with their credit cards. To do so, we turn to Roberts & Jones (2001), who took previous findings into consideration and developed a scale to assess one's credit card misuse.

Methodology

A pretest survey was conducted on the campus of a small, private, liberal arts school in the Northeast to identify and correct potential errors. Each respondent was notified that the survey was completely confidential and to be used for academic purposes only. Upon reviewing the results, necessary adjustments were made for the national sample.

The new version, which was now segmented into more specific sections, was designed to determine the current status of credit cards among college students as well as any relationships in terms of misuse behavior. The first section (Credit Card Debt Status) was designed to accomplish the tasks of identifying current behaviors. This section was inspired by questions from Nellie Mae's survey of students conducted in 2004. The second section presented Roberts & Jones (2001) Credit Card Misuse Scale, which served as the method of identify tendencies towards credit card misuse. We asked participants to rank their responses using a modified Lichert scale with 1 being "strongly disagree" and 5 being "strongly agree" with the proposed statement.

Data Collection

After thorough testing, the survey was administered online (surveymonkey.com) from July to October 2008. Each respondent was made aware that the research was for academic purposes and that their responses were confidential. To generate responses, advertisements were positioned on popular student websites such as Facebook and distributed through e-mail on specific college networks. Facebook allowed us to target 18-24 year olds in the United States at a cost of 26 cents per 1,000 impressions with \$5 being the maximum balance per day.

We conducted a Google search to obtain e-mail addresses of colleges across the United States and sent an e-mail to their admissions department requesting them to forward our request to the appropriate parties. The response rate was particularly low and we decided to go to the root of the source. We then Google searched "marketing faculty" and it provided e-mail addresses at random of marketing professors across the United States. We sent an e-mail requesting they forwarded the email to the students and that they participate in the study. Many universities responded to proclaiming that they don't allow mass e-mails to be sent to their students. Although this

was disheartening for our study, it was understandable that these colleges were just protecting their students. Our efforts yielded an effective sample size of 240 students.

RESULTS AND DISCUSSION

Sample Description

The sample includes students from 15 states: California, Connecticut, Florida, Georgia, Maryland, Massachusetts, Montana, Missouri, New Hampshire, New Jersey, New York, Ohio, Rhode Island, Texas and Vermont. The majority of students were from the Northeast, which is not surprising given the location of the researching institution. Of the 240 students surveyed, approximately 40% (97) were in the age range of 18-20 with the most frequent age being 21 comprising around 20% (47) of the sample. The remaining one fourth was made up of students 22 years and older (62). In relation to this, there was a fair representation of each class level with seniors, juniors and graduate students being the most frequent participants, representing approximately half of the sample. The remaining half was comprised of freshmen and sophomore students.

The sample was split about 64% to 23% in favor of females. Some respondents did not specify their gender while responding. Approximately 7% of respondents worked 21-30 hours, 7% worked 31-40 hours and 10% worked 40 or more hours per week. In relation to this, we found that about 35% of the sample made between \$1-\$500 per month and about 16% actually did not have an income. Taking into consideration that only approximately 17% of respondents are graduates we weren't surprised that around 9% reported making over \$2,000 per month with about 5% reporting between \$1,001-\$1,500 and about 3% claiming between \$1,501 and \$2,000.

Credit Card Debt Status Analysis

Results based on 240 participants show a range of one to five (or more) credit card ownerships while the majority reported between 2 and 4 cards. Out of the students who reported not owning a card, approximately 40% reported their reason as being afraid of collecting debt. Considering credit card companies' willingness to give students credit in hopes of acquiring a lifetime customer, we were surprised to see that 40% reported their reason being not able to get approved. For those who did own credit cards, the majority (approximately 78%) either acquired them before entering college or as college freshmen with approximately 40% getting help from their parents in making the decision. However, one fourth of participants reported making their decision based on a direct mailer sent from the vendor themselves.

More importantly, there was a split in terms of credit balances the students were carrying, both showing positive and negative outlooks. One fourth of students reported having a current balance between \$0-\$200 which is respectable. However, 15% of students have a current balance of over \$1,000 dollars with almost a third of respondents having carried a maximum balance of over \$1,000 at one point in time. Perhaps our main concern should regard their payment behavior.

Almost 40% of the sample reported paying off their credit card balances in full each month which is most likely pertaining to those with lower balances. A little over 15% said that they make more than the minimum payment but always carry a balance. This 15% is more likely made up of those who owe over \$1,000 and if this is case, they are most likely collecting sizeable amounts of interest, which supports the data Nellie Mac found back in 2001.

When we saw these vast amounts of balances occurring we shifted the focus to what the students were actually buying. Over 50% of students reported spending between \$0-\$1,000 on educational related expenses in the past year with textbooks and school supplies being the primary purchases. The amount of money students were spending on non-education related items was noticeably higher. Over half of the sample reported gasoline and

clothes as their main items with approximately 40% charging travel expenses, music/movies, and food. Slightly over half reported spending between \$0-\$1,500 with 14% charging over \$3,000 in the past year.

Credit Card Misuse and Student Characteristics

First, an ANOVA was performed using demographic information collected alongside the credit card misuse scale. We decided to focus only on outputs at the 0.10 or lower level of significance. For all of the calculated means, the highest possible could be 5. After viewing the results it was discovered that there is a relationship at the 0.029 level in regards to a student's age and how often they fail to make their payments on their credit cards. In relation to this, we found this to also be true based on the student's year in school (0.014 significance). The means for both age and year in school showed an increasing trend, with students at the age of 18 having a mean of 3.67 and the highest age category of 23+ having a mean of 4.66. As for the student's year in school we had calculated means of 3.15 for freshmen and a combined average of 4.18 for seniors and graduate students. This could suggest that students become more financially responsible in terms of paying their debt as they get older both from an age and educational standpoint.

After viewing the number of hours per week that the students worked, we felt it was appropriate to assess their level of income per month. The data showed an increasing trend in means with students reporting having no income at all with a mean of 2.56 and students having an income between our highest value of \$1,500 and \$2,000 having a mean of 4.00. This trend suggests that as students make more money, they charge more on their credit cards. Although this logically makes sense, the problem results from how much they are charging. Many times the increase in income and credit card spending are not proportional, which causes students to find themselves in growing debit.

LIMITATIONS & FUTURE RESEARCH

Although the study expands our knowledge of the current status and misuse characteristics, there are certainly limitations. First, the sample size is relatively small at 240 and because of this, may not accurately portray all students across the country although we do have 15 states represented in the sample. Also, the findings are in tune with the Nellie Mae Studies (2001), which lend credibility to the robustness of our sampling.

This smaller sample may have resulted because we sent out surveys toward the end of August. We felt sending them out then would be ideal considering students would be arriving back at school. What we failed to take into account was that students would have a decreased amount of free time because of school work and interactions with friends they have been apart from since May.

The reader is cautioned that although the sample was relatively diverse with a variety of students from different states participating, one should still be cautious in generalizing our findings to all students at the national level. When we say diverse, we are speaking of the particular characteristics and backgrounds of each student. We cannot claim total diversity considering two-thirds of our sample was made up of females. One should also be aware of participants having the tendency to boast about themselves and provide us with inaccurate data. For example, almost 80% the sample reported having a GPA between 3.1 and 4.0. Although it is entirely possible that this is the case, it could well be an inflated response. This also relates to a participant's honesty in their credit card behavior and tendency to downplay a problem.

Utilizing Roberts and Jones (2001) Credit Card Misuse Scale allowed us to identify misuse characteristics but didn't allow us to test what was actually driving the misuse. It would be interesting to explore topics that could potentially drive credit card misuse. For example, it would be interesting to see if an individual's level of materialism influences their credit card misuse. It would also be interesting to see if the problem arises from a student's inability to effectively process the risks of using their credit cards.

CONCLUDING REMARKS

4th Annual Siena College Student Conference in Business
April 17, 2009

Our study can have a significant impact on college students as well as on credit card companies to reevaluate their standards. Furthermore, this research can assist policy makers and school officials on assisting college students with this issue. It's imperative that students realize the severity of poor credit card management now so they can avoid hardships in the future. With the current financial crisis and instability of the economy, it's important that our nation's youth exhibit responsible behavior with their credit cards.

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AN IN-DEPTH ANALYSIS OF BEST BUY

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COMPANY OVERVIEW

Best Buy Company Inc. (BBY)

PRICE:	SIENA Target Price:	S&P500:	DJIA:	S&P"Industry":
\$33.20	\$39.97	815.94	7,776.18	591.7

Location: South Richfield, Minnesota

Industry: Computer & Electronic Retail

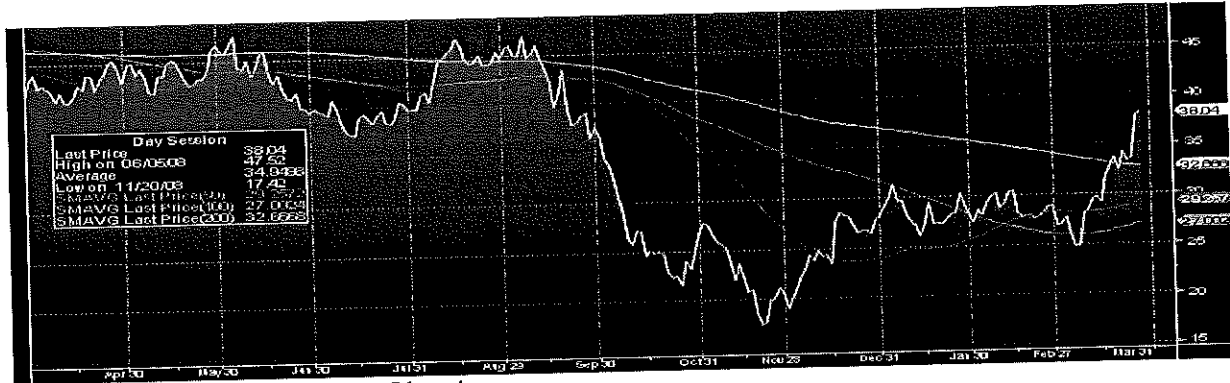
Description: Best Buy was incorporated in the state of Minnesota in 1966 as Sound of Music, Inc. The company began as an audio components retailer and, with the introduction of the videocassette recorder in the early 1980s, expanded into video products. In 1983, the company changed its name to Best Buy Co., Inc. and began using mass-merchandising techniques, which included offering a wider variety of products and operating stores under a "superstore" concept. In 1989, Best Buy dramatically changed its method of retailing by introducing a self-service, noncommissioned, discount-style store concept designed to give the customer more control over the purchasing process. Today, Best Buy is the world's 9th largest retailer, and by far the largest retailer in the computers and electronics segment.

Company Website: www.bestbuy.com

Market Data

Market Cap	\$13,353,760,000	1 Yr Price App.	-25.35%
Price to book	\$2.93	Country	USA, Canada, China, Europe
Beta	1.43	Industry	Computer & Electronic Retail
Dividend yield	1.73%	Industry Price	\$15.33
Shares O/S	413,430,000	Industry Beta	1.35
Current price	\$33.20	Country Risk Premium	9.06%
52 week range	\$31.61	Risk Free Rate	2.63%

Valuation	Current	2009E
EPS	\$2.94	\$2.46
P/E	11.31	13.51
CFPS	\$4.68	\$4.28
P/CFPS	7.15	7.82



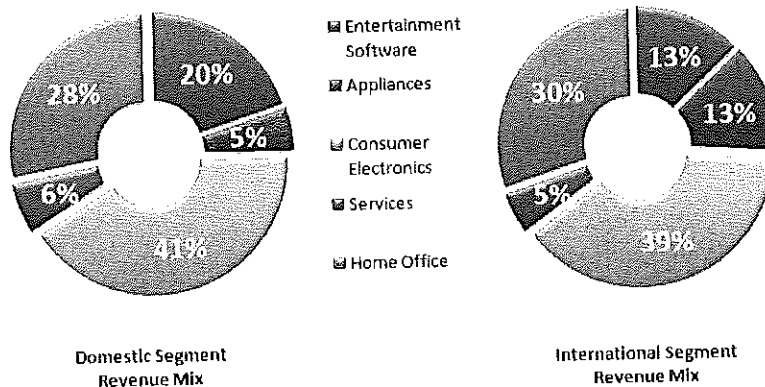
One Year Stock Price Performance Bloomberg

COMPANY DESCRIPTION

1. Products and Segments

Best Buy, Inc. operates retail stores and Web sites under the brand names Best Buy, Five Star, Future Shop, Geek Squad, Magnolia Audio Video, Pacific Sales Kitchen and Bath Centers, and Speakeasy. Through its different brands, Best Buy has offerings in 6 different revenue categories: consumer electronics, home office, entertainment software, appliances, services, and other.

During fiscal 2008, the company reported two segments: Domestic and International.



The Domestic segment is comprised of all states, districts and territories of the United States and includes store, call center and online operations. It includes Best Buy U.S., Best Buy Mobile U.S., Geek Squad U.S., Magnolia Audio Video, Pacific Sales, and Speakeasy.

BestBuy

U.S. Best Buy stores offer a wide variety of consumer electronics, home office products, entertainment software, appliances and related services. Best Buy is able to increase the range of products and services available in its stores by including additional in-store sections, know as store-within-a-store. Store-within-a-store offers include a section for Apple products, a Best Buy Mobile section, and Dell computers. Additionally, Best Buy's Geek Squad subsidiary provides residential and commercial computer repair, support and installation services.

BestBuy.com

In fiscal 2000, Best Buy established its first online shopping site, BestBuy.com. Following a “clicks-and-mortar” strategy, BestBuy.com is designed to empower consumers to research and purchase products seamlessly, either online or in our retail stores. The Best Buy online shopping sites offer expanded assortments in all of the company’s principal revenue categories.

Best Buy Mobile

In order to enter the mobile business, Best Buy entered into a joint venture with UK mobile retailer Carphone Warehouse in 2006, which led to the creation of Best Buy Mobile. Best Buy Mobile provides a comprehensive assortment of mobile phones, accessories and related services. Since 2007, the company has been incorporating mobile sections in its existing stores, applying the “store-within-a-store” concept. Best Buy refers to in-store mobile stores as the Best Buy Mobile Experience, to distinguish them from the stand-alone stores. By entering the mobile market, Best Buy intends to use its retailing and customer service expertise to satisfy the needs of customers better than the competition. As of December 31, 2008, 181 of Best Buy’s 923 stores included a Best Buy Mobile store. Within the next 18 months, Best Buy plans to have a Best Buy Mobile section in the majority of its existing and future U.S. Best Buy stores, and to continue adding stand-alone Best Buy Mobile stores in shopping malls.

Geek Squad

In fiscal 2003, Best Buy acquired Geek Squad Inc., a provider of support and installation services. The reason behind the Geek Squad acquisition was provide a high quality of technology support services to customers. Geek Squad’s services are available in all Best Buy stores, as well as in seven stand-alone stores in the U.S.

Magnolia

In 2001, Best Buy acquired Magnolia Hi-Fi, Inc., a high-end retailer of audio and video products and services. The Magnolia acquisition gave Best Buy access to an upscale customer segment. In 2005, Best Buy opened its first Magnolia Home Theater store-within-a-store experience in a U.S. Best Buy store. Magnolia Home Theater stores provide Best Buy stores with high-end brands, home-like displays and specially trained employees. At the end of 2008, the Magnolia Home Theater store-within-a-store experience was present in 346 U.S. Best Buy stores.

Pacific Sales

In 2007, Best Buy acquired Pacific Sales, a California-based company that specializes in the sale of high-end kitchen appliances, plumbing fixtures, home entertainment products and home furnishings, with a focus on builders and remodelers. The acquisition was motivated by Best Buy’s desire to grow into a more affluent customer base. Pacific Sales offers premium brands using a proven and successful showroom format. Utilizing the existing store format, Best Buy expects to increase the number of stores in order to capitalize on the high-end segment of the U.S. appliance market.

Speakeasy

In 2008, Best Buy acquired Speakeasy, a provider of broadband, voice, data and information technology services. Best Buy believes that the acquisition will generate synergies by providing new technology solutions for its existing and future customers.

The International segment includes operations in Canada, China and the United Kingdom. Canadian operations include 131 Future Shop stores, 51 Best Buy stores, and a Best Buy website (BestBuy.ca). Chinese operations are comprised of 160 Five Star stores, and 1 Best Buy store. After acquiring 50% of The Carphone Warehouse’s retail business in Europe on June 30, 2008, Best Buy has expanded its Geek Squad subsidiary to the U.K. Having successfully test-marketed stand-alone Best Buy stores in the U.S., Best Buy has decided to open thousands more Best Buy Mobile stores in Europe. As illustrated by the Carphone Warehouse deal, Best Buy is now implementing a major expansion strategy into the European market.

Future Shop

Best Buy's International segment was first established in connection with the acquisition of Canada-based Future Shop Ltd. in 2002. Future Shop was already the leading consumer electronics retailer in Canada before the acquisition, but the deal provided Best Buy with an opportunity to leverage its operational expertise in consumer electronics retailing and customer service.

Best Buy Canada

During fiscal 2003, Best Buy launched a dual-branding strategy in Canada by introducing the Best Buy brand. By maintaining two separate brand names, the dual-branding strategy allows Best Buy to retain Future Shop's brand equity and attract more customers by offering a choice of store experiences. As the company expands the presence of Best Buy stores in Canada, it expects to gain continued operating efficiencies by leveraging capital investments, supply chain management, advertising, merchandising and administrative functions.

Five Star Appliances

In 2007, Best Buy acquired a 75% interest in Five Star, one of China's largest appliance and consumer electronics retailers. The investment in Five Star illustrates Best Buy's international growth strategy, and allowed the company to increase its knowledge of Chinese customers, preparing the path to future further expansion into the Chinese market. Best Buy also has a contractual commitment to acquire the remaining 25% interest in Five Star within the next several years, although the transaction will be subject to the Chinese government's approval.

Best Buy China

In fiscal 2007, Best Buy opened its first China Best Buy store in Shanghai, and the company plans to open five to eight additional Best Buy stores in China during fiscal 2009.

Best Buy Europe

In September 2006 The Carphone Warehouse and Best Buy had reached an agreement on the terms of two new commercial initiatives: a standalone mobile retail business in the US market operating under the Best Buy Mobile brand, and a home computing customer service business in the UK under the Geek Squad brand. The Carphone Warehouse is Europe's largest independent retailer of mobile phones and related services, with over 2,400 stores across nine countries. Having successfully test marketed several stand-alone Best Buy Mobile stores in the U.S., Best Buy offered to acquire 50% of The Carphone Warehouse's European business for \$2.1 billion. The deal was concluded on June 30, 2008, making Best Buy the owner of a 50% stake in the European firm's entire retail operations, including the insurance operations, and the airtime reselling business. While both companies declined to say how many Best Buy stores will open in Europe, they did say the stores will come in a range of sizes and will start opening in 2009. Best Buy's investor relation literature indicates that the first European Best Buy store is expected to be opened in the U.K. in the summer of 2009. In October 2006, Carphone Warehouse provided details of its European expansion plans, and talked about 100 Best Buy stores built within the next five years.

2. Mission

According to the company's annual reports, Best Buy's vision is to make life fun and easy for consumers. The company's stated mission is to treat customers as unique individuals, meeting their needs with end-to-end solutions, and engaging and energizing its employees to serve them, while maximizing overall profitability.

3. Strategy

The company's business strategy is to maximize long-term revenue growth, and is based on two main aspects: consumer centricity, and international expansion. The company's business strategy is to maximize long-term revenue growth, and is based on two main aspects: consumer centricity, and international expansion.

Consumer Centricity

Best Buy has been talking about customer centricity for the last five years. According to the company CEO, Best Buy is being re-engineered from a product-centered company to one with the capability to provide a trusted perspective in this exciting but challenging digital era. Best Buy intends to become a “trusted advisor capable of helping customers use technology the way they dreamed”. By learning how to see the differences in the desires of its consumers, Best Buy believes it will be better able to meet them. Stores operating under the customer centricity model offer variations in product assortments, staffing, promotions and store design, and are focused on key customer segments. The segmented stores tailor their store merchandising, staffing, marketing and presentation to address specific customer groups.

By the end of fiscal 2007, Best Buy had completed the transition of all of its U.S. Best Buy stores to the customer centricity operating model. Also in fiscal 2007, Best Buy improved its customer centricity segmentation to address the needs of customer lifestyle groups, rather than specific customer groups. For example, Best Buy stores now focus on lifestyles such as affluent suburban families, trend-setting urban dwellers, and the closely knit families of Middle America.

Growth

Best Buy has the track-record of a high growth company. In order to continue increasing revenue growth, Best Buy extended new and improved offerings to the consumer with the launch of Best Buy Mobile, the Apple store-within-a-store roll-out and the addition of Dell computers. The second component of Best Buy's growth strategy is to increase its international presence, as illustrated by its significant investments in Canada and China, and the creation of Best Buy Europe. The company also intends to explore several new revenue categories, customer segments and businesses that are adjacent to or complementary to what they have today. For example, Best Buy plan to extend its offerings of select musical instruments to more U.S. Best Buy stores, to continue to expand offerings to female and Hispanic customers, and to begin selling private-label products to other retailers internationally.

4. Customers

Looking forward, Best Buy's investment plans for 2009 include the opening of approximately 140 new stores, adding more Apple store-within-a-store locations, launching Best Buy stores and Web sites in Mexico and in Turkey (early 2010), and continue its expansion into the European market.

Best Buy customers are mostly individual consumers, which Best Buy categorizes in three main segments: affluent suburban families, trend-setting urban dwellers, and the closely knit families of Middle America. While the majority of Best Buy's customers are American consumers, the international proportion of customers has is growing at a fast pace, with revenue from the international segment now representing 17% of Best Buy's total revenue.

5. Suppliers

Best Buy's success partly depends on its ability to offer customers a broad selection of name-brand products and, therefore upon satisfactory and stable supplier relationships. In fiscal 2008, Best Buy's 20 largest suppliers accounted for just over 60% of the merchandise purchased, with five suppliers — Sony, Hewlett-Packard, Samsung, Apple, and Toshiba — representing just over one-third of total merchandise purchased. The loss of or disruption in supply from any one of these major suppliers could have a material adverse effect on the company's revenue and earnings, and while Best Buy generally does not have long-term written contracts with its major suppliers, there is no indication that any of these suppliers plans to discontinue selling them merchandise. Best Buy has not experienced any significant difficulty in maintaining satisfactory sources of supply, and expects that adequate sources of supply will continue to exist for the types of merchandise that it sells.

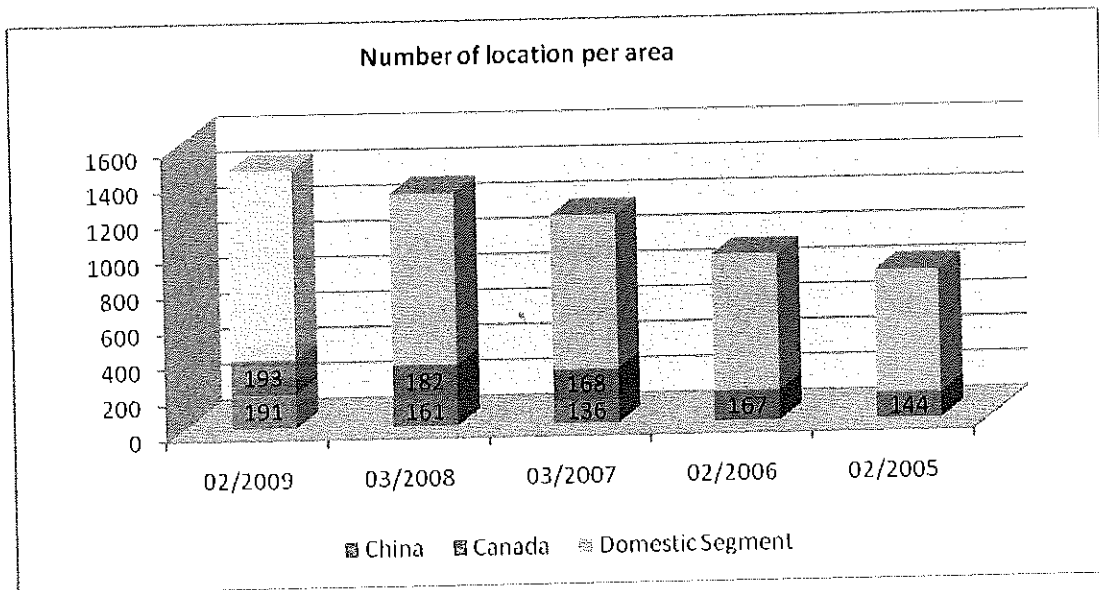
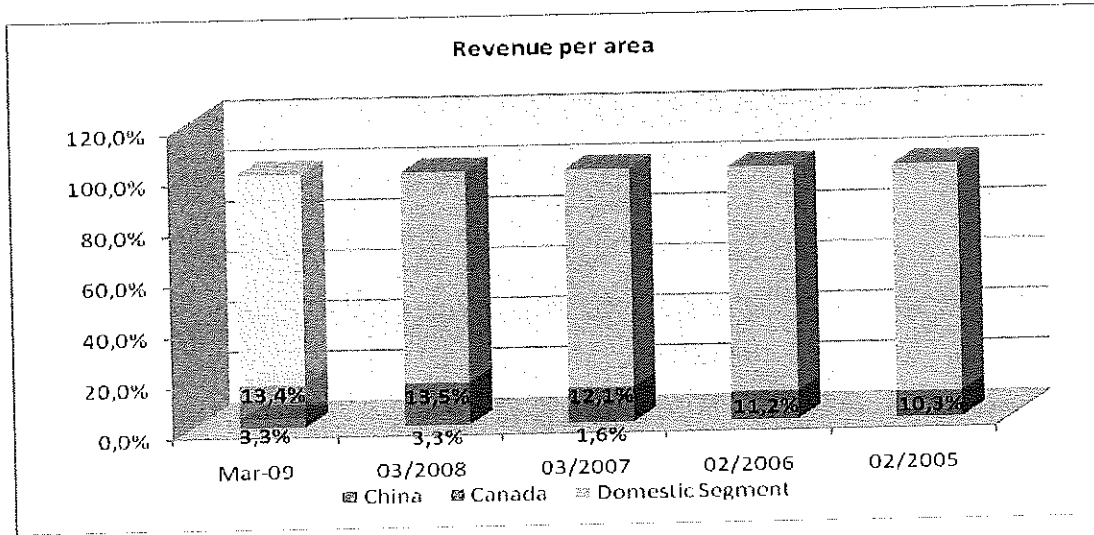
As of March 1, 2008, the percentage of shares beneficially held by directors and executive officers (28 people) was 19 percent. Founder and Chairman Richard M. Schulze held almost 70 million shares beneficially (approximately 17 percent of shares outstanding).

6. Market and Insiders

As of Dec. 31, 2007, the top institutional shareholders were:

- Capital World Investors 54.1 million shares
- Capital Research Global Investors 29.3 million shares
- The Goldman Sachs Group, Inc. 25.6 million shares
- State Street Global Advisors 12.2 million shares
- Vanguard Group 10.9 million shares

7. Geographical Segmentation



8. Latest Developments

01/21/09

Best Buy Co., Inc. announced that its Board of Directors has appointed Brian J. Dunn to the position of Chief Executive Officer, as part of the Company's succession plan. The appointment is effective on June 24, 2009. Dunn, currently is the Company's President and Chief Operating Officer. In addition, the Company also announced that Bradbury H. Anderson, Vice Chairman and Chief Executive Officer, intends to retire as Chief Executive Officer on June 24, 2009.

02/10/09

Global Markets Direct Financial Deals Tracker reported that Best Buy Co., Inc. acquired 25% stake in Jiangsu Five Star Appliance Co., Ltd., consumer electronics retailer, for a purchase consideration of \$185 million paid in cash. After the acquisition the Company owns 100% stake in Jiangsu Five star.

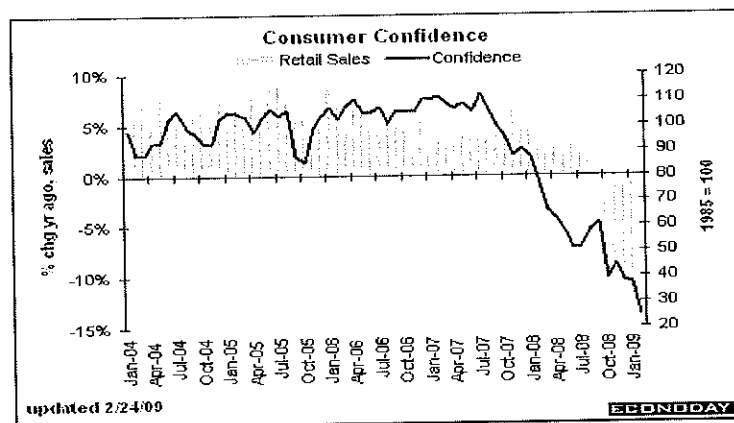
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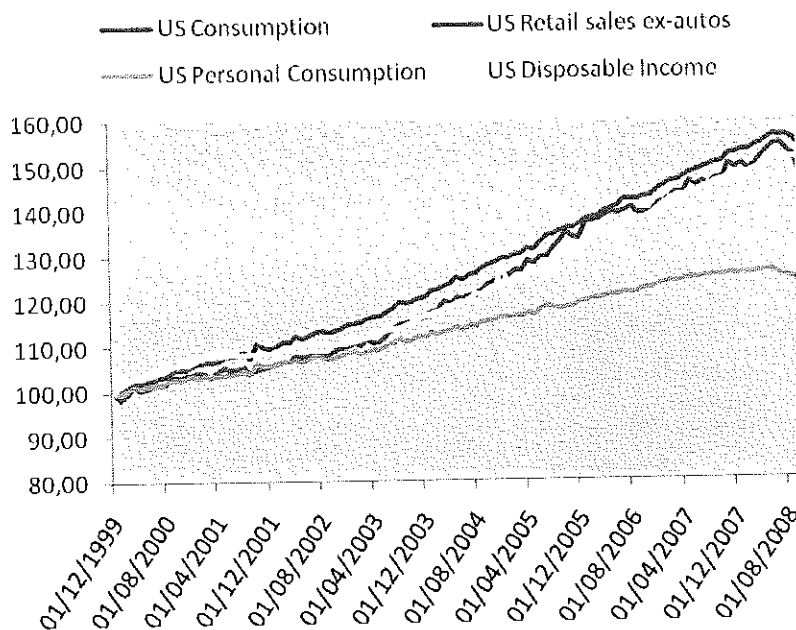
Best Buy Co., Inc. announced that for fiscal 2010, it expects revenue of \$46.5 billion to \$48.5 billion (which assumes \$700 million of pressure due to fluctuations in foreign currency exchange rates), an average increase of 6%, a comparable store sales change of flat to down 5% and earnings per diluted share of \$2.50 to \$2.90, which represents an average decrease of 6% versus fiscal 2009's adjusted diluted EPS. According to Reuters Estimates, analysts were expecting the Company to report revenue of \$47.866 billion and EPS of \$2.45 for fiscal 2010.

INDUSTRY ANALYSIS

1. Industry Overview

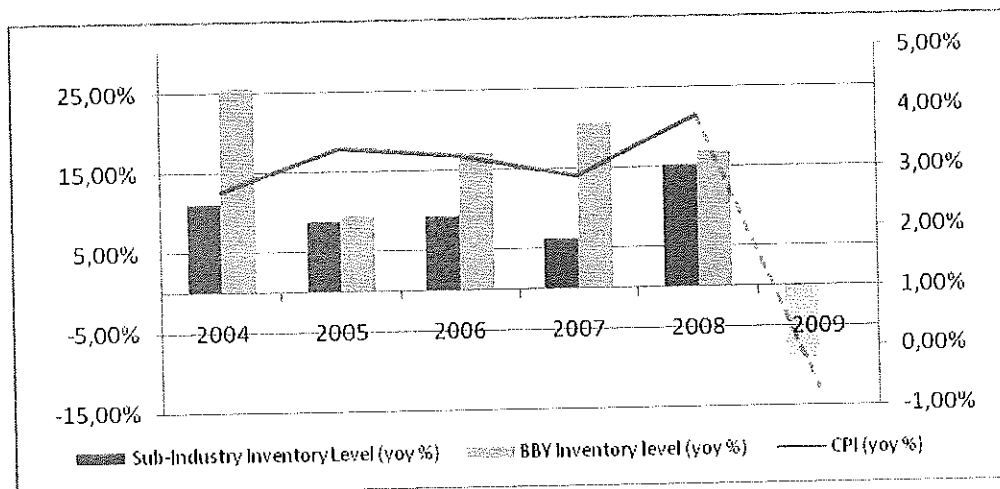
Best Buy Co., Inc. is a member of the consumer electronics store industry. This industry includes 24,000 stores with combined annual revenues of over \$50 billion. This is a highly concentrated industry with the 50 largest firms capturing 80% of total sales. Consumer electronics retailers include national and regional chains and independent retailers. Major chains as well as some regional chains may offer a "superstore" format, which can exceed 30,000 square feet store. Superstores are most often located in large malls in high traffic areas. Other chains may have smaller retail stores located in indoor shopping or strip malls. Chains may also offer a limited selection of products through kiosks, also typically located in malls.





Technological innovation and the need to replace or upgrade products drives demand in this industry. Profitability for individual companies depends on their ability to generate store traffic and repeat business. Large companies, like Best Buy, can offer a wider selection of products, at various prices. Smaller firms however, compete effectively by offering specialized products, technological expertise, or superior customer service.

2. Critical Issues Within the Industry



The retail industry is generally impacted by the change in household disposable income. Accordingly, a key success factor will be to be able to quickly adjust the inventory level to the demand, in order to reduce costs related to inventory. We have compared on the graph above the CPI growth and the change in inventory level for the sub industry and for Best Buy. From 2002 to 2005, the consumer spending index has increased, before recognizing a

downturn. Through the years, we can note that each time there was a decrease in consumer spending index; the sub industry and especially Best Buy was not really successful in adjusting its inventory level. In 2009, Best Buy and the industry plan to decrease their inventory level when the CPI is expected to be -0.7%. The question is if this adjustment in inventory level will avoid an oversupplied market in 2009.

The market is highly saturated and dominated by large retailers making the barriers to entry high. Large retailers such as Best Buy and Wal-Mart have very strong relationships with their suppliers and well established strategies. Additionally, Best Buy and Wal-Mart have higher levels of bargaining power with customers and suppliers because of the size of their distribution channels. While a small specialty retailer may enter the market, the power of larger competitors would most likely drive them out by price-cutting or strength of reputation alone. This price war is partially responsible for Circuit City's collapse. Since Circuit City declared bankruptcy in November of 2008 and is now being liquidated, Best Buy and Radio Shack have seen an increase in their market share from former Circuit City consumers.

3. Barriers to Entry

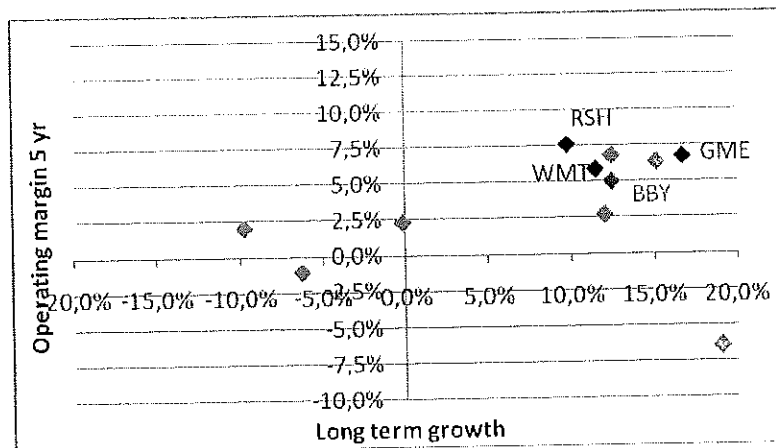
Effective inventory management is critical in order for competitors to meet the demand for certain products while also limiting costs associated with the holding period of inventory. The cost of stocking excess inventory averages 20% to 25% of the value of the goods, according to Lehigh University professor Lawrence Snyder. With rapid advances in technology, and substitute products being released on the market, demand for older products plummets. GXS, a business-to-business supply chain consultant, estimates that the industry loses \$2.5 billion annually on obsolete inventory. In order to deal with these changes; it is imperative that companies within this industry engage in accurate sales forecasting. Using integrated computer systems allows companies to keep track of inventory levels so that supply constantly meets demand.

4. Drivers of Profitability

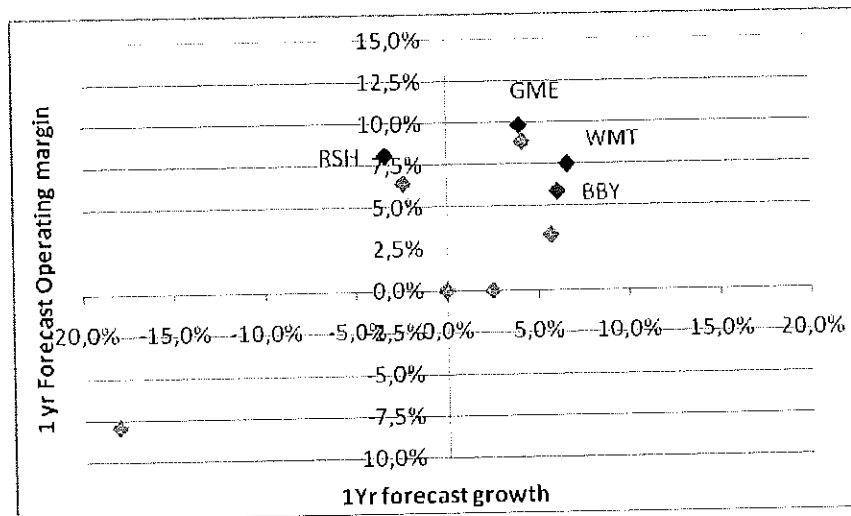
The ability to keep prices low strongly affects profitability in this industry. Although Best Buy commands a large portion of the market share, they lose business to those companies that offer lower prices to their customers. In order to keep prices low, electronic retailers must keep strong relationships with suppliers. Large retailers are usually able to buy their products directly from large manufacturers while independent retailers are forced to purchase merchandise through buying groups which makes cost of goods sold significantly higher. Best Buy purchases most of its products directly from large manufacturers and relies on five suppliers for about 30% to 50% of its products. This allows them to maintain competitive pricing.

Keeping up with advances in technology also drives profitability within this industry. With new products constantly being introduced, companies must make sure they are able to put these products on their shelves. If competitors are able to supply customers with a specific product through a licensing or contract agreement, Best Buy will lose out on sales. Electronic retailers must make sure they are able to meet the demand for "hot" items such as video games, consoles and MP3 players. In order to meet expected demand, retailers place purchase orders to suppliers in advance. In most cases, there are no returns to manufacturers. Once a store has taken delivery of an item, it owns it.

The cross analysis graphs are attempts to describe how the members of the electronics stores sub-industry progress in term of growth on the current and estimated figures.



We can note that most of the sub-industry players are in the same range of long term growth and operating margin. Best Buy and its direct competitors are above the sub-industry averages of 8.4% and 3.4% for the long term growth and the five years operating margin respectively.



The dispersion in revenue growth and operating margin is more important for the next year. According to the estimates the industry is going to generate fewer sales with only 1.9% of revenue growth in average compared to 8.4% the past five years. This is explained by the decrease in household disposable income and home sales crisis. However, we are pleased to note that the industry will successfully adjust their operating expenses and generate a better operating margin of 7.7% compared to 3.4% in average for the past five years.

5. Competitors

BBY is currently the largest specialty retailer of consumer electronics in North America. This industry is very competitive and is often associated with low profitability. Companies in this industry differentiate on pricing, products offered, or the customer experience in order to capture the market. When largest direct competitor Circuit City filed Chapter 11 bankruptcy in November 2008, Best Buy gained significant market share. Now Best Buy's main competitors consist of Amazon.com, RadioShack Corporation, and Wal-Mart. The chart below gives a company comparison based on key fundamentals.

Company	Market Cap (\$Mil)	TTM Sales (\$Mil)	Long Term Growth (%)	Current EPS	Forward EPS	Current P/E	Forward P/E
Best Buy	13,833	43,709	12.67	0.27	2.53	13.25	12.04
Amazon.com	31,029	19,166	23.06	0.3	1.46	47.63	49.55
RadioShack	1,176	4,225	9.8	0.21	1.16	6.14	8.08
Wal-Mart	202,718	399,884	11.5	0.76	3.52	15.11	14.68

Wal-Mart currently is Best Buy's greatest threat because of their ability to offer lower prices. As the economy continues to suffer, Wal-Mart will continue to do well because consumers will seek out stores where they know they can find the lowest prices. Target and Costco also tend to beat Best Buy in terms of pricing and have taken away from Best Buy's sales. In addition, Best Buy has lost market share to companies such as Amazon.com that sell electronics via the internet. Consumers enjoy the convenience of online shopping and find that it makes comparison of products easier allowing them to shop around for the deal.

Best Buy differentiates itself from its competitors with its customer service and their "unmatchable" selection of merchandise. As a result, boutique stores such as RadioShack have a tougher time competing with Best Buy. RadioShack is Best Buy's most direct competitor since the fall of Circuit City despite its significantly smaller market cap and product offerings. However, most of RadioShack's products are focused around wireless communications. Best Buy not only offers more consumer electronics but also offers Best Buy Mobile in-store Best Buys and Best Buy Mobile stand alone stores. This strategy has successfully taken over a large portion of RadioShack's market share.

Smaller players in the industry include Conn's Inc., HHGregg Incorporated and Rex Stores Corporation. These companies have market share of less than 500. Certain companies such as Gamestop and Sears tend to dominate sales of certain items such as videogames and washing machines, respectively. By focusing on the shopping experience and its wide assortment of products, Best Buy is in a better position to act on new growth opportunities. Once the economy turns, it is likely that Best Buy will stand out against competitors and become the dominant specialty retailer within the consumer electronics industry.

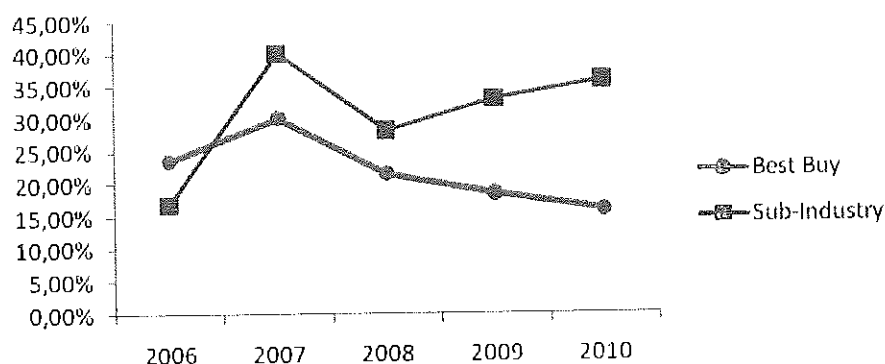
COMPANY ANALYSIS

1. Ratios (company vs. competitors vs. industry)

The DuPont Analysis will be used here to determine where the company is underperforming, or outperforming the industry. We explore this by breaking down into 3 pieces the Return on Equity ratio as the multiplication of:

- Profit margin, measuring operating efficiency.
- Total Asset Turnover, measuring asset use efficiency.
- Equity multiplier, measuring financial leverage

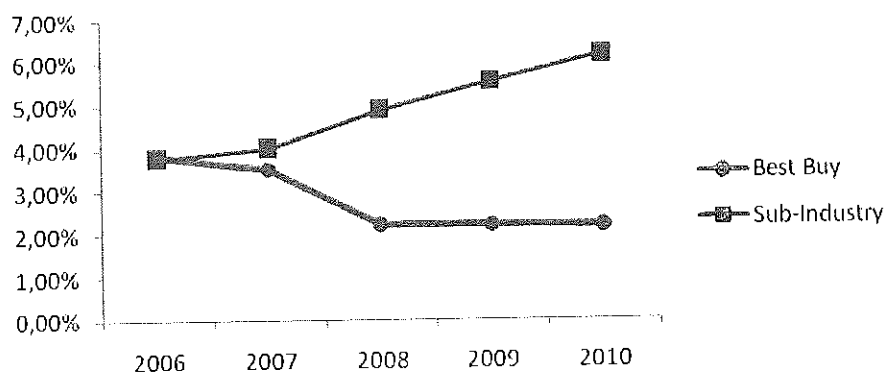
Return on Equity



Best Buy is underperforming the industry as indicated by Return on Equity, with a spread going from +6.75% in 2006 to an estimated -19.95% in 2010. While Best Buy follows a negative trend over the last four years, the industry is likely to see a recovery in 2008. Net income is going to decrease because SG&A expenses will represent a larger proportion of costs in conjuncture with the fact that revenue growth is decreasing.

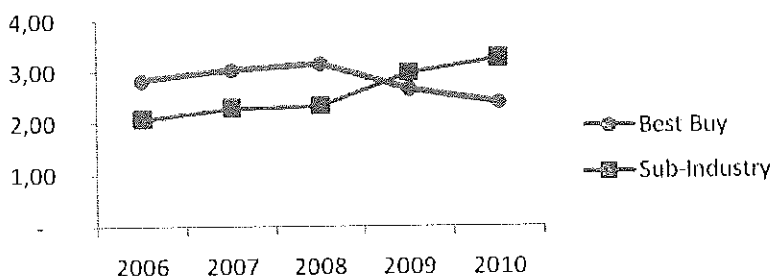
If you look at the three graphs below, you will find that the most concern about Best Buy in the DuPont analysis is the profit margin ratio. In fact, according to expectations, the spread between both Profit Margins (BBY vs. sub-industry) will reach a peak of 0.86% in 2010. On the Profit Margin graph, this is represented by a positive trend for the industry, while BBY experiences a negative trend over time.

Profit Margin



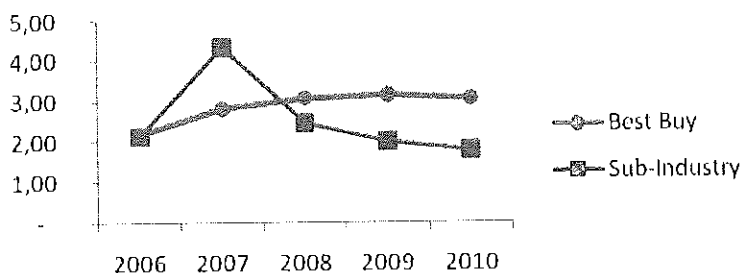
Total Asset Turnover, Best Buy was outperforming its industry, but should underperform by 0.86 points its competitors in 2010, which is not a good news for the company. Revenue growth is expected to decline in future years due to the state of the economy, lengthening the total asset turnover ratio, Best Buy will not be able to turn over their assets as quickly as they had in previous years.

Total Asset Turnover



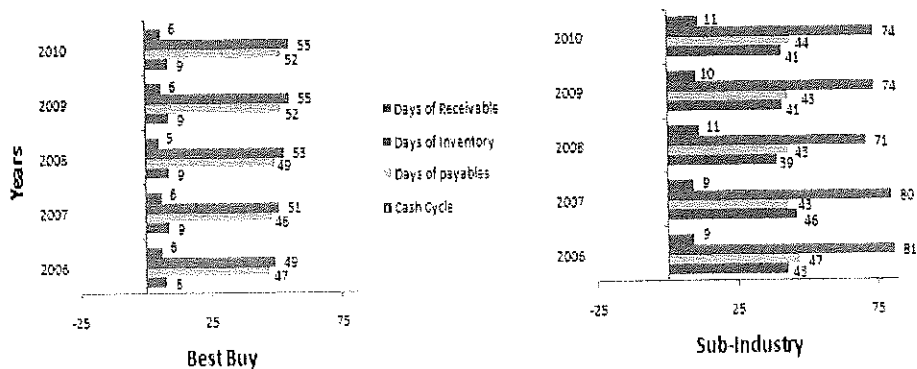
Looking at the graph below, it appears that Best Buy will become more leveraged than the average of its closest competitors in the two coming years, with a spread of 1.27 points in 2010.

Equity Multiplier



If we take a look at the historical and forecasted Cash Conversion Cycle between Best Buy and its competitors, we notice on the barcharts below that BBY has a better management at collecting its receivables (-3 days, in red). Besides, an average negative spread of 21 days of Inventory between BBY and its industry tends to prove that BBY is able to turn its inventory into sales quicker than its competitors. The third component known as the number of days payable is in average ten days higher for BBY, which is good because it allows the company to payback its payable later in time. As an overall the CCC for BBY is steady with a difference of -5 days in average, and demonstrates the strenght of BBY at inventory, receivables, and payables management.

Cash Conversion Cycle



2. Risk Analysis

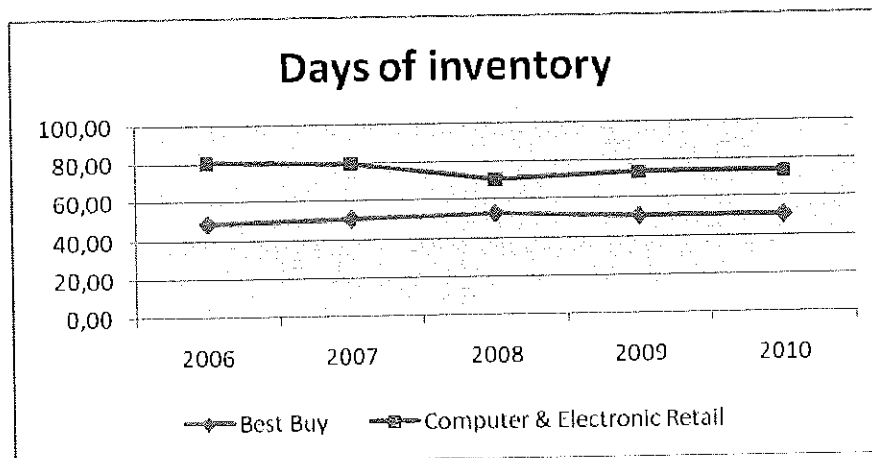
The table below depicts some general features from the balance sheet and the income statement that are important to look at in assessing the risk of the company.

	2005	2006	2007	2008	2009 Est.	CAGR
Revenues	27,433	30,848	35,934	40,023	45,015	10.41%
A/R	375	449	548	549	1,868	37.87%
Inventories	2,851	3,338	4,028	4,708	4,753	10.76%
EBITDA	1,443	1,721	2,130	2,228	1,700	3.33%
Short term Debt	4,959	6,056	6,301	6,769	8,435	11.21%
Long Term Debt	886	551	1,068	1,505	2,748	25.41%

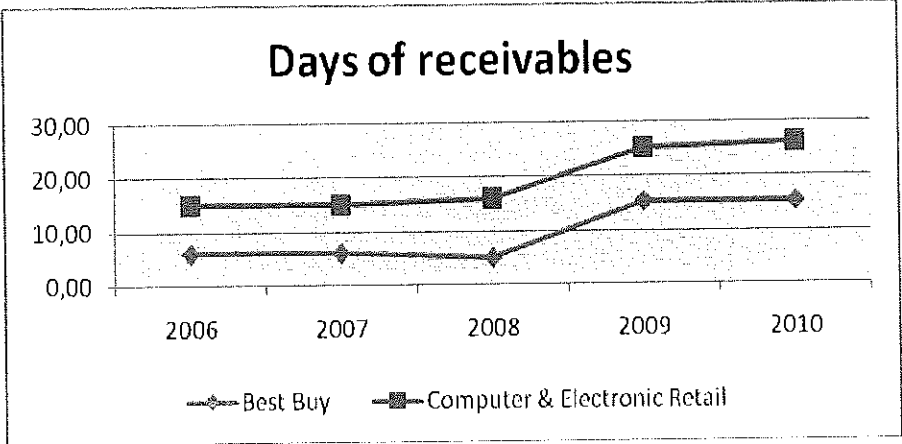
In order for the business to perform well next quarter and avoid any liquidity issues, revenue growth has to be higher than that of receivables and inventories. If a firm is having difficulty collecting money from its customers, its receivables will grow from quarter to quarter and may be higher than the growth in revenues. This would be a bad scenario for the company because it would have to finance these receivables using money from its cash flow, as revenues would not grow at the same rate. This also holds true in regards to inventories, as financing inventory in the future will come from its cash flow; i.e. the cash flow has to be sufficient enough to cover these costs in addition to short term liabilities.

In BBY's case, both account receivable and inventory are growing at a higher rate (37.87% and 10.76% respectively) than the revenue (10.41%). The surge in account receivable from 2008 to 2009 may be explained by the increase in market share after the exit of Circuit City, in conjuncture with increased sales and market share abroad. As mentioned earlier revenues in Canada have been increasing, and it is fair to assume that some of these revenues will be in the form of account receivables placed on Best Buy Rewards Cards. However, this is not entirely good news for the firm. It is uncertain whether management will be able to efficiently handle the increase in accounts receivable at almost triple the rate of that of 2008.

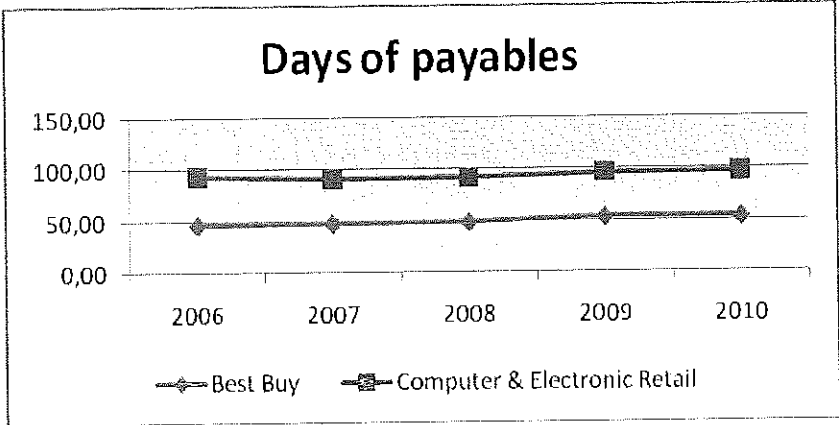
Inventories are increasing at a slightly higher rate than the revenues' growth. The reason why it is increasing is because Best Buy's customer demand for electronic goods is increasing due to the fall of Circuit City. As stated by management in the Q4 conference call, it will take a while for Best buy to adjust their inventory levels to the current demand.



Days of inventory as depicted in the graph above shows that Best Buy is performing better than the industry. In 2006 Best Buy's measure was only 49 days compared to the industry, which had almost double that at 81 days. Best Buy's trend of outperforming the industry is forecasted to continue, however, Best Buy's days in inventory are increasing in 2010 while the rest of the industry has a downward trend.

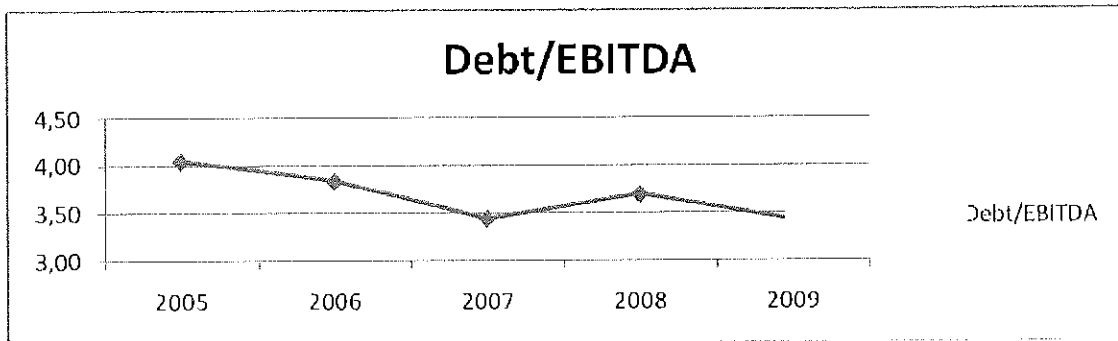


As depicted above Best Buy's days in receivable measures increases dramatically from fiscal year 2008-2009. This jump in the ratio is due to increased consumer demand and spending on credit. This can be attributed to the exit of major competitor Circuit City as well as the increase in foreign market share. However, they are taking a longer time to collect on receivables as well. This could be because of changes in company credit policy. The industry is growing as well. It is possible that in order to spur consumer spending, firms are relaxing credit policies, or it could point to financial difficulties of consumers to pay on time. Best Buy's Days of receivables went from 6 days in 2006, to more than double that at a forecasted 15 days in 2010. In contrast, the industry ratio is rising as well, but at a much slower rate, only a 22% increase in 2010 as compared to fiscal year 2006.



Days of payable decreases for the industry 7% from fiscal year 2006 to 2010. Best Buy's days of payable rises over this time period at an increase in 2010 as compared to 2006 of 12%. Best Buy may be stretching out their payment to suppliers. This increase is expected in fiscal years 2009-2010.

The debt to EBITDA ratio below helps us to determine the number of years the company is going to pay off all its debt it has. The ratio has been decreasing from 2005 to 2008 but increased in 2008. The main reason why is because the company borrowed \$2,500,000,000 in September 2007. The ratio is declining since 2005 because revenues increased almost 15% and EBITDA by almost 16%. The company has been able to generate high revenues' growth as compared to its debt's growth (11%). This is why it will take only 3.43 years currently to pay off its liabilities.



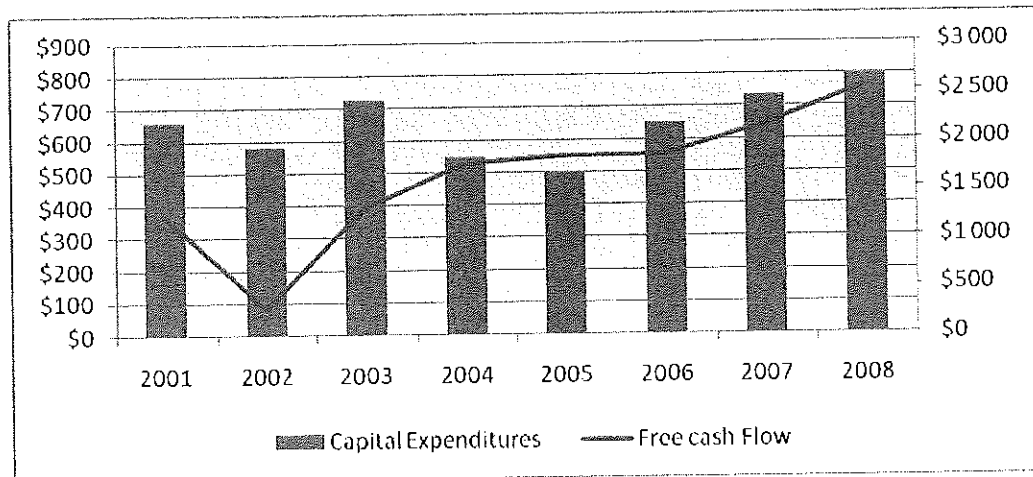
As mentioned, the company has three main debts to pay off but two of them mature in 2009: \$200,000,000 matures in December and \$2,500,000,000 matures in September. Best Buy will have to find the money to fund them using its cash flow. The issue is that the net change in cash has been decreasing from 2007 to 2008 by 49% mainly because it has been issuing stocks last year (\$3,315 Million). The free Cash flow is expected to be \$1 Billion in 2009. Best Buy will have to find the fund missing necessary to fund these debts. This can be harmful for the company as it will have to contract another debt meaning interests to pay.

The return on invested capital (18.68%) is higher than the WACC (11.35%). This shows that the company is more profitable than the industry which has an ROIC of 15.08%. Moreover, the Altman Z-score is 3.40 meaning the company is not expected to bankrupt.

To sum up, Best Buy is doing well in terms of generating enough revenues to cover its receivables as well as inventories and it is able to pay its supplier later allowing the company to get a small cash cycle. It only will take 3.43 years to pay off all its debt as the ratio is going down. It is generating economic value as the ROIC is higher than the WACC by 3% as measured by the EVA spread. However, some debt Best Buy contracted in 2004 and 2007 needs to be paid off this year. Knowing their expected free cash flow, the company will have to find the resource to pay them off, which could be an issue at the end of this year.

3. Cash Flow Analysis

Part of Best Buy's strategy has been to aggressively expand into foreign markets, namely Europe and China. As stated in their Annual Report and fourth quarter conference call, they expect to continue to fund this expansion internally using free cash flow and through reductions in inventory expenses. The graph below depicts how much cash flow the firm has generated per annum as compared to their capital expenditure costs. We can see that they were managing their cash well historically, because their Free Cash Flow has always exceeded their capital expenditures. For example, in 2008 Free Cash Flow was three times as much as their capital expenditures. CFO James Muehlbauer stated, "We are going to make improvements in our working capital, and some of that is going to come from...the utilization of our inventory turns. The combination of the level of expense reductions that we've taken coupled with basically taking our core Capital Expenditures down 50% year over year is going to provide a lot more flexibility from a cash flow standpoint for the year."



The cash flow from operating activities minus their net income is a positive indicator because it shows that the cash generated by the firm is not solely net income. The Cash flow from Operating Activities minus capital expenditures shows that the firm is not spending all of their capital on these expansion projects, and still has enough cash to add value to the firm in other ways. Cash Flow from Operating activities minus Operating Cash Flow shows that it is really cash on hand and not funds tied up in accounts such as accrued accounts receivable. Free Cash Flow measures how much cash the firm has available, and this amount has been increasing year after year, proving that the company has managed its funds well.

Cash Flow Analysis	2004	2005	2006	2007	2008
CFFO-Net Income	\$ 630	\$ 997	\$ 600	\$ 385	\$ 618
CFFO- CAPEX	\$ 1,880	\$ 2,483	\$ 2,388	\$ 2,495	\$ 2,822
CFFO-OCF	\$ 68	\$ 592	\$ 168	\$ (65)	\$ 99
Free Cash Flow:	\$ 1,763	\$ 1,836	\$ 1,850	\$ 2,162	\$ 2,551

4. Valuation

Best Buy has a market cap of \$15.73 billion when the median industry market cap is only \$2.4 billion. The company could be considered the leader of the industry if not for Wal-Mart which is 10 times larger than Best Buy. According to the company analysis, Best Buy seems to be a promising company but the figures below may show us another point of view as compared to the industry.

	Current	Next quarter Estimate	Next year Estimate
Firm EPS	\$2.94	\$1.40	\$2.46
Firm PE	11.31		13.51
Firm CFPS	\$4.68	NA	\$4.28
Firm PCF	7.15		7.82
Firm SPS	\$105.72	\$109.12	\$115.78
Firm PS	0.31		0.29
Firm BS	\$0.06	NA	NA
Firm PB	0.32		NA
Firm DY	1.59%	1.62%	1.65%
Industry EPS	\$1.62	\$1.53	\$2.17

Industry PE	16.57		12.4
Industry CFPS	\$1.56	\$1.08	\$4.51
Industry PCF	17.23		5.95
Industry SPS	\$32.09	\$38.25	\$44.56
Industry PS	0.84		0.6
Industry BS	\$0.22	\$0.16	NA
Industry PB	0.84		NA
Industry DY	NA	0.61%	2.05%
Industry LT Growth	13.77%	NA	16.73%

The company's current price to earnings ratio, price to cash flow and the price to book are lower than the industry median, but the next year pro forma are less pleasant. The company will return 16% less, negatively impacting the P/E ratio. Best Buy's P/E ratio will increase by 2.20 points, while the industry will decrease by 4.17 points. Although the company is overvalued compared to its peers, it will have a higher required rate of return because of its higher P/E ratio. The P/CF upward trend also confirms our previous analysis on the P/E ratio. The industry will be more successful in reducing its operating expenses generating higher cash flows than Best Buy. This could also be attributed to Best Buy's expansion plans. Their strategic initiative to expand into foreign market may reduce their cash flow as they fund this growth. The company stated in their 2008 Annual Report that they will not finance any expansion plans through debt, they feel that their investments cash and cash equivalents will suffice for the next fiscal year.

The sale per share ratio shows us that BBY is able to have more sales than its peers. BBY Sales per share is \$115.78 when the industry median is only \$44.56. However, the industry SPS ratio will grow by 39% while Best Buy's grows by only 10%. This can be explained by the fact that their competitors are actively working to steal Best Buy customers. Another characteristic of an undervalued stock is the dividend yield. Best Buy use to have a higher dividend yield. But in the future the company is going to decrease its dividend yield. The company plans to expand into unfamiliar markets such as China and Europe. The company may have to reduce its payout ratio to finance its expansion plan.

5. SWOT Analysis

Strengths

Best Buy recently announced strong earnings for Q4. They have increased their net revenue by 10% as compared to Q4 2008. Best Buy has amplified their domestic market share by 1.2%, most likely because of their major competitor Circuit City filing Bankruptcy. Best Buy has built 213 stores within the last year and plans on building 65 more in 2010. They have also launched successful in-house initiatives which have enhanced their brand name brand name, such as Geek Squad and the Apple store within 357 of their US stores. The firm has been proactive in withstanding a tough macroeconomic environment. Best Buy has cut the amount of inventory held at their stores along with cutting SGA expenses. They are still growing in time of recession, by building more stores in Europe and China. Best Buy remains a dominant player in the electronics industry despite major changes within the sector over the course of the year.

Weaknesses

Best Buy is a firm that sells products which can be considered luxury goods. Because of the decrease in consumer sentiment along with macroeconomic patterns, they can rarely forecast short term sales. Consumer electronics firms remain sensitive to changes in housing markets and interest rates. Customer loyalty is uncommon within this industry; price is the main determinant of where the consumers will spend, which can be detrimental with competitors such as Wal-Mart.

Opportunities

Best Buy has found expansion opportunities in Europe and China. Next year they plan on building 20 new stores overseas. They plan to open 5 to 8 new stores in China this year alone in 2009. The firm has also made it apparent that they would like integrate newer business models and concepts within their stores. This would include the introduction of more Best Buy Mobile Kiosks, which have been proven successful in New York and North Carolina stores. They also continue to acquire more technological businesses as they have year over year since 2001 which boost their product diversity in their stores. An example of this would include Pacific Sales, which specialize in kitchen products and home theater systems.

Threats

Best Buy must constantly be stocking their shelves with the latest technological advances. The firm must also be sensitive to changing pricing strategies from competitors because of weak consumer loyalty within the industry. Best Buy must keep a watchful eye on online retailers and warehouse discounters that aim to steal customers from them. Emerging market share from Wal-Mart because of the fall of Circuit City must also be assessed and combated with a competitive strategy.

6. Target Prices

Target Prices	
Reuters	\$39.90
Bloomberg	\$40.22
Yahoo	\$40.26
Thomson One	\$41.00
Siena Target Firm price	\$ 39.97
68 percentile Target Price	\$ 37.88
95 percentile Target Price	\$ 35.78
99 percentile Target Price	\$ 33.68
Target Firm Price Volatility	2.1
Target Firm Return	22.05%
Siena Industry Target Price	\$ 20.31

We are issuing a BUY for Best Buy. We are basing our decision on many fundamental indicators. Best Buy has very high potential for growth. As the corporation begins to increase the amount of international stores in Europe and China, and acquire more technological businesses which increase product diversity. They are slowly yet steadily increasing their domestic market share and while enhancing their brand name worldwide.

Despite the fact that the company has had high operating expenses and has debt on their balance sheet, they are beginning to make a strong effort in lowering their capital expenditure and reducing their debt. Best Buy has seen a 12.4% sales growth over the past 5 years. They are also holding strong during this tough macroeconomic environment by holding fewer inventories in the stores and pricing their products competitively. With the recent fall of Circuit City, Best Buy is better positioned to gain market share domestically. Our Siena target price is \$39.97 which is much higher than the current stock price.

APPENDIX

Siena Stock line Best Buy Company Incorporated

Company Name	BEST BUY	Ticker	BBY
Current Price	\$33.26	Target Price	\$36.87
Recommendation	BUY	Date	1/24/2009

1. Market Data

Market Cap	\$11,884,761,449	1-Yr Price Avg	\$30.85%
Price to Book	3.77	Country (s)	USA, Canada, France
ROE	1.83	Industry	Computer Retailer (Retail)
Dividend Yield	1.73%	Market Industry Price	\$35.75
Market %	2.24%	Industry Beta	1.15
Current Price	\$33.26	Dividend Yield (Historical)	2.07%
52-Week Range	\$27.21	Risk Premium	2.55%
Major Holdings		Subsidiaries of Stocks or Indices	
Ticker	BBY	Name and Title	Address
Website	bestbuy.com	Market Data (Market)	Market Size: 17,711 shares
Company Website	bestbuy.com	Market Data (Index)	Market Size: 1,000 shares
Capital Resources (Total)	2.16%	Market Data (Sector)	Market Size: 1,000 shares
Debt	2.16%	Market Data (Country)	Market Size: 1,000 shares
Equity	2.16%	Market Data (Region)	Market Size: 1,000 shares
Breakdown	2.16%	Market Data (Industry)	Market Size: 1,000 shares
Market Data (Sector)	2.16%	Market Data (Country)	Market Size: 1,000 shares
Market Data (Region)	2.16%	Market Data (Region)	Market Size: 1,000 shares
Market Data (Industry)	2.16%	Market Data (Country)	Market Size: 1,000 shares
Market Data (Country)	2.16%	Market Data (Region)	Market Size: 1,000 shares
Market Data (Region)	2.16%	Market Data (Country)	Market Size: 1,000 shares
Market Data (Industry)	2.16%	Market Data (Region)	Market Size: 1,000 shares
Market Data (Country)	2.16%	Market Data (Country)	Market Size: 1,000 shares
Market Data (Region)	2.16%	Market Data (Region)	Market Size: 1,000 shares

2. Country Macro Analysis

	5 years Historical (Average)	Current	1-year Estimate
Country 1 - Europe			
Real GDP Growth	1.13%	-2.01%	0.56%
Inflation	2.00%	0.20%	0.85%
Foreign Debt as % GDP	N/A	N/A	N/A
Unemployment Rate	7.94%	8.36%	9.51%
Currency Exchange Rate (EUR/USD)	\$1.34	\$1.44	\$1.39
Political Risk Rating (out of 100)	83.77	81.13	80.7
Financial Risk Rating (out of 100)	78.25	76	69.8
Economic Risk Rating (out of 100)	81.56	78	74.4
Country 2 - USA			
Real GDP Growth	1.46%	1.07%	-1.90%
Inflation	3.20%	3.85%	-0.70%
Foreign Debt as % GDP	41.31%	31.80%	21.04%
Unemployment Rate	5.12%	5.80%	6.70%
Currency Exchange Rate (EUR/USD)	\$1.34	\$1.44	\$1.39
Political Risk Rating (out of 100)	80.51	83.5	83.8
Financial Risk Rating (out of 100)	64.68	66	67.3

100)			
Business Risk Rating (out of 100)	77.08	62	61.8
Company 2 - Canada			
Business Risk Rating (out of 100)			
Business Risk Rating (out of 100)			
Business Risk Rating (out of 100)			
Business Risk Rating (out of 100)			
Business Risk Rating (out of 100)			
Business Risk Rating (out of 100)			
Business Risk Rating (out of 100)			
Business Risk Rating (out of 100)			
Business Risk Rating (out of 100)			

	5-year historical (average)	1-year historical (average)	1-year forecast
Return			
BBY	1.06%	-11.81%	22.05%
Computer & Electronic Retail	-6.37%	-57.25%	14.91%
USA	-9.97%	-53.71%	-45.52%
CANADA	0.94%	-56.49%	-49.36%
EUROPE	-8.59%	-65.85%	-51.98%
World	-8.70%	-57.42%	-46.31%

Assets			
Assets			
Assets			
Assets			
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Assets			
Assets			
Assets			

3. Company Ratios (Cross-sections and Time series)

Company analysis		Profit Margin	Total Asset Turnover	Equity Multiplier
Best Buy				
	2006	3.91%	1.31	2.13
	2007	3.52%	1.04	2.07
	2008	1.13%	1.15	3.01
	2009	1.71%	1.66	3.15
	2010	1.19%	1.59	3.66
CarMax Inc.				
	2006	3.07%	1.04	1.82
	2007	4.02%	1.01	1.76
	2008	1.38%	1.08	1.57
	2009	1.09%	1.08	1.41
	2010	1.1%	1.05	1.56
Costco				
	2006	1.98%	1.67	1.43
	2007	4.16%	1.94	1.03
	2008	4.52%	2.12	1.90
	2009	4.95%	0.75	0.53

	2010	5.24%	8.97	0.82
Wegmans		Profit Margin	Total Asset Turnover	Equity Multiplier
	2006	2.47%	1.58	2.8
	2007	2.52%	1.59	2.85
	2008	2.70%	1.62	2.9
	2009	2.75%	1.65	2.95
	2010	2.90%	1.69	3.0
Radio Shack		Profit Margin	Total Asset Turnover	Equity Multiplier
	2006	1.34%	2.21	2.17
	2007	3.57%	2.08	2.34
	2008	4.55%	1.98	2.79
	2009	1.75%	2.31	2.15
	2010	1.60%	2.16	2.33
RecStores		Profit Margin	Total Asset Turnover	Equity Multiplier
	2006	2.10%	1.51	1.77
	2007	2.20%	1.74	1.85
	2008	1.80%	1.92	1.81
	2009	18.50%	1.95	1.87
	2010	12.02%	2.07	1.91
Wal-Mart		Profit Margin	Total Asset Turnover	Equity Multiplier
	2006	1.24%	2.41	2.38
	2007	1.36%	2.40	2.46
	2008	1.30%	2.48	2.42
	2009	1.30%	2.54	2.32
	2010	3.33%	2.62	2.18
Computer & electronic retail		Profit Margin	Total Asset Turnover	Equity Multiplier
	2006	3.18%	2.06	2.14
	2007	4.82%	2.30	4.34
	2008	4.90%	2.34	2.47
	2009	5.59%	2.97	1.80
	2010	6.17%	3.25	1.79
Target Retail		Days of Inventory	Days of Receivable	Cash Cycle
Target				
	2006	48.00	20.00	28.00
	2007	51.00	20.00	31.00
	2008	55.00	20.00	35.00
	2009	55.00	20.00	35.00
	2010	52.00	20.00	32.00
Costs Int.		Days of Inventory	Days of Receivable	Cash Cycle
	2006	55.00	18.00	47.00
	2007	63.00	15.00	48.00
	2008	60.00	15.00	45.00
	2009	62.00	16.00	46.00
	2010	63.00	18.00	45.00
Cost Stop		Days of Inventory	Days of Receivable	Cash Cycle
	2006	68.00	5.00	63.00
	2007	72.00	5.00	67.00
	2008	70.00	5.00	65.00
	2009	71.00	5.00	66.00
	2010	68.00	5.00	63.00
Hygroze		Days of Inventory	Days of Receivable	Cash Cycle

	Inventory	Days of Receivables	Cash Cycle
2006	59.00	7.00	15.00
2007	54.00	7.00	30.00
2008	54.00	7.00	28.00
2009	58.00	7.00	31.00
2010	57.00	7.00	29.00
Kroger	Days of Inventory	Days of Receivables	Cash Cycle
2006	52.00	7.00	15.00
2007	52.00	7.00	25.00
2008	52.00	7.00	25.00
2009	52.00	7.00	25.00
2010	52.00	7.00	25.00
Radio Shack	Days of Inventory	Days of Receivables	Cash Cycle
2006	124.00	22.00	67.00
2007	120.00	22.00	94.00
2008	107.00	22.00	95.00
2009	109.00	22.00	92.00
2010	109.00	22.00	91.00
Wal-Mart	Days of Inventory	Days of Receivables	Cash Cycle
2006	10.00	2.00	1.00
2007	10.00	2.00	1.00
2008	10.00	2.00	1.00
2009	10.00	2.00	1.00
2010	10.00	2.00	1.00
Computer & Electronic Retail	Days of Inventory	Days of Receivables	Cash Cycle
2006	31.00	3.00	15.00
2007	31.00	3.00	15.00
2008	31.00	3.00	15.00
2009	31.00	3.00	15.00
2010	31.00	3.00	15.00
d. Company Risk			
Capital Structure Industry			Relative Dispersion (Industry) (3 trailing yrs)
WACC Structure	Debt (After Taxes)	Equity	EBITDA C.V.
Weight	19.09%	80.91%	0.32
Cost (after tax for debt)	7.15%	14.35%	Free Cash Flow C.V.
WACC	12.35%		0.46
Capital Structure Firm			Relative Dispersion (Firm) (3 trailing yrs)
WACC Structure	Debt (After Taxes)	Equity	EBITDA C.V.
Weight	24.05%	75.95%	0.14
Cost (after tax for debt)	7.14%	14.32%	Free Cash Flow C.V.
WACC	11.35%		0.25
Debt Rating Industry Grade			Change Risk (Premium)
AAA	1%	4.00%	1.00
AA	2%	3.00%	0.50
BBB	3%	2.00%	0.25

[Not Rating Firm (code)]		Other Data (code)	
Market	Price	Market %	Yield
Cap	EV/EB	EV/EB	EV/EB
Size	EV/EB	EV/EB	EV/EB
Revenue and Costs Structure and Estimates			
1-year Estimates	Sales per share	Earnings per share	Profit Margin
Industry Mean	\$94.56	\$2.17	4.87%
Firm Mean	\$109.12	\$2.46	7.05%
Firm Median	\$108.87	\$2.64	7.42%
Firm High	\$111.41	\$2.82	7.53%
Firm Low	\$107.97	\$2.49	7.11%
Firm Standard Deviation	\$0.34	\$0.09	0.07%
1-quarter Estimates	Sales per share	Earnings per share	Profit Margin
Industry Mean	\$38.23	\$1.53	4.00%
Firm Mean	\$45.85	\$1.40	3.91%
Firm Median	\$45.56	\$1.79	3.91%
Firm High	\$58.13	\$1.56	4.06%
Firm Low	\$34.81	\$1.24	3.56%
Firm Standard Deviation	\$1.89	\$0.09	0.07%
9. Valuations			
	Current	Next year Estimate	Next year Estimate
Firm EPS	\$2.46	\$1.47	\$2.46
Firm PE	11.9	NA	11.9
Firm CFPS	\$2.46	NA	\$2.46
Firm P/B	1.5	NA	1.5
Firm EV/EB	\$109.12	\$109.12	\$109.12
Firm EV/EB	1.01	NA	1.01
Firm D/Y	0.00%	NA	0.00%
Firm P/B	1.5	NA	1.5
Firm D/Y	0.00%	NA	0.00%
Industry EPS	\$1.62	\$1.53	\$2.17
Industry PE	16.57	NA	12.4
Industry CFPS	\$1.56	\$1.08	\$4.51
Industry P/B	17.23	NA	1.95
Industry EV/EB	\$32.09	\$38.23	\$44.56
Industry PS	0.64	NA	0.6
Industry BE	\$0.22	\$0.16	NA
Industry P/B	0.64	NA	NA
Industry D/Y	NA	0.41%	7.03%
Industry LT Growth	13.71%	NA	16.73%
Score PE	2.5	NA	2.5
Score P/B	1.5	NA	1.5
Score CF	0.6	NA	0.6
Score P/B	1.5	NA	1.5
Score D/Y	0.0	NA	0.0
Score LT Growth	13.71%	NA	NA
Market PE	10.74	NA	11.79
Market P/B	1.7	NA	1.50
Market PS	1.67	NA	0.90
Market P/B	1	NA	1.40
Market D/Y	1.60	NA	3.40
Market LT Growth	11%	NA	NA
6. Target Price and Return Estimates			

Target Industry Price	50.00
Target Industry Return	12.00%
Target Industry Beta	1.00
Volatility	1.00
Target Firm Price	50.00
85 Percentile Target Price	55.00
50 Percentile Target Price	50.00
15 Percentile Target Price	45.00
Target Firm Price Volatility	1.00
Target Firm Return	12.00%
Target Firm Volatility of Return	1.00
Analyst:	Rachel Kaiman Daniel Fiedler

FUTURE WATER SHORTAGE COSTS IN THE COLORADO RIVER BASIN

Thomas Scudder, Siena College

James F. Booker, Siena College

INTRODUCTION

In performing an analysis of climate change using the Colorado River Open Source Simulator (CROSS), analyzing the results using different price elasticities of demand allows the researcher to examine different consumer and producer responses to future long run shortages in the Colorado River Basin. The CROSS model allows users to manually control several factors pertaining to future streamflows in the Colorado River Basin, including the average streamflow, climate change variables, percent reduction in usage due to conservation, and evaporation rate increase. The simulator then models future streamflow scenarios based on historical flow data combined with manual inputs to give researchers a better understanding of the effects of water shortages for Colorado River users.

Each CROSS run was performed using a different future climate change scenario and a different set of percent changes representing a reduction in flow due to climate change. Eleven different General Circulation Models (GCMs) were broken down to determine their percentage adjustment for climate change in three future time periods representing the next 111 years of climate change in the Colorado River Basin. The eleven GCM scenarios are climate prediction models from several countries and research organizations around the world.

GCM STREAMFLOW REDUCTIONS

These eleven models represent the most consistent and objective in terms of the future simulation period and emission scenarios used as well as providing the basis for the most thorough climate study of the Colorado River Basin to date (see Christensen, 2007). The GCM scenario statistics provided a percentage reduction in streamflow due to climate change for three thirty year periods (see Table 1), which were run through CROSS to determine the change in future streamflow. This was done twice for each GCM to reflect two different future scenarios: A2, which represents large damages stemming from uncontrolled global warming, and B1 which represents a climate where actions have been taken to mitigate climate change. These percent reductions were calculated against a long run historical streamflow average of 14.6 maf (million acre-feet) per year.

Table 1: Future streamflow reductions for each GCM. The negative figures in the chart correspond to future streamflow increases relative to the historical streamflow average of 14.6 maf.

% Δs	CNRM	CSIRO	GFDL	GISS	HADCM3	INMCM	IPSL	MIROC	MPI	MRI	PCM
A2											
2010-2039	0.056	0.119	0.133	-0.028	0.143	-0.057	-0.032	0.154	0.203	-0.007	-0.107
2040-2069	0.429	0.074	0.192	-0.092	-0.021	-0.155	-0.011	0.348	0.179	0.068	0.018
2070-2099	0.351	0.114	0.184	0.165	0.077	0.104	0.097	0.385	0.019	0.086	-0.070
B1											
2010-2039	0.026	-0.014	0.106	0.057	-0.036	0.024	-0.001	0.242	0.116	-0.047	0.003
2040-2069	0.170	0.118	0.189	0.173	0.057	0.109	-0.012	0.275	0.180	-0.008	-0.131
2070-2099	0.356	0.071	0.084	0.213	0.102	-0.177	0.151	0.253	0.124	0.051	-0.057

Using CROSS, a long-run estimate of shortages and economic damages was performed using a combination of six different price elasticities of demand, representing a range of values encompassing high, low, and average elasticities for water usage in municipal and agricultural settings. The experiment itself was conducted with data derived from Christensen and Lettenmaier (2007) for the A2 and B1 climate scenarios. These eleven different scenarios, along with the base scenario, totaled 23 runs in all and averaged likely streamflow changes over the next 111 years. The increase or decrease in streamflow was then translated into shortage costs (CROSS having estimated

future demand), translated into total welfare changes, which was then used to determine a present value for all future shortage costs.

The CROSS results were used to formulate data on the total present value of climate change, expressed as a change in welfare. The formula used to calculate the total welfare change is

$$\Delta W = P_0 \Delta x (1 + (1/2\eta)(\Delta q/q_0))$$

where η = elasticity of demand, q = quantity, and P = price. In this climate change scenario, the change in welfare does not represent a change in total benefits; rather, it represents the area under the demand curve between the original quantity demanded and the new quantity demanded after CROSS incorporates future demand estimates. The shift in welfare reflects how water consumers in the Colorado River Basin are worse off due to shortages, the total economic value of which is measured by this equation. Subsequently, the total for each year of each respective GCM was discounted at 4% (Nordhaus, 2008) to the present and the figures combined to determine the total future change in welfare for each climate change scenario representing the total shortage cost.

PRICE ELASTICITY OF DEMAND IN CROSS

Normally, when there is a shortage of a particular resource (in this case, water), price will increase to reflect a decrease in supply. To account for differing consumer and producer responses to this price increase, three estimates of elasticity were used for each to show the entire spectrum of prices under differing elasticity conditions. Because we are looking at water shortages in the long run, a higher price elasticity of demand was used as an example, which is inherently higher than a short run estimate. The following figures were input into the base scenario in CROSS:

Agricultural Elasticity Estimates:

- -0.97 (Howitt, et al. [1980])
- -0.22 (Hooker and Alexander [1998])
- -0.04 (Hedges [1977])

Municipal Elasticity Estimates:

- -0.0101 (Martinez-Espiñera [2004])
- -0.33 (Olmstead [2007])
- -0.491 (Martinez-Espiñera [2004])

These elasticities represent a broad spectrum of adjustments to demand for water under shortage conditions, ranging from nearly perfect inelasticity to relatively elastic demand for both agricultural (producer) and municipal (consumer) usage. In general, demand for water is nearly inelastic because of its low cost at the margin and its necessity in everyday life. In future shortage situations, these values were chosen as a representative range of possibilities due to increased water prices due to increased demand and decreased supply. To form a clearer picture of all future demand possibilities under all 23 scenarios, a wide range of elasticity estimates covering the high, low, and average estimates was chosen.

Ultimately, six elasticity values were chosen to give an adequate representation of a possible range of real-world values. Agricultural estimates are higher due to the flexibility of growers and crops chosen (e.g. choosing a less irrigation-intensive crop in response to higher prices for water); while municipal elasticities are generally lower due to typical consumptive behavior. Water is a staple in residential life, used in dozens of manners in a typical home, so municipal demand is unlikely to decrease dramatically. According to Scheierling (2006), the mean price elasticity of demand for water is -0.48, so calculated values were chosen high, low, and at the mean.

The base runs were conducted using a $P_0 = \$100$ and reflect the present value of the next 111 years of streamflow shortages in the Colorado River Basin, discounted to the present at 4%, the accepted value for discounting due to climate change (see Nordhaus, 2008). The streamflow percentage reduction factors to account for climate change were kept at 0% for all three thirty year periods. A climate change-free future allows us to view the future costs of shortages created by continuously increasing demand. The impact of climate change is measured

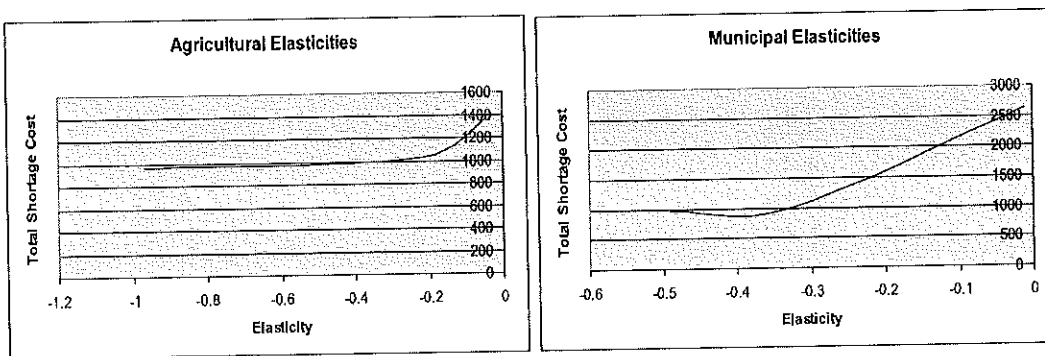
in the GCM models, which will ultimately be compared to these base values for each elasticity to account for the damages caused by climate change.

Table 2: Base shortage costs under chosen elasticities. Total cost is listed in millions of dollars. Each total cost represents the next 111 years (without climate change) of shortage costs discounted to the present at 4%. The first three figures (-0.97, -0.22, -0.04) represent agricultural elasticities. The last three figures (-0.491, -0.33, -0.0101) represent municipal elasticities.

Elasticity	-0.97	-0.22	-0.04	-0.491	-0.33	-0.0101
Total Cost	\$964.74	\$1024.41	\$1371.7	\$981.81	\$998.68	\$2628.27

The total cost of the water shortage in both basins increases as demand becomes less elastic. These base values are the values to which the results of the GCM modeling runs will be compared against to measure the damages caused by future climate change.

Figure 1: Graphical analysis of chosen elasticities against total shortage costs. Emphasis is placed on the increase of the total shortage cost as the elasticity approaches zero. See preceding paragraphs for an explanation of the x and y axis values.



Both the Table 2 and Figure 1 illustrate that as the elasticities move closer to perfect inelasticity (at 0), the total cost of the shortages increases exponentially because of unchanged habits combined with limited supply.

At this point, the different elasticities chosen for producers (agricultural) and consumers (municipal) come into play again. As shown in Figure 1, producers have a lower sensitivity to higher water prices. This could possibly be attributed to several factors, most notably a profit motive, in continuing their water purchases despite a price increase. Crops will always need water, and although some producer may switch in times of high prices, staple economic crops of the Southwest will continue to be grown in spite of high water prices. Irrigation of agricultural crops accounts for 80% of all water usage in the Western United States, while municipal activities require 20% (Scheierling, 2004). It is easier, therefore, for consumers to alter their water usage patterns than agricultural users, presumably due to consumption habits, imposed rationing, or a combination of the two.

ELASTICITY AND TOTAL COST

Subsequently, these six elasticities were run through the CROSS model for each climate change scenario.

Table 3: GCM total cost (expressed in millions of dollars) corresponding to each chosen elasticity. 11 A2 and B1 scenarios are given in terms of present cost of 111 years of shortage costs, climate change percentages included in calculation. See Table 1 for a description of those values. The first three figures (-0.97, -0.22, -0.04) represent agricultural elasticities. The last three figures (-0.491, -0.33, -0.0101) represent municipal elasticities.

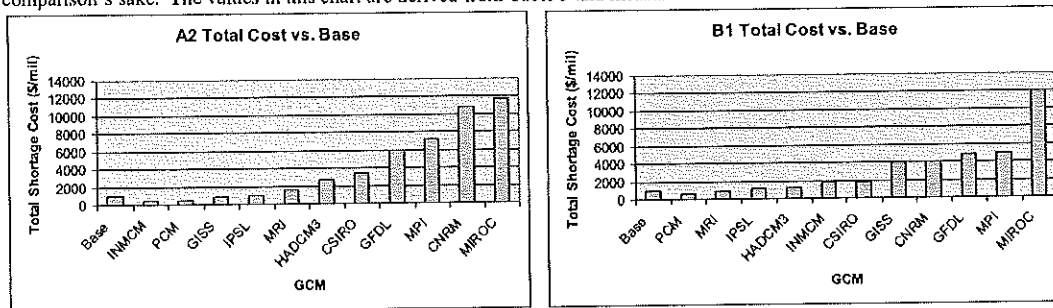
A2 Scenario	TC -0.97	TC -0.22	TC -0.04	TC -0.491	TC -0.33	TC -0.0101
CNRM	7442.29	10868.53	30809.30	8422.76	9391.44	102960.19
CSIRO	2895.89	3361.98	6074.59	3029.27	3161.04	15889.52
GFDL	4710.59	5919.50	12955.37	5056.54	5398.33	38413.00
GISS	770.71	841.87	1256.06	791.07	811.19	2754.71
HADCM3	2360.33	2689.47	4605.04	2454.52	2547.58	11536.06
INMCM	447.11	473.05	624.03	454.53	461.87	1170.31

IPSL	873.36	933.60	1284.19	890.60	907.63	2552.73
MIROC	8193.58	11697.34	32089.22	9196.23	10186.83	105872.39
MPI	5541.59	7165.60	16617.37	6006.32	6465.47	50816.32
MRI	1388.99	1523.24	2304.61	1427.40	1465.36	5131.79
PCM	517.92	541.17	676.49	524.57	531.15	1166.11

B1 Scenario	TC -0.97	TC -0.22	TC -0.04	TC -0.491	TC -0.33	TC -0.0101
CNRM	3186.66	4041.48	9016.52	3431.28	3672.95	27017.53
CSIRO	1674.29	1881.57	3087.94	1733.61	1792.21	7452.87
GFDL	3946.32	4842.16	10055.96	4202.68	4455.95	28920.86
GISS	3313.64	4019.69	8128.88	3515.68	3715.30	22997.03
HADCM3	1152.40	1259.32	1881.57	1183.00	1213.23	4133.06
INMCM	1664.15	1843.08	2884.45	1715.36	1765.94	6652.38
IPSL	1118.10	1222.30	1828.75	1147.91	1177.37	4023.05
MIROC	8546.72	12008.11	32153.38	9537.25	10515.87	105044.23
MPI	4092.14	5037.86	10541.97	4362.77	4630.15	30457.26
MRI	753.24	795.05	1038.38	765.20	777.02	1918.84
PCM	627.89	651.27	787.33	634.58	641.19	1279.65

As the data shows, the trend of larger costs incurred as a result of shortages with an elasticity closer to zero continues. For example, the total cost in the CNRM scenario nearly triples as the elasticity increases from -0.97 to -0.04.

Figure 2: Total shortage cost of each GCM measured against the base for an agricultural elasticity of -0.22. Figures listed are the total of -0.22 elasticity for each CNRM measured against the corresponding value for the base shortage costs listed in Table 2. The base is listed first for comparison's sake. The values in this chart are derived from Table 3 and measured in millions of dollars.



Clearly, the average total shortage cost is much greater for the A2 scenario (\$5.8 billion) than the B1 scenario (\$4.4 billion), reflecting its original purpose of a future marred by uncontrolled climate change. These graphs also illustrate the inherent differences in the A2 and B1 scenarios regarding the intensity of climate change. The costs associated with A2 are significantly higher overall than B1. To further examine this data in relation to the base climate change values for the next 111 years, we can now graph the total cost of a given GCM scenario minus the cost of the base value (listed in Table 2) for each elasticity, then examine the damages for each scenario, which is done in the following table:

Table 4: GCM additional cost relative to the base values (see Table 2) for each chosen elasticity. Values are expressed in millions of dollars. The total cost figures represent the base cost in Table 2 subtracted from the corresponding GCM value in Table 3. The first three figures (-0.97, -0.22, -0.04) represent agricultural elasticities. The last three figures (-0.491, -0.33, -0.0101) represent municipal elasticities.

A2 Scenario	TC -0.97	TC -0.22	TC -0.04	TC -0.491	TC -0.33	TC -0.0101
CNRM	6477.55	9844.12	29437.60	7440.94	8392.75	100331.92
CSIRO	1931.15	2337.56	4702.89	2047.45	2162.35	13261.24
GFDL	3745.85	4895.09	11583.67	4074.72	4399.64	35784.72
GISS	-194.03	-182.54	-115.64	-190.75	-187.49	126.44
HADCM3	1395.59	1665.06	3233.34	1472.70	1548.89	8907.79

INMCM	-517.63	-551.36	-747.67	-527.28	-536.82	-1457.96
IPSL	-91.38	-90.82	-87.51	-91.22	-91.06	-75.54
MIROC	7228.84	10672.93	30717.52	8214.41	9188.14	103244.12

P_0 Total Shortage Costs

MPI	4576.85	6141.19	15245.67	5024.50	5466.78	48188.05
MRI	424.25	498.83	932.91	445.59	466.67	2503.51
PCM	-446.82	-483.24	-695.21	-457.25	-467.54	-1462.16
B1 Scenario	TC -0.97	TC -0.22	TC -0.04	TC -0.491	TC -0.33	TC -0.0101
CNRM	2222.44	3077.26	8052.30	2467.06	2708.73	26053.31
CSIRO	710.07	917.35	2123.72	769.39	827.99	6488.65
GFDL	2982.10	3877.94	9091.74	3238.46	3491.73	27956.64
GISS	2349.42	3055.47	7164.66	2551.46	2751.08	22032.81
HADCM3	188.18	295.10	917.35	218.78	249.01	3168.84
INMCM	699.93	878.86	1920.23	751.14	801.72	5688.16
IPSL	153.88	258.08	864.53	183.69	213.15	3058.83
MIROC	7582.50	11043.89	31189.16	8573.03	9551.65	104080.01
MPI	3127.92	4073.64	9577.75	3398.55	3665.93	29493.04
MRI	-210.98	-169.17	74.16	-199.02	-187.20	954.62
PCM	-336.33	-312.95	-176.89	-329.64	-323.03	315.43

Ultimately, regardless of the scenario, an increase in costs due to shortages is inevitable in any future climate change scenario, as evidenced by the figures in Table 4. That price increases as the elasticity moves closer to zero, and is shown in both agricultural and municipal values.

MARGINAL BENEFIT OF WATER (P_0)

The other constant in the model (besides the interest rate of 4%, which remained unchanged) is the price per acre foot, P_0 , which was also changed in the experiment. The following values for P_0 were run through the model (J. Booker, personal communication):

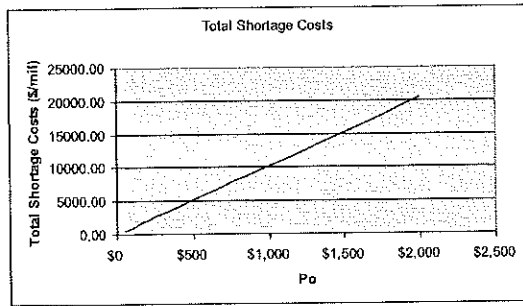
Table 5: Water prices. Prices shown are accurate.

P_0 (agricultural) =	\$50	\$100	\$200
P_0 (municipal) =	\$500	\$1,000	\$2,000

A higher price corresponds with damages resulting from the loss of the ability to use the water. Producers are more flexible with their growing techniques or can switch to a less irrigation-intensive crop, while municipal consumers expect water in their homes and businesses daily for drinking, cooking, toilets, and the like. As expected, this representative range of prices scaled linearly with a P_0 of \$100, as shown in this graph for the base value when tested under the representative prices:

Figure 3: Agricultural Price vs. shortage cost. Price values are accurate, total shortage cost in millions of dollars, elasticity of -0.22

Table 6: Agricultural Price vs. shortage cost. Price values accurate, total shortage cost in millions of \$, elasticity of -0.22



\$50	512.21
\$100	1024.41
\$200	2048.83
\$500	5122.07
\$1,000	10244.14
\$2,000	20488.28

Any values chosen for the value of P_0 for agricultural or municipal price and elasticity combinations would scale linearly with the values shown here. The relationship between base price and shortage cost can be expressed algebraically as:

$$y = 10.244x$$

The r^2 value of this graph is 1.

PROPORTIONALITY OF USAGE

In normal conditions, usage can be represented as either agricultural or municipal. Irrigation of agricultural crops accounts for 80% of all water usage in the Western United States, while municipal activities require 20% (Scheierling, 2004). For the base shortage costs with an elasticity of -0.97 and a P_0 of \$100, the total cost was \$964.74 million. Therefore, one can reasonably assume that under the base scenario, agricultural shortages will cost roughly \$771.79 million, while municipal shortages will cost roughly \$192.95 million. As with the representative range of prices and elasticities, this proportion and total cost will scale as well. A proportion of 80/20 gives a rough approximation of the distributed costs of climate change in the Colorado River Basin.

CLIMATE CHANGE IMPLICATIONS

It is clear that climate change will have an adverse effect on the water availability and price over the next century in the Colorado River Basin. A range of possible consequences of climate change, shown in the twenty-two GCMs for the A2 and B1 scenarios, have illustrated that increasing shortages in the Colorado River Basin will be costly to the population of the Basin, ranging from \$447 million (INMCM, $\eta = -0.97$) to \$32 billion (MIROC, $\eta = -0.04$) for agricultural costs and \$454 million (INMCM, $\eta = -0.491$) to \$106 billion (MIROC, $\eta = -0.0101$) for municipal costs for the A2 scenario and \$627 million (PCM, $\eta = -0.97$) to \$32 billion (MIROC, $\eta = -0.04$) for agricultural costs and \$634 million (PCM, $\eta = -0.491$) to \$105 billion (MIROC, $\eta = -0.0101$) for municipal values in the B1 scenario in present value for costs over the next 111 years. It is virtually certain that climate change will exacerbate a river system already pushed to its limits by current demand.

The future of the Colorado River Basin is sure to reflect the increased shortages. Rationing will most likely become the norm, as demand will far outstrip supply as the population in the region continues to grow and temperatures continue to rise. Agriculture will most likely receive the largest impact from rationing, resulting in decreased output or a switch to less irrigation and water-intensive crops. Municipal users will no longer have the luxury of unlimited water, and rationing will adversely affect the standard of living to a certain degree. The artificial greenery of the Southwest, which requires so much water in an unnatural environment, will most likely begin to disappear as important water resources are diverted away from lawn watering to more important consumptive activities. The region will continue to see change in the Colorado River Basin water situation for decades and centuries to come.

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AMERICAN EAGLE OUTFITTERS (AEO)

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COMPANY OVERVIEW

PRICE: \$12.60 **SIENA Target Price:** \$10.98 **S&P500:** \$842.50 **DJIA:** \$8,017.59 **S&P Industry:** \$24.76

Location: Pittsburgh, PA
Industry: Retail – Apparel
Company Website: www.ae.com

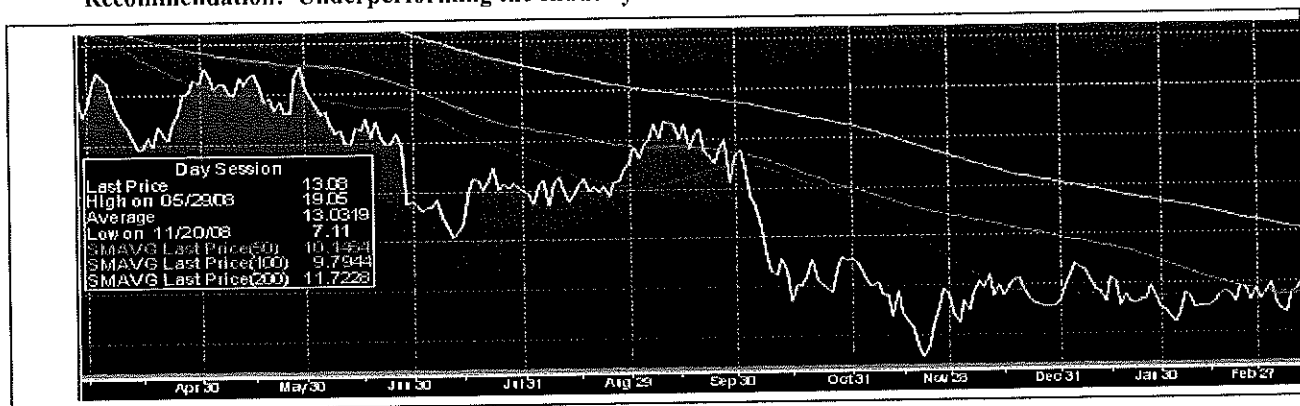
Description: American Eagle Outfitters is a leading retailer and is engaged in the design, marketing, and sale of clothing throughout all fifty states, but also in the District of Columbia, Puerto Rico and Canada. While AEO opened its first store in 1977, it entered the Canadian market in 2001, and now has a total of 1,098 stores of which 122 were opened during that last fiscal year (2008). This mall-based retailer offers casual apparel and accessories such as shirts, sweaters, jeans, shorts, bells, footwear, and bags and targets both men and women, mainly between 15 to 25 years old. Although the company does not have a global presence, its merchandise is shipped to 62 countries.

Market Data

Market Cap	\$2,588,580,800	1 Yr Price App.	-33.55%
Price to book	1.93	Country	USA + Canada
Beta	1.15	Industry	Retail – Apparel
Dividend yield	4.44%	Industry Price	\$11.81
Shares O/S	205,280,000	Industry Beta	1.27
Current price	\$12.60	Country Risk Premium	8.41%
52 week range	\$6.98 – \$19.42	Risk Free Rate	2.75%

Valuation	Current	2009E
EPS	\$0.87	\$0.70
P/E	14.48	18.00
CFPS	\$1.47	\$1.33
P/CFPS	8.57	9.47

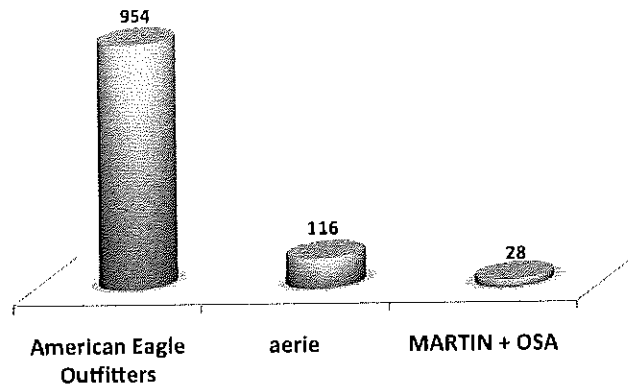
Recommendation: Underperforming the Industry – SELL



COMPANY DESCRIPTION

Products

The company operates under several brands including, American Eagle Outfitters, aerie, 77kids, and MARTIN + OSA, each aimed at a different age segment of the market. Indeed, in 2006 AEO launched its new aerie brand, designed to be subtly sexy, comfortable and cozy that can be found in both aerie stores as well as in all American Eagle stores. In the same year, the company also launched MARTIN + OSA which targets 28 to 40 years old customers. These clothes and accessories were designed to look valuable, authentic, and adventurous. In 2008, M+O started to offer its merchandise online through www.martinandosa.com. At the end of 2008, AEO introduced a new brand designed for children known as 77kids. This brand offers durable products for young customers aged between 2 to 10 years old. 77kids started to sell online and AEO has planned to open stores in the US. Below is a chart showing the stores in which the firm operated as of January 31, 2009.

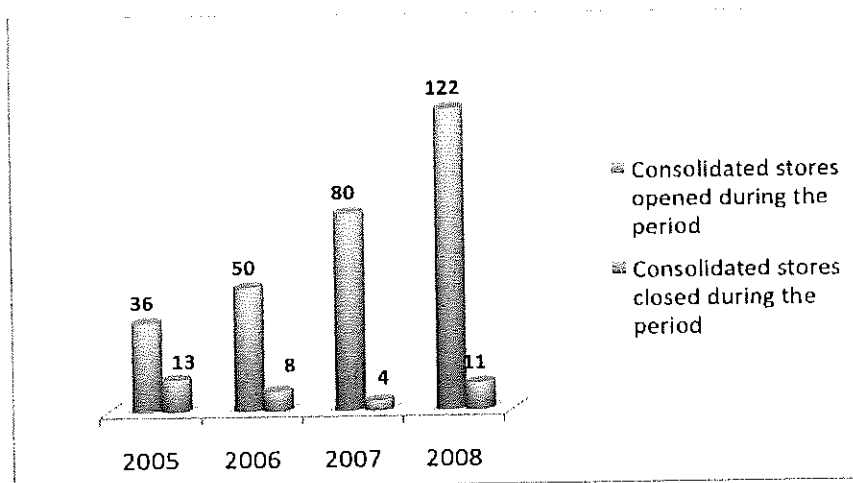


Growth Strategy

American Eagle strategy is mainly its brand name. The company works hard to promote itself in many different ways to attract its main market or young adults. American eagle uses many different advertising methods to successfully market the brand name such as commercials on MTV and in popular magazines among the main age target. They are also attempting to continue their growth and open more stores to attract more people all over their countries of business, mainly the United States and Canada.

Real estate is one of AEO's key areas the company is focusing on in terms of growth strategy. Indeed, the company keeps putting efforts to expand themselves in the US. The charts below present American Eagle Outfitters historical store growth in the United States and Canada. As an overall, the firm increased its total stores by approximately 11%. The gross square footage increased by almost the same amount, 11%, due to new store openings (89%) and store remodels (11%).





In 2009, the company plans to open an additional 17 aerie stores and 11 AE stores. Also, it is AE stores will be remodeled to enhance customer's shopping experience. As a result, square footage is expected to grow by 3%.

To maintain a reasonable growth strategy, the company also identified as one of the key areas of improvement as the importance of having strong customer relations management. Therefore, AEO focuses on reinforcing those connections and recognizing the new fashion trends the American Eagle customers look for. AEO wants to boost and benefit from a potential increase in the market share of this established brand, designed for young adults from 15 to 25 years old and known for its quality and reasonable prices. With relevant fashion styles and attractive prices, the firm looks to enhance brand loyalty. This objective will be supported by their AE All-Access Pass loyalty program.

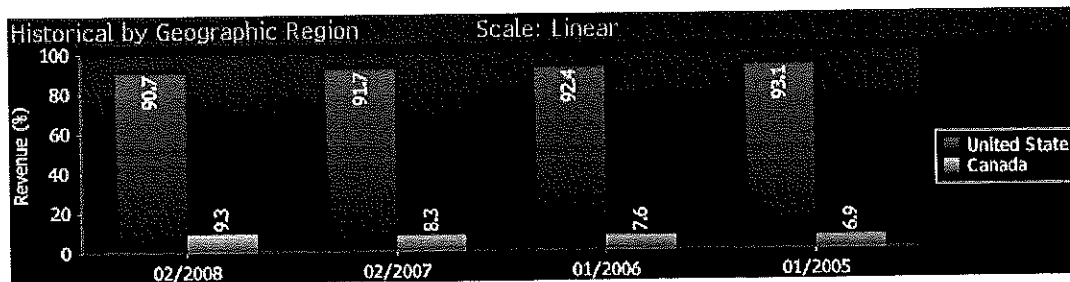
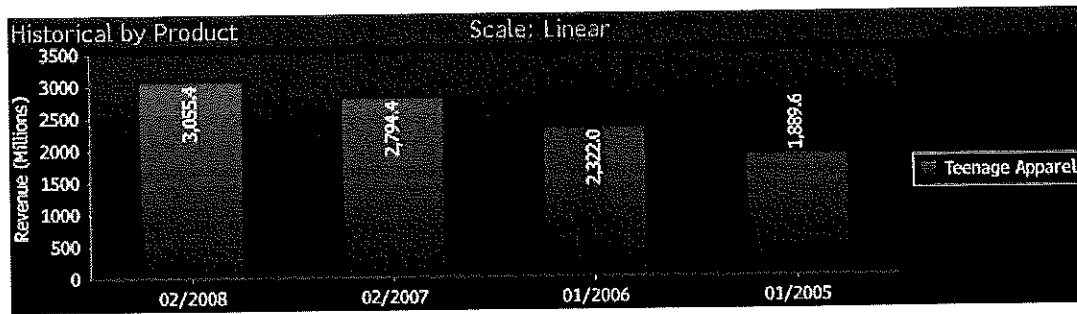
Introduced in 2006, the aerie brand has been created to boost sales, attract new customers by responding to their preferences and increase store productivity. The brand is present in 116 stand-alone stores, but also in most of American Eagle stores and finally, on-line. As the AE brand, aerie offers attractive loyalty programs, including a free gift on Thursdays, once a month!

Furthermore, American Eagle Outfitters sells its products on line in order to adapt to their customers' life styles. In 2008, AEO expanded e-commerce operations as for instance the launch of martinandosa.com and 77kids.com. In addition to that, AEO the same year added 21 new countries to its ship list, which results in a total of over 62 countries currently being serviced. Finally, by focusing on remodeling stores, customers can have a better shopping experience and enjoy themselves while browsing the stores. Another development made in 2008 to adapt to customers' life styles, is the acceptance of PayPal payments, which is expected to greatly increase the amount of online sales, and make people more comfortable with giving payment information online, since PayPal is one of the most popular and most trusted online payment methods.

Recently, the company has introduced the Store-to-Door program that enables stores to execute in store orders for customers who want items only available on-line. This program is successful as it allows customers to place orders without calling, and allow them to order items right away when the sizes or colors desired have already been sold out, or not available at the store location. The desired item is then shipped directly to the customer's home, free of charge. This is an extremely convenient service, and helps to solve the problem of not having certain items in inventory.

Suppliers

AEO currently has a small number of foreign suppliers that contribute a significant portion of their materials, although holding no exclusive commitments with any of them. Due to the minimal number of suppliers, AEO is highly subject to vulnerability in both the manufacturer and their country of origin.



As can be seen from the charts above American Eagle Outfitters is not very diversified with the type of products it sells. Though recently it has begun to spread its target market to include adults, as well as lingerie products for girls and women. By creating its secondary brands of aerie, 77Kids, and M+O it is beginning to diversify itself better in the market and capture more demand.

Latest Developments

According to Reuters Knowledge "American Eagle Outfitters, Inc. announced that for first quarter 2009, it expects earnings to be in a range of \$0.04 to \$0.07 per share, compared to earnings of \$0.21 per share last year. This guidance excludes the possibility of additional losses related to investment securities. According to Reuters Estimates, analysts on an average are expecting the Company to report earnings per share (EPS) of \$0.06 for the same period." Also before the 10K came out for 2008 it was estimated that the fourth quarter 2008 expected earnings were \$0.19 per diluted share, which excludes a non-cash charge of \$0.03 per diluted share related to the impairment of certain underperforming stores and investment securities.

4Q Earnings Call

Financials:

- 4Q EPS declined 71%, with a 16% comp store decline
 - 4Q EPS = \$0.19 compared to \$0.66 last year
- SG&A per square foot declined 11%
 - Cost Initiatives saved about \$50 million
- Inventory decreased by 8% per square foot

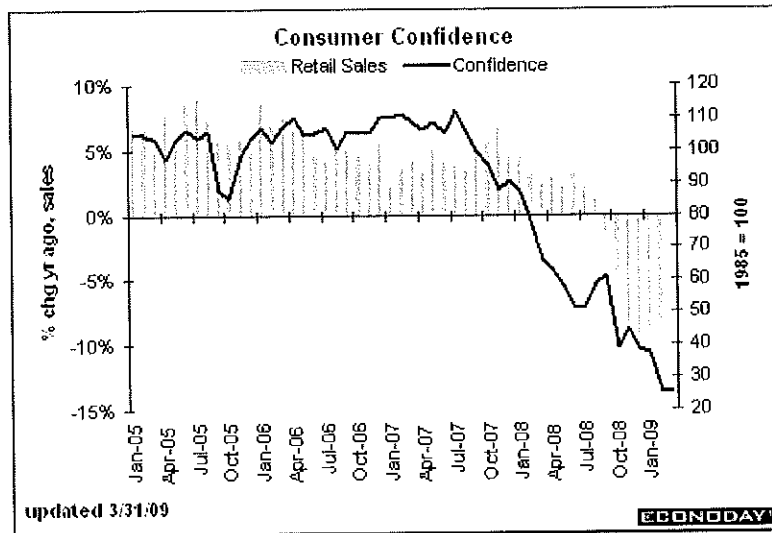
Plans For Improvement:

- Aligning inventory more closely with sales trends
- Improving sales through stronger service
- Driving opportunities in sourcing of production to achieve IMU improvements

INDUSTRY OVERVIEW

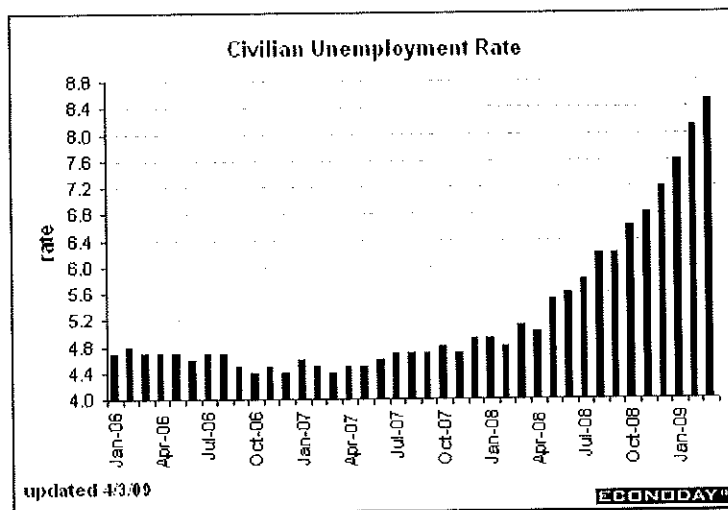
Overview

Consumer confidence is holding steady at the very bottom with buying plans eroding further. The Conference Board's consumer confidence index edged slightly higher to a still deeply depressed 26.0 for March. Readings, outside of buying plans, show very little change though there is a slight easing in pessimism over the future assessment of the job market. Pessimism on the current assessment is still very deep with only 4.6% saying jobs are plentiful against 48.7% who say they are hard to get, with the rest falling in between the two.



Critical Issues

Buying plans show continuing erosion in news that won't ease concern among retailers and the auto makers. Those planning to buy a house fell to 2.0% from 2.3% while those planning to buy a major appliance fell 1% to 24%. The markets showed no significant reaction to the report which doesn't change the economic outlook and won't change expectations for another month of severe contraction in Friday's jobs report.



Employment in March continued to plunge, as expected. Nonfarm payroll employment in March dropped 663,000, following a plunge of 651,000 in February and a decline of 741,000 in January. The March number was only a little worse than the market forecast for a 650,000 drop. February was unrevised while January was bumped down by 86,000. For the latest month, losses were widespread in both goods-producing and services-providing industries.

From the household survey, the civilian unemployment rate jumped to 8.5% from 8.1% in February. March's rate matched the consensus projection. The unemployment rate is the highest since November 1983. Turning back to the payroll survey, job losses in March were widespread. The service-providing sector cut 375,000 jobs. In this sector, the largest job losses seen in professional & business services, down 133,000, and in trade & transportation, down 112,000.

The goods-producing sector gave pink slips to 305,000-worse than February's losses of 285,000. In the latest month, manufacturing and construction fell by 161,000 and 126,000, respectively. Natural resources & mining dropped 18,000. On a year-on-year basis, nonfarm payroll employment growth slipped to down 3.5% in March from down 3.1% the previous month.

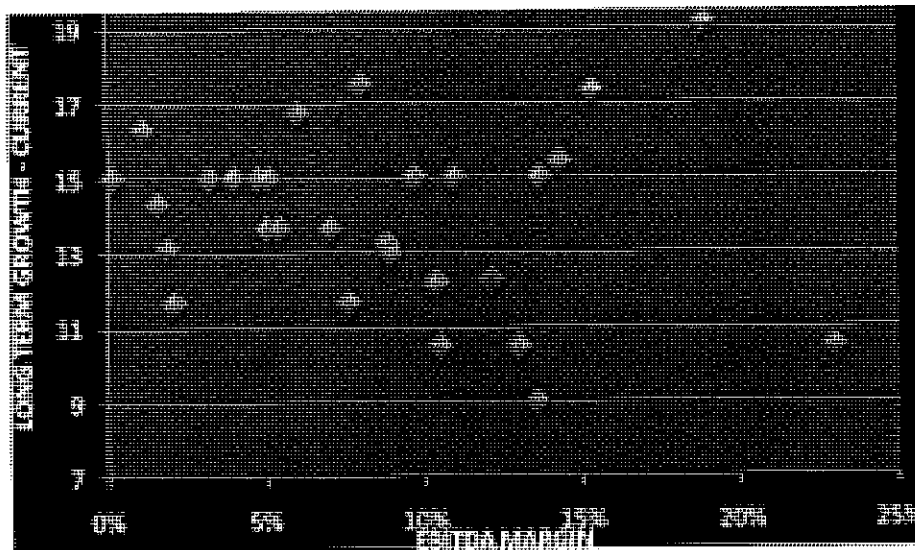
Wage inflation held steady in March as average hourly earnings came in at 0.2% in March. The consensus also had projected a 0.2% gain. The average workweek slipped to 33.2 hours from 33.3 hours in February.

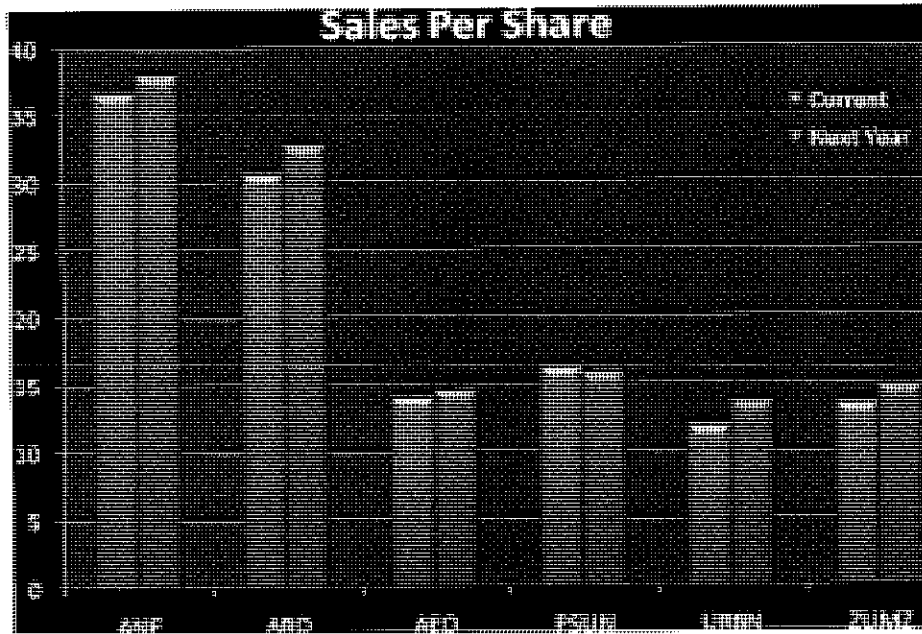
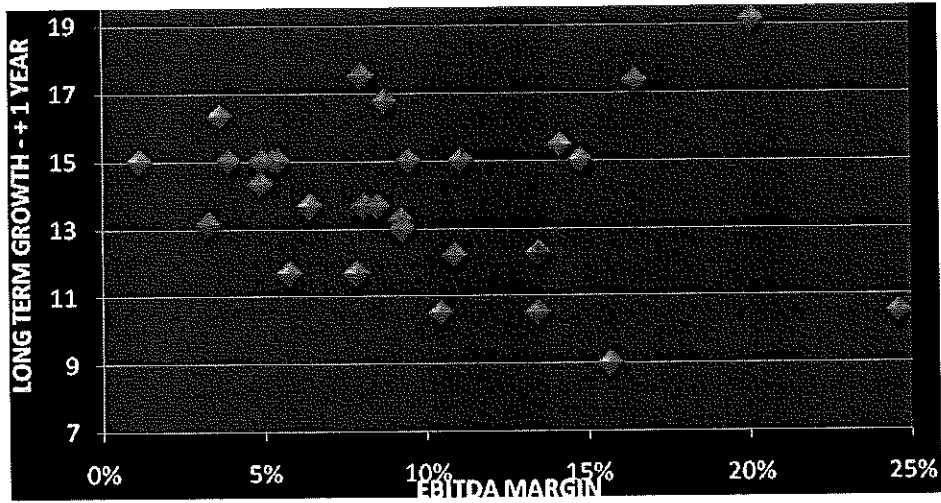
In the news, equity futures rose somewhat as some had built in even worse numbers since Wednesday's ADP report. Nonetheless, job losses are remaining quite large, staying well over 600,000 in each of the last four months. Today's numbers clearly show the first quarter ending on a sour note. Looking ahead, there is not much for the consumer to be hopeful about to boost income and spending. Until the job cuts are less negative, a real turnaround in the economy is still months down the road

Barriers To Entry

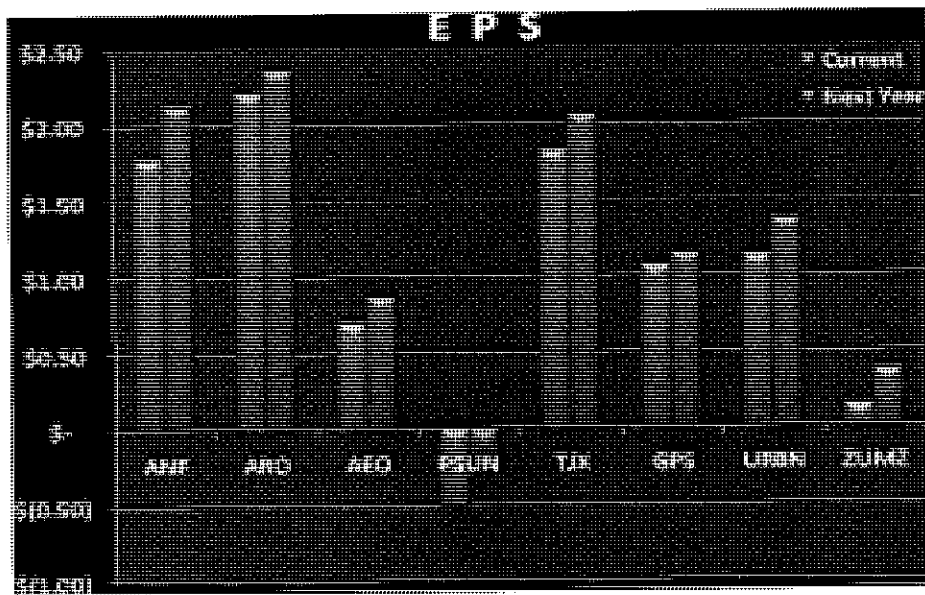
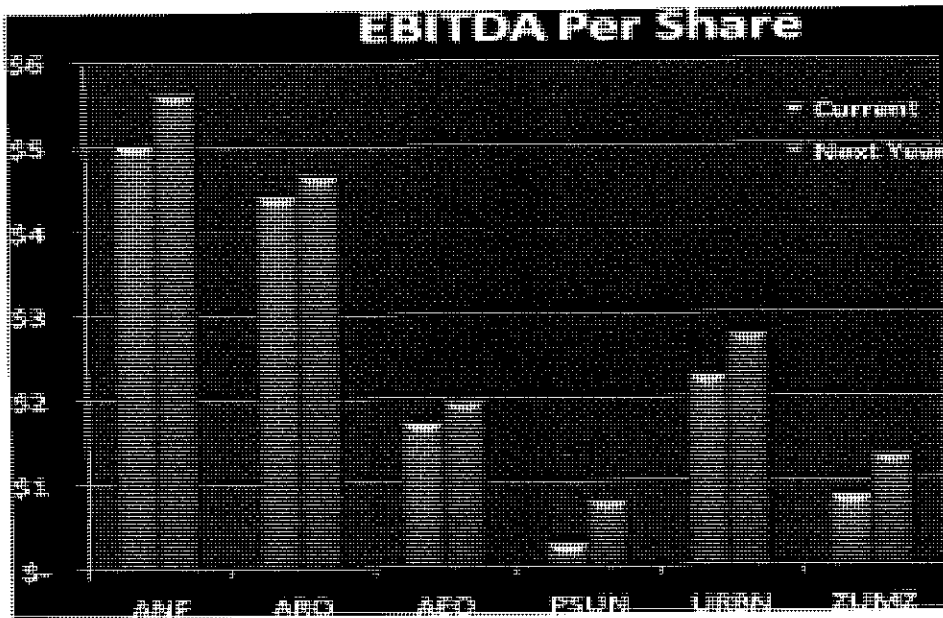
The retail industry has fairly low barriers to entry, though entrants may be deterred by the high level of competition and ample supply of substitutes in the industry. One of the major barriers to entry for this industry is the fact that there is a lot of brand loyalty, since people tend to stick to their favorite brand and clothing companies. Furthermore something that makes it slightly easier to enter the industry is the fact that it is difficult to put an intellectual property protection on clothing, like it can be done on an invention or a piece of literature, with a patent or copyright. This makes it easier to copy competitor's designs and make similar ones for your own company. Also there is a low cost to entry, because there no machinery or major equipment needed in this industry, all it takes to open a store is some real estate space, and start up money to purchase initial inventory.

Competitors



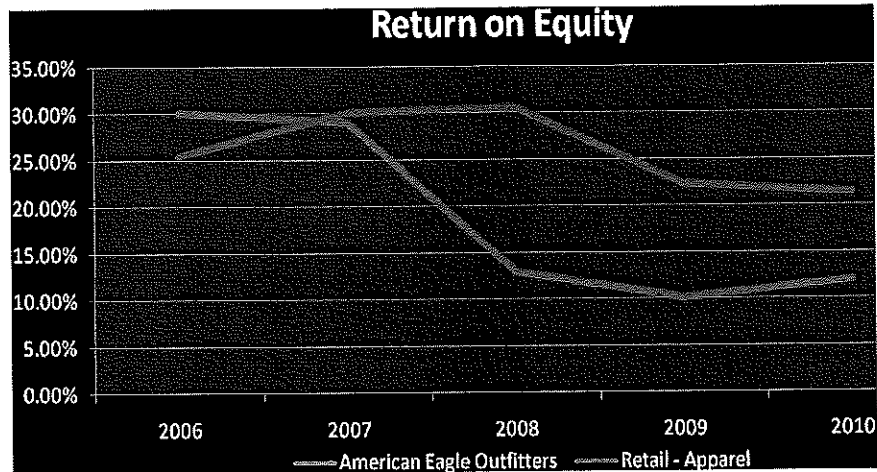


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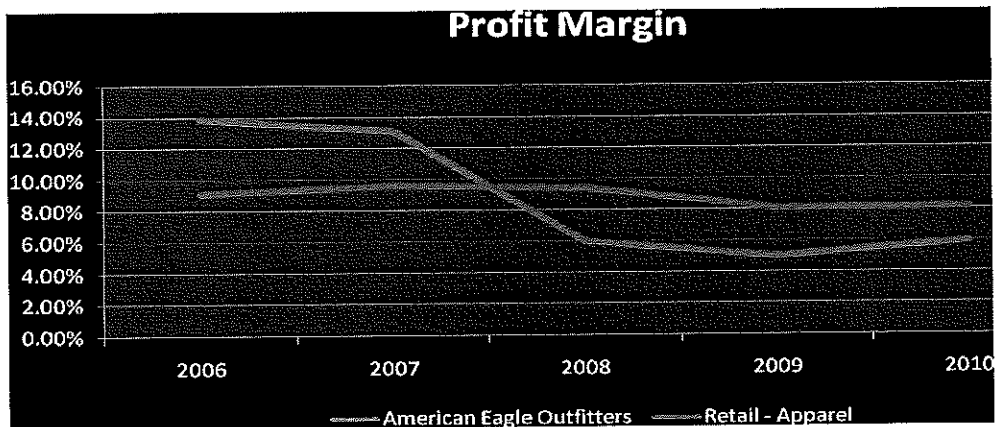


By breaking down the return on equity ratio in three multipliers of performance, we are trying to find the reason why the company gives back less value to shareholders compared to the industry, as shown by the graph below.

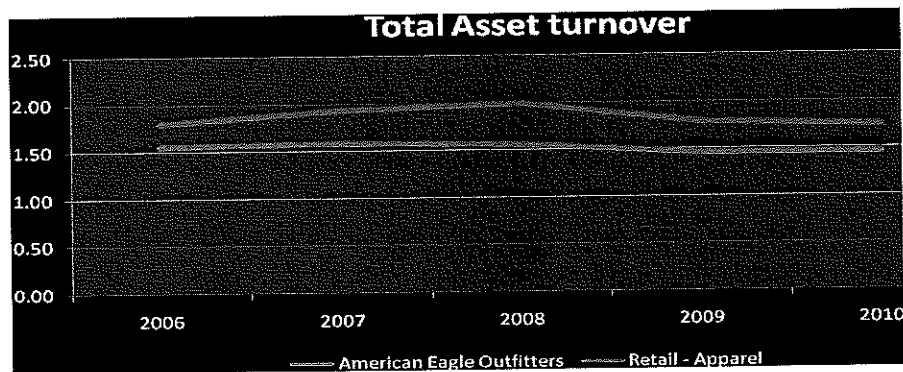
COMPANY ANALYSIS



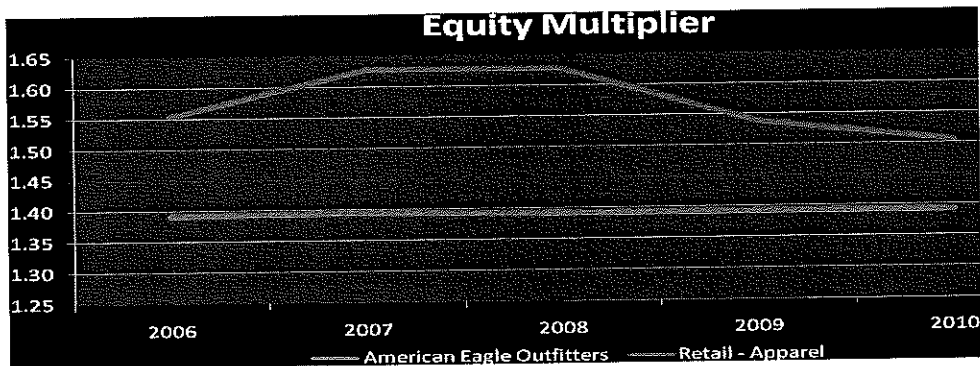
The company used to outperform the industry's return on equity by about 500 basis points. In 2008, the return on equity of American Eagle has plunged to 13.02%. A recovery is not possible before 2010 with a possible increase in consumer spending index.



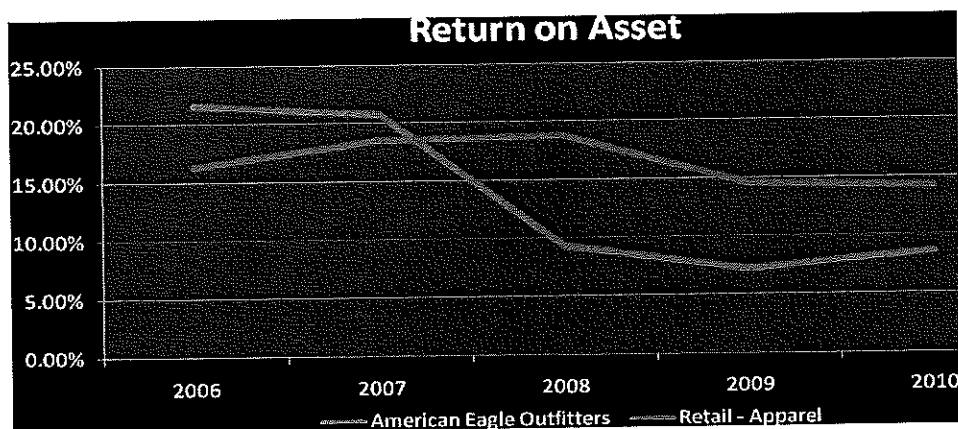
As the graph shows 2008 has been a really difficult year for the company. The profit margin of the company has plunged from 13.09% to 5.99%. AEO has failed this year because it was not aggressive enough to reduce its costs and to adjust to the slowdown in the economy. In 2008 the company cost of goods sold jumped from 53% to 61% of its revenues, the operating expenses increased from 27% to 30% of its revenues, when the revenues were decreasing by 2%. According to the economic forecasts, we assume the company will need more time to generate a net income more significant than the previous year.



Looking at the total asset turnover, AEO will maintain its current trend in line with the industry. In this case it can be seen that AEO's total asset turnover has been below the industry average for some time now.

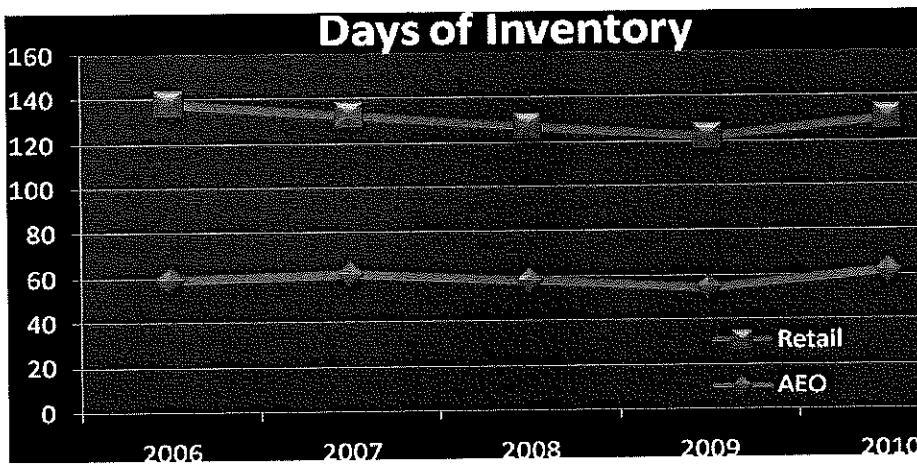
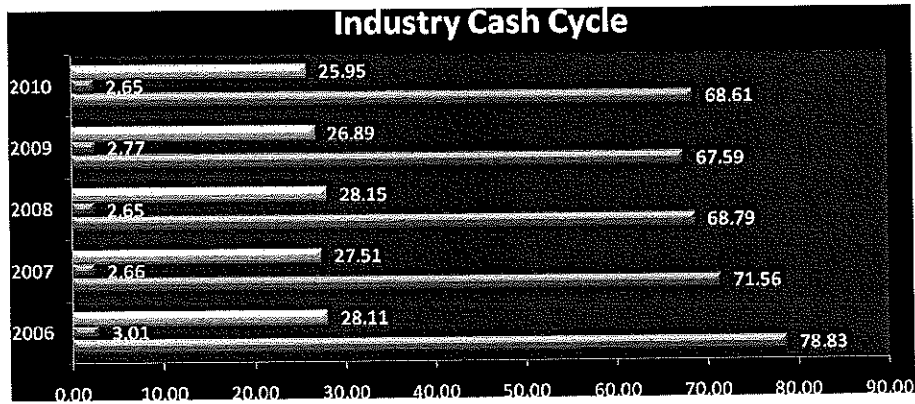
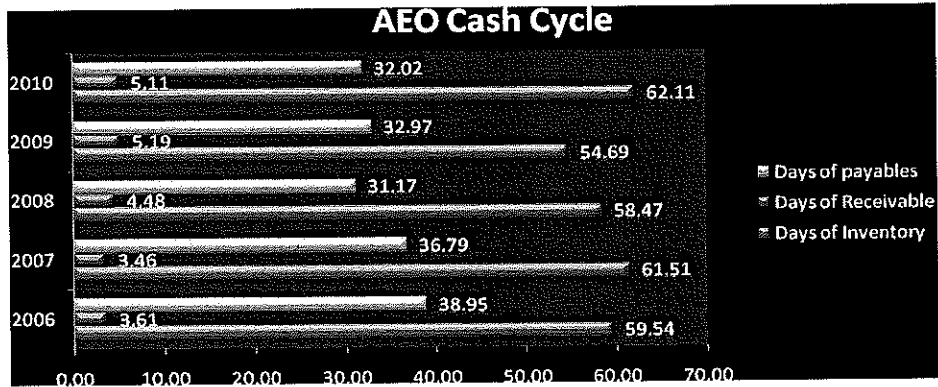


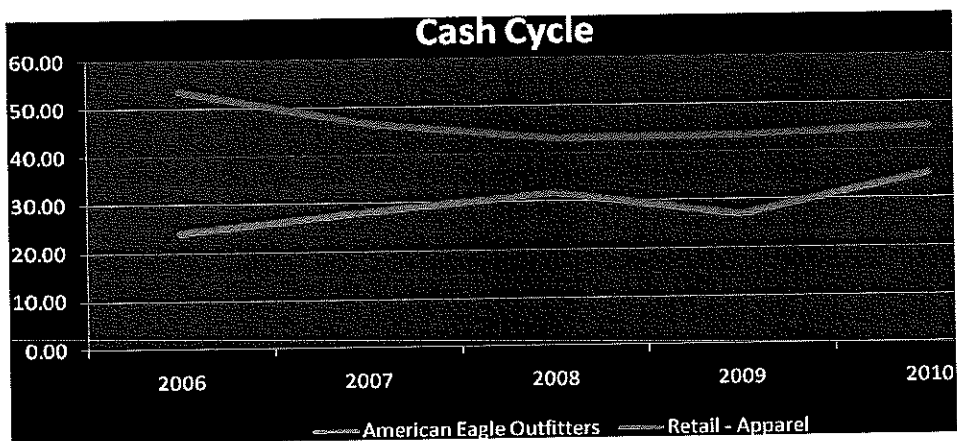
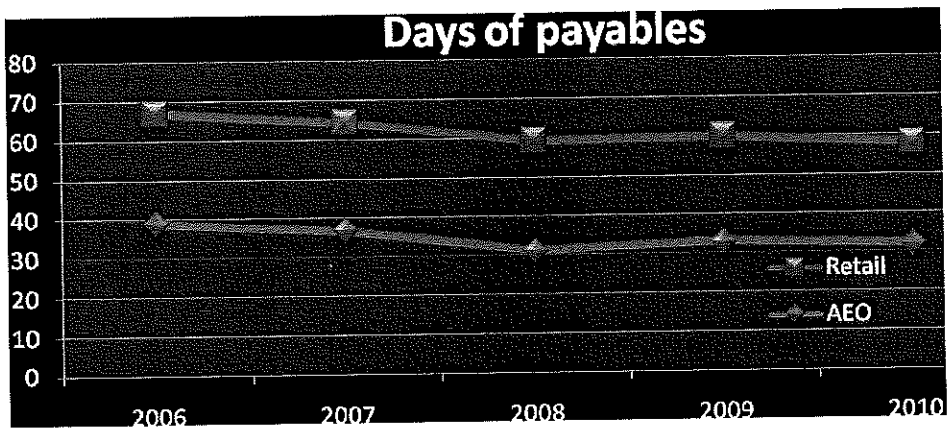
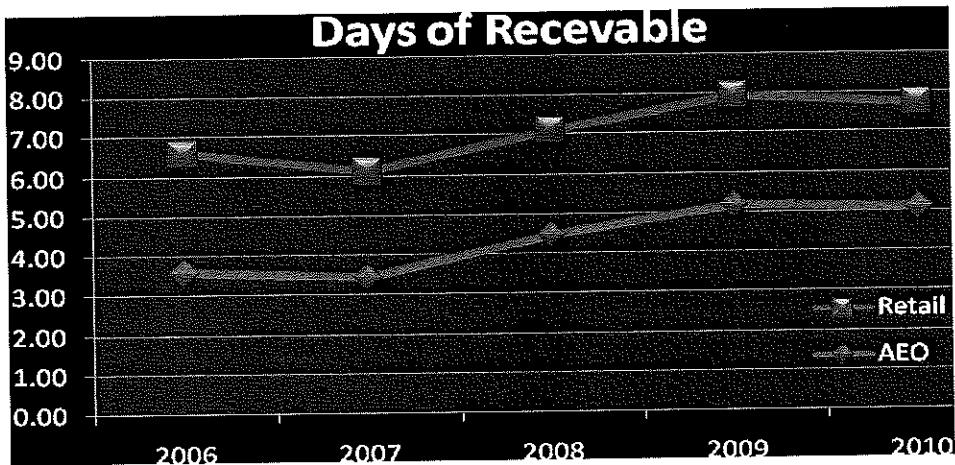
The equity multiplier graph depicts that the industry has more leverage than the company does, mainly due to the fact that there are a few companies who dramatically skew the industry average. The industry relies more on debt to finance its asset, which can be a risk in the future. We are pleased to note, that American Eagle is not in this case, and that the company successfully maintain a steady financial leverage around 1.4. The fact of not relying too much on debt can be a force for AEO in such time frame of credit crisis.



This graph one more time depicts the lack of efficiency from the company to reduce its cost and create value to shareholders. However, we believe that the company may recover in the next two years.

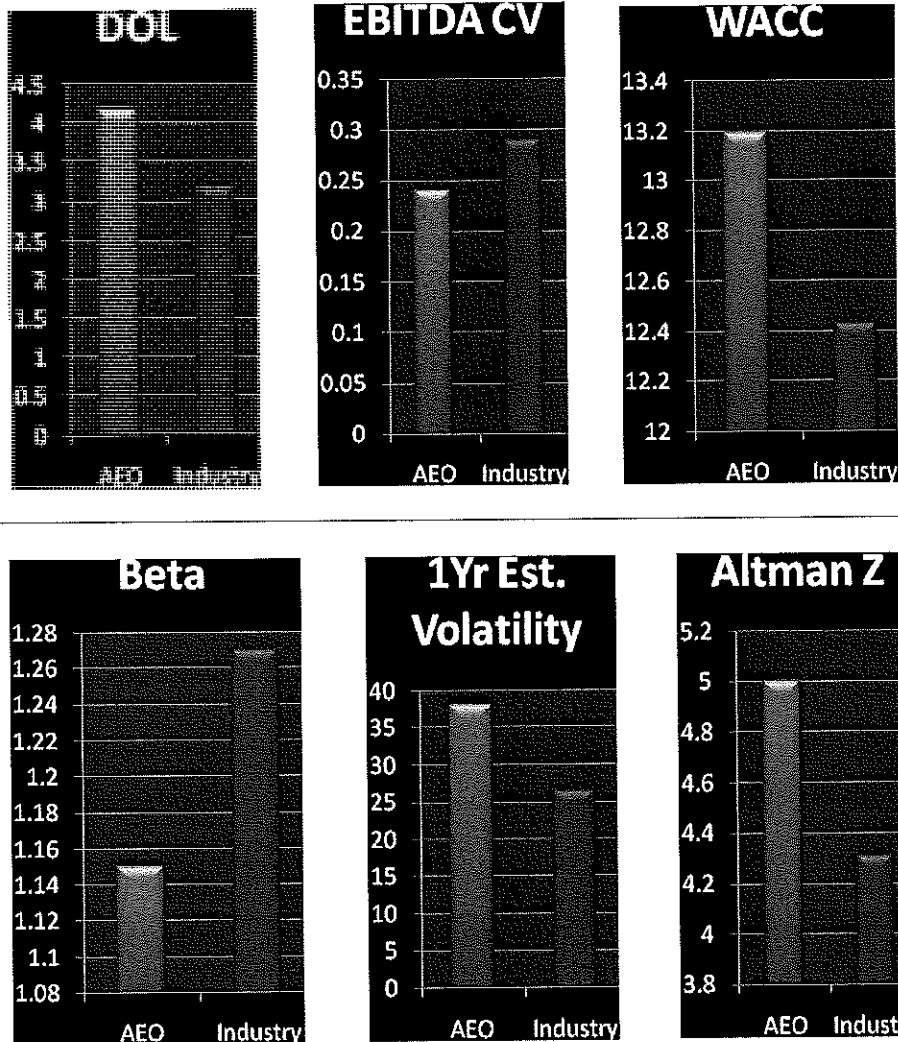
Cash Cycle





The industry in 2010 will need about 15 days more than AEO to convert its cash. In overall, we can notice an upward trend in AEO cash conversion cycle. AEO uses the cash from its suppliers to finance its higher level of receivables. In other words, the industry is more successful in collecting its receivables; however the gap is only 3 days in average. There is no significant change in the way the company wants to manage its cash through the years.

Risk



Cyclicality of the Industry and Change in Consumer Preferences

There are a number of risks which are associated with not only American Eagle, but the industry as a whole. The retailing industry for the most part requires the ability to predict and respond to changing consumer preferences and fashion trends. For the targeted consumer group, it is especially difficult since merchandise is ordered well in advance. Also the industry follows a cyclical path with the peak selling season occurring in the holiday to Christmas time frame. The company usually has a much higher inventory during this time period so any change in consumer demand, pricing and selection of merchandise could prove detrimental for the organization.

Economic Pressures

The global economy is continuing to negatively impact retail organizations. The tightness in the credit markets and a lack of consumer confidence has and will most likely reduce business activity. Economic condition which affect disposable income such as employment, consumer debt, interest rates, increases in energy costs and

consumer confidence all contribute to how the organization performs. While most of these factors are stacked negatively against the company now, it can be predicted that as the situation improves, so will the company's performance.

Expansion

AEO can grow through store openings, existing store expansions and expanding brand offerings. The ability to open more stores depends on the ability to find suitable locations and the ability to pay for the costs which are associated to opening a new store. As of their 10-K report, AEO plans on opening an addition 11 new American Eagle stores in the US and Canada and 17 aerie stand alone stores. There is only a limited growth potential when it comes to expanding the American Eagle stores with over 850 locations already in the US.

American Eagle has done well in attempting to expand its brand by introducing aerie stand alone stores and the Martin + OSA brand, and 77kids. Martin + OSA pose significant risks to the overall organization. EPS was dragged down \$0.21 because of this brand and although the company was positive for the year, it was due to severe discounting thus profit margins were damaged. This division of AEO includes 28 stores and the management of the company is not expecting to expand this brand further in fiscal 2009. Some analyst predicts that the brand will be eliminated if profitability doesn't improve. If this is the case AEO will be subject to inventory impairment and lease termination charges.

International Sourcing Strategy

AEO like the majority of the retail industry is susceptible to risk posed by foreign suppliers. A significant majority of the company's merchandise comes from a small number of foreign sources. Any disruption of the company's supply chain could prove detrimental for the organization. "This includes any imposition of additional trade law provisions or import restrictions: increased duties, tariffs, anti dumping provisions, increased Custom's enforcement actions and any political or economic disruptions."

Other Risks

The company does not have any long term debt; therefore its capital structure is composed of 96% equity. Although it seems that during these tough economic times that this is beneficial, the company has elected to draw from its credit facility a value of over \$50 million dollars. This was a short term liquidity boost with the amount having to be paid in full within the next year. The company is also exposed to certain risks involving its exposure to auction rate securities.

Valuation

According to most of the analysis it is quite obvious that in most areas American Eagle is being outperformed by most of the other similar companies in the industry, which is not a good sign. Firstly though AE has a current EPS of \$0.87 and the industry has a lower EPS of only \$0.56, next quarter estimates show that AE will have an EPS of only \$0.05 while the industry EPS is expected to be three times that at \$0.15. Another negative indicator of the company is the fact that cash flow per share is expected to decrease from \$1.47 to \$1.33. In addition sales per share are also expected to decrease for AEO from a current value of \$14.48 to a value of \$13.75 in one year.

Another good measurement of how well a company is doing is the dividend yield that it pays out. According to one year estimate the dividend yield is expected to go down from 4.44% currently to about 3.25%. In addition the PE ratio is at the moment lower than that of the industry, but there will be a turnaround and according to the one year estimate the AEO PE will be higher than that of the industry. Though it can be seen from the crystal ball estimate that the expected one year return for AEO is at almost 50% we feel that this is invalid at this point because it is derived from historical values, and though AEO had been doing better in the past it has been slowly getting diminishing and has begun doing worse than most of the companies in the industry.

- In 2007, COGS represent 53.4% of sales - in 2008 COGS represent 60.7% --> -7.3% difference
 - In 2007, SG&A represent 23.4% of sales - in 2008 SG&A represent 24.8% --> -1.4% difference
 - In 2007, other operating expenses represent 3.6% of sales - in 2008 other operating expenses represent 5.2% --> -1.6% difference
 - In 2007, Total Operating Expenses represent 80.4% of sales - in 2008 Total Operating Expenses represent 90.7% -> -10.3% difference
 - --> DOL increased from 2.37 to 4.20, mostly due to a 12.2% increase in COGS
 - In 2007, Total Non-Operating Expenses represent 6.5% of sales - in 2008 Total Non-Operating Expenses represent 3.4% --> +3.1% difference
 - --> In 2007, Net Income represents 13.1% of sales - in 2008, Net Income represents 6.0% of sales --> -7.1% difference = -10.3% (operating) + 3.1% (non-operating)
-
- From 2007 to 2008, sales decreased 2.2%
 - From 2007 to 2008, profitability decreased by 54.2% (from 13.1% of sales to 6.0% of sales)
 - --> **Net Income decreased by 55.24%**, mostly due to a 12.2% increase in COGS, which was aggravated by a 3.57% increase in SG&A, a 41.13% increase in other operating expense (depreciation + an unusual expense of 23M), and partly offset by a 49.6% decrease in non-operating expenses
-
- Cash from operation decreased 31.4%, from \$589M to \$404M
 - Capital Expenditures increased 15.41%, from \$627M to \$723M
 - Cash from Investing Activities decreased 19.3%, from \$712M to \$575M
 - Free Cash Flow decreased by 750.4%, from \$-37M to \$-318M
 - Cash from Financing Activities increased from \$-1,134M to \$87M (stopped stock buy-back program, issued debt)
 - --> Cash & Equivalents decreased by 23%, from \$619M to \$483M
 - Total Liabilities decreased by 0.7%, from \$527M to \$555M
 - Total Equity decreased by 0.3%, from \$1,340M to \$1,409M
-
- EPS decreased 54.16%, from \$1.90 to \$0.87
 - CFPS decreased 29.70%, from \$2.80 to \$1.97

SWOT ANALYSIS

Strengths - American Eagle has maintained a cash position of \$470 million in cash and Treasury securities which management believes is an extraordinary accomplishment in a difficult market. Stand alone "Aerie" stores comped slightly positive for the fiscal year. The collection offers Dorm wear and Intimates for AE girl, and has been generally well received among women. AEO management is well knowledgeable that they must focus on AE women's business in order to further grow the company. AEO management has been able to reach targeted inventory levels as a result of heavy discounting which should help them going forward. Direct businesses improved tremendously over the year with sales reaching \$307 million which was a 26% increase.

Weaknesses - The fourth quarter was a dismal conclusion for AEO. EPS declined 71% as a result of heavy discounting and weak traffic through malls. Margins were sacrificed as a result to move inventory thus hindering profitability and potentially causing a negative effect on the AEO brand name. AEO's operations of Martin + OSA have been unsuccessful. Although the division seemed to be doing well this revenue growth was driven by promotions. Martin + OSA targets customers in the 28 - 40 year old range which is an extremely difficult target to reach with proposed product lines. Numerous analysts expect the division to be scrapped if profitability does not improve this year. Overall AEO saw customers increase the level of purchases but overall profit was down due to discounting the majority of items at buy one get one 50% off. The overall increase in stores did not cover the decline in revenues.

Opportunities - The economy is expected to come out of the recession in the second half of 2009 and begin recovery next year. This means that the overall sector should begin to perform well thus giving AEO and its competitors a reason to rally. AEO has also done a good job of hiring Roger Markfield in order to "reinvigorate" the AEO brand. Management has shifted focus to truly important areas such as increase in intimate apparel to resonate

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better with the AE girl. This includes increasing the availability of sizes, fits, colors, and patters. A potential opportunity also exists from the fact that inventories are now at proper levels. This should give American Eagle better position going forward as inventory per square foot declines causing an increase in profit margins. AEO also plans to shift sourcing and production to Cambodia and Vietnam. Management has also initiated some other cost cutting measures such as a \$50 million dollar reduction in headcount and supply chain management. Opportunities also exist in managements plans to open 17 new aerie stand alone stores and 11 new AE locations including a flagship location in the Times sq, area in NYC.

Threats - As the rest of the retail industry, a lasting recession can negatively affect future cash flows of AEO and its competitors. A lasting threat also exists from the lack of predictability of teen fashions. The industry itself is highly competitive with substitutes arising quickly. AEO's brand Martin + OSA dragged EPS down \$ 0.21 as the brand has not been well received with the targeted consumer. AEO also carries a carrying value of various Auction Rate Securities of \$261.56 million. (Refer to following chart). Furthermore it seems that American Eagle is opening to many stores too quickly, and is trying to expand at a rate that is unsustainable, which will cause significant issues in the near future.

\$35.3 million of temporary impairment and \$22.9 million in OTTI. Our short-term and long-term investments consist of the following:

	No. of Issues	Par Value	Temporary Impairment (In thousands, except no. of issues amount)	OTTI	Carrying Value as of January 31, 2009
Auction-rate securities ("ARS"):					
Closed-end municipal fund ARS	5	\$ 41,750	\$ (263)	\$ —	\$ 41,487
Municipal Bond ARS	5	28,850	(367)	—	28,483
Auction rate preferred securities	5	29,400	(3,217)	(10,108)	16,075
Federally-insured student loan ARS	17	166,700	(17,283)	—	149,417
Private-insured student loan ARS	4	34,000	(14,163)	—	19,837
Total Auction-rate securities	36	300,700	(35,293)	(10,108)	255,299
Preferred Stock	4	19,000	—	(12,781)	6,219
Total	40	\$ 319,700	\$ (35,293)	\$ (22,889)	\$ 261,518

Auction rate preferred securities ("ARPS") are a type of ARS that have an underlying asset of perpetual preferred stock. In the event of default or liquidation of the collateral by the ARS issuer or trustee, we are entitled to receive non-convertible preferred shares in the ARS issuer. Lehman Brothers Holdings, Inc. ("Lehman") (which filed for Chapter 11 bankruptcy protection during September 2008) acted as the broker and auction agent for all of the ARPS held by us. The Lehman bankruptcy resulted in the dissolution of the investment trusts for most of our ARPS. As a result, during Fiscal 2008, we received a total of 760,000 preferred shares of four companies. For Fiscal 2008, we recorded an OTTI charge of \$12.8 million based on the closing market price of these preferred shares on January 30, 2009.

Target Prices

Target Prices	
Yahoo target price	\$11.10
Reuters target price	\$11.00
Bloomberg target price	\$11.39
Thomson one target price	\$11.10
Siena College CGFS target price	\$11.04
Siena College CGFS target price volatility	1.39%
Siena College CGFS 68 percentile target price	\$9.65
Siena College CGFS 95 percentile target price	\$8.27
Siena College CGFS 99 percentile firm target price	\$6.88
Siena College CGFS industry target price	\$11.91
1-year forecasted Returns	
1-year forecasted Industry Return	1.97%
1-year forecasted Industry Return Volatility	26.62%

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1-year forecasted Firm Return	-9.14%
1-year forecasted Firm Return Volatility	37.96%

RECOMMENDATION

We are issuing a SELL recommendation for AEO. The current stock price is at \$12.60, and we believe that it will decrease to a value of about \$11.04 per share. Not only does our calculated target price show a decrease in value but Yahoo, Reuters, Bloomberg, and Thomson One target prices all show a significant decrease in stock price for American Eagle Outfitters in the next year. This is due to a combination of decreased sales, a significant increase in cost of goods sold, and an overly optimistic expansion plan that they are not currently in the condition to go through with as planned. Though much of the hardships that the company has been going through are due to the current economic situation and extreme drop in consumer confidence, the financials show that the majority of the indicators are worse than those of the industry, which shows that among most of its competitors American Eagle Outfitters is having more trouble, is less profitable, and has much less growth potential than most of its close competitors.

Company Name	American Eagle Outfitters Inc.	Ticker	AEO
Current Price	\$12.60	Target Price	\$11.04
Recommendation	SELL	Date	4/1/2009
P. Michael Iltis			
Market Cap	\$1,200,000,000	Market Cap	\$1,200,000,000
Revenue	\$1,200,000,000	Revenue	\$1,200,000,000
EPS	\$1.00	EPS	\$1.00
Operating Profit	\$100,000,000	Operating Profit	\$100,000,000
Net Income	\$80,000,000	Net Income	\$80,000,000
Dividends	\$0.00	Dividends	\$0.00
Free Cash Flow	\$100,000,000	Free Cash Flow	\$100,000,000
Debt	\$1,000,000,000	Debt	\$1,000,000,000
Equity	\$200,000,000	Equity	\$200,000,000
Market Value Added	\$1,000,000,000	Market Value Added	\$1,000,000,000
Return on Equity	10%	Return on Equity	10%
Return on Assets	5%	Return on Assets	5%
Return on Capital Employed	8%	Return on Capital Employed	8%
Operating Margin	8%	Operating Margin	8%
Net Profit Margin	6%	Net Profit Margin	6%
Dividend Yield	0%	Dividend Yield	0%
Free Cash Flow Yield	8%	Free Cash Flow Yield	8%
Debt to Equity Ratio	5:1	Debt to Equity Ratio	5:1
Current Ratio	1.5	Current Ratio	1.5
Quick Ratio	1.0	Quick Ratio	1.0
Days Payable Outstanding	30	Days Payable Outstanding	30
Days Sales Outstanding	45	Days Sales Outstanding	45
Days Inventory Outstanding	60	Days Inventory Outstanding	60
Capital Expenditures	\$100,000,000	Capital Expenditures	\$100,000,000
Research and Development	\$50,000,000	Research and Development	\$50,000,000
Acquisitions	\$0	Acquisitions	\$0
Divestitures	\$0	Divestitures	\$0
Goodwill Impairment	\$0	Goodwill Impairment	\$0
Restructuring Costs	\$0	Restructuring Costs	\$0
Other Non-Recurring Items	\$0	Other Non-Recurring Items	\$0

	2008	2007	2006
2. Summary Market Analysis			
Market Status	Export Electrical Inventory	Current	1-year Outlook (Recession)
Global GDP Growth	1.40%	-0.30%	-1.50%
Industrial (GDP)	1.30%	0.30%	-0.70%
U.S. Retail Sales	2.70%	1.10%	0.10%
Unemployment Rate	4.10%	4.10%	4.70%
Consumer Confidence Index	1.34	1.40	1.30
Political Risk Rating (out of 100)	64.500	67.500	67.500
Economic Risk Rating (out of 100)	64.000	66.000	66.000
Technological Risk Rating (out of 100)	74.500	67.000	67.000
Market	Export Electrical Inventory	Current	1-year Outlook (Recession)
China	1.20%	1.20%	1.20%
India	1.20%	1.20%	1.20%
Japan	1.20%	1.20%	1.20%
U.S.	1.20%	1.20%	1.20%
U.K.	1.20%	1.20%	1.20%
Germany	1.20%	1.20%	1.20%
France	1.20%	1.20%	1.20%
Italy	1.20%	1.20%	1.20%
Spain	1.20%	1.20%	1.20%
Russia	1.20%	1.20%	1.20%
South Africa	1.20%	1.20%	1.20%
Brazil	1.20%	1.20%	1.20%
India	1.20%	1.20%	1.20%
China	1.20%	1.20%	1.20%
U.S.	1.20%	1.20%	1.20%
U.K.	1.20%	1.20%	1.20%
Germany	1.20%	1.20%	1.20%
France	1.20%	1.20%	1.20%
Italy	1.20%	1.20%	1.20%
Spain	1.20%	1.20%	1.20%
Russia	1.20%	1.20%	1.20%
South Africa	1.20%	1.20%	1.20%
Brazil	1.20%	1.20%	1.20%
3. Company Market of Customers used these services			
Company Analysis	Price Margin	Total Asset Turnover	Equity Multiplier
Automotive Single Customers			
2006	11.00%	1.30	1.30
2007	11.00%	1.30	1.30
2008	11.00%	1.30	1.30
2009 Q1	11.00%	1.30	1.30
2009 Q2	11.00%	1.30	1.30
2009 Q3	11.00%	1.30	1.30
2009 Q4	11.00%	1.30	1.30
2009	11.00%	1.30	1.30
2008	11.00%	1.30	1.30
Financial Data	Price Margin	Total Asset Turnover	Equity Multiplier
2006	11.00%	1.30	1.30
2007	11.00%	1.30	1.30
2008	11.00%	1.30	1.30
2009 Q1	11.00%	1.30	1.30
2009 Q2	11.00%	1.30	1.30
2009 Q3	11.00%	1.30	1.30
2009 Q4	11.00%	1.30	1.30
2009	11.00%	1.30	1.30
2008	11.00%	1.30	1.30

Lectern Entertainment, Inc.		Profit Margin	Total Asset Turnover	Equity Multiplier
2006		8.81%	1.38	1.37
2007		10.15%	1.42	1.39
2008		11.80%	1.36	1.32
2009 Q1		10.50%	1.36	1.37
2009 Q2		11.77%	1.34	1.34
2009 Q3		12.31%	1.31	1.33
2009 Q4		11.85%	1.31	1.33
2009		9.45%	1.31	1.33
2010		11.17%	1.36	1.35
American Express Co.		Profit Margin	Total Asset Turnover	Equity Multiplier
2006		12.2%	1.2	1.2
2007		12.2%	1.2	1.2
2008		12.2%	1.2	1.2
2009 Q1		12.2%	1.2	1.2
2009 Q2		12.2%	1.2	1.2
2009 Q3		12.2%	1.2	1.2
2009 Q4		12.2%	1.2	1.2
2009		12.2%	1.2	1.2
2010		12.2%	1.2	1.2
Home Depot, Inc.		Profit Margin	Total Asset Turnover	Equity Multiplier
2006		7.5%	2.50	2.50
2007		8.1%	2.50	2.15
2008		7.6%	2.50	2.13
2009 Q1		8.3%	2.50	2.09
2009 Q2		8.1%	2.50	2.06
2009 Q3		8.7%	2.50	2.07
2009 Q4		8.6%	2.50	2.04
2009		7.8%	2.50	2.04
2010		7.8%	2.50	2.07
The Home Depot		Profit Margin	Total Asset Turnover	Equity Multiplier
2006		12.2%	1.2	1.2
2007		12.2%	1.2	1.2
2008		12.2%	1.2	1.2
2009 Q1		12.2%	1.2	1.2
2009 Q2		12.2%	1.2	1.2
2009 Q3		12.2%	1.2	1.2
2009 Q4		12.2%	1.2	1.2
2009		12.2%	1.2	1.2
2010		12.2%	1.2	1.2
Hess - Apparel		Profit Margin	Total Asset Turnover	Equity Multiplier
2006		3.1%	1.80	1.80
2007		3.6%	1.90	1.81
2008		3.8%	2.00	1.85
2009 Q1		3.9%	1.90	1.81
2009 Q2		3.8%	1.83	1.80
2009 Q3		3.8%	1.79	1.80
2009 Q4		3.5%	1.80	1.84
2009		3.6%	1.80	1.84
2010		3.7%	1.75	1.81
Hess - Retail		Profit Margin	Total Asset Turnover	Equity Multiplier
2006		3.1%	1.80	1.80
2007		3.6%	1.90	1.81
2008		3.8%	2.00	1.85
2009 Q1		3.9%	1.90	1.81
2009 Q2		3.8%	1.83	1.80
2009 Q3		3.8%	1.79	1.80
2009 Q4		3.5%	1.80	1.84
2009		3.6%	1.80	1.84
2010		3.7%	1.75	1.81

Year	Days of Inventory	Days of Receivable	Cash Cycle
2007	62.66	1.00	61.66
2008	62.66	1.00	61.66
2009	62.66	1.00	61.66
2010	62.66	1.00	61.66
2011	62.66	1.00	61.66
2012	62.66	1.00	61.66
2013	62.66	1.00	61.66
2014	62.66	1.00	61.66
2015	62.66	1.00	61.66
2016	62.66	1.00	61.66
2017	62.66	1.00	61.66
2018	62.66	1.00	61.66
2019	62.66	1.00	61.66
2020	62.66	1.00	61.66
2021	62.66	1.00	61.66
2022	62.66	1.00	61.66
2023	62.66	1.00	61.66
2024	62.66	1.00	61.66
2025	62.66	1.00	61.66
2026	62.66	1.00	61.66
2027	62.66	1.00	61.66
2028	62.66	1.00	61.66
2029	62.66	1.00	61.66
2030	62.66	1.00	61.66
2031	62.66	1.00	61.66
2032	62.66	1.00	61.66
2033	62.66	1.00	61.66
2034	62.66	1.00	61.66
2035	62.66	1.00	61.66
2036	62.66	1.00	61.66
2037	62.66	1.00	61.66
2038	62.66	1.00	61.66
2039	62.66	1.00	61.66
2040	62.66	1.00	61.66
2041	62.66	1.00	61.66
2042	62.66	1.00	61.66
2043	62.66	1.00	61.66
2044	62.66	1.00	61.66
2045	62.66	1.00	61.66
2046	62.66	1.00	61.66
2047	62.66	1.00	61.66
2048	62.66	1.00	61.66
2049	62.66	1.00	61.66
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2075	62.66	1.00	61.66
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2092	62.66	1.00	61.66
2093	62.66	1.00	61.66
2094	62.66	1.00	61.66
2095	62.66	1.00	61.66
2096	62.66	1.00	61.66
2097	62.66	1.00	61.66
2098	62.66	1.00	61.66
2099	62.66	1.00	61.66
2100	62.66	1.00	61.66

Reversal and Cash Structure and Flows			
	Value per share	Flows per share	Profit Margin
Industry Return	\$11.76	\$1.87	1.6%
Plan Mean	\$13.75	\$0.78	5.6%
Plan Median	\$14.08	\$0.78	5.6%
Plan High	\$15.47	\$1.08	7.0%
Plan Low	\$11.81	\$0.52	4.4%
Plan Standard Deviation	\$2.41	\$0.12	0.8%
Equity Structure			
	Value per share	Flows per share	Profit Margin
Industry Mean	\$14.20	\$0.78	5.5%
Plan Mean	\$14.08	\$0.85	6.0%
Plan Median	\$14.08	\$0.85	6.0%
Plan High	\$15.48	\$1.07	6.9%
Plan Low	\$11.81	\$0.52	4.4%
Plan Standard Deviation	\$2.40	\$0.12	0.8%
B. Valuation			
	Value per share	Flows per share	Profit Margin
Industry EPS	\$2.56	\$0.15	\$0.78
Industry P/E	11.80		6.6%
Industry C/P/E	\$0.40	\$0.03	\$0.03
Industry P/B	4.74		4.7%
Industry P/S	\$0.40	\$0.03	\$0.03
Industry P/D	1.42		0.3%
Industry EV	\$1.00	\$0.04	\$0.04
Industry PR	1.07		1.7%
Industry P/V	\$0.00	\$0.01	1.0%
Industry LT Growth			
Market P/E	11.76		1.6%
Market P/B	4.74		4.7%
Market P/S	1.27		1.0%
Market P/D	1.42		1.0%
Market EV	1.07		1.0%
Market LT Growth	1.0%		1.0%

C. Fagan Policy and House Rules	
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ABERCROMBIE AND FITCH (ANF)

David Urkevich, Siena College
Pierre-Alain Dufetre, Siena College
Bryan Ashline, Siena College

COMPANY OVERVIEW

Location
New Albany, Ohio

Industry
Retail-Apparel

	Siena Target			S&P
Price	Price	S&P 500	DJIA	Industry
\$23.62	\$26.07	\$842.50	\$8017.59	\$24.76

DESCRIPTION

Abercrombie and Fitch is an apparel retailer specializing in trendy merchandise for young men, women, and children. Operating under the 5 storefronts titled Abercrombie and Fitch, Abercrombie, Hollister, Gilly Hicks, and RUEHL, the company targets consumers ages 10-35.

Company Website
www.Abercrombie.com

MARKET DATA

Market Cap	\$2,090,000,000.00	1 Yr Price App.	3.12%
Price to book	\$1.12	Country	USA/Canada/UK
Beta	1.46	Industry	Apparel Stores
Dividend yield	2.80%	Industry Price	15.33
Shares O/S	87,836,000	Industry Beta	1.15
Current price	\$23.62	Country Risk Premium	8.71%
52 week range	13.66 - 78.35	Risk Free Rate	2.68%

Valuation	Current	2009E
EPS	\$3.05	\$2.13
P/E	13.84	10.10
CFPS	\$5.77	\$4.68
P/CFPS	6.21	6.20

RECCOMENDATION

Buy: outperform the industry; high growth potential

SEGMENTS & CUSTOMERS

4th Annual Siena College Student Conference in Business
April 17, 2009

Abercrombie and Fitch

ANF's flagship storefront which provides casual and sportswear apparel for young men and women at luxury prices. Abercrombie and Fitch stores flaunt an East Coast image of prosperity and privilege. Merchandise includes; woven, knit, and graphic t-shirts, fleece, jeans, pants, sweaters, outerwear, underwear, accessories, and personal care products. ANF conducts business in 356 Abercrombie and Fitch stores.

Abercrombie

ANF's children's merchandise business split into both male and female merchandise categories. Selling similar products to the flagship storefront, Abercrombie has experienced rapid expansion to 211 stores in January 2009 from its conception of 9 stores in July 1998.

Hollister

ANF's lower priced version of its flagship storefront aimed at the young adult segment (14 to 17 year olds). Split into male and female merchandise segments, Hollister touts west-coast inspiration through its unique retailing concept. Each store is staged accordingly, immersing consumers in the west-coast styling theme. The Hollister brand concept began in July 2000 with a single store. ANF currently operates 516 Hollister stores with an expected expansion of 10 domestic stores in 2009.

RUEHL

ANF's 2004 entry into the post-college casual luxury market aims to attract consumers with deeper pockets and more developed tastes. RUEHL's brand image is inspired by the culture of New York City's Greenwich Village. Aimed at college graduates age 22-35, RUEHL offers "office-appropriate" clothing, accessories, personal care products, and leather outerwear. This exclusive luxury brand is currently available at 29 domestic stores.

Gilly Hicks

ANF's newest retail concept offers bras, underwear, accessories, personal care, sleepwear, and at-home products to female consumers. Morningstar estimates the company to operate an expected 40 Gilly Hicks stores in 2010, a large jump from its birth of 5 stores at the beginning of 2008.

Bargaining Power of Customers

Because of the nature of A&F business model, they cater primarily to teenagers who have discretionary income. Their income tends not to change, even in macroeconomic times such as now. Customers within the apparel industry really have no bargaining power; A&F must price their products strictly on what they believe the consumer will pay for them.

STRATEGY

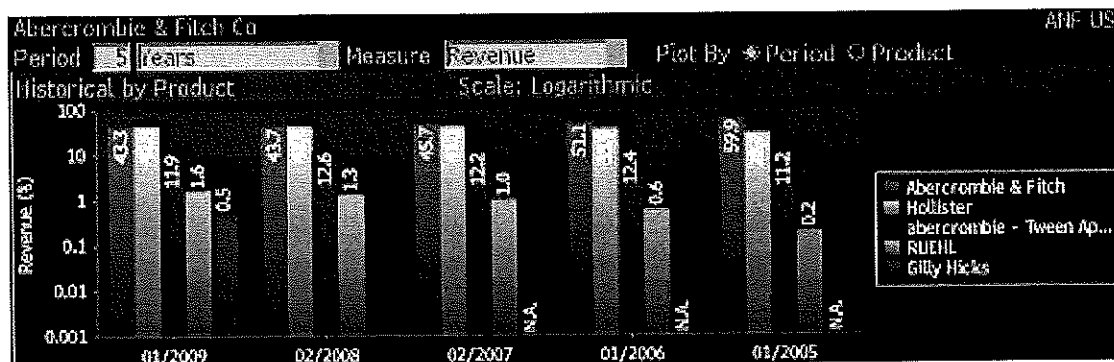
Founded in 1892, Abercrombie and Fitch has experienced rapid change in recent years under the leadership of CEO Michael Jeffries. Since his rise to power in 1992, the apparel retailer has experienced dramatic growth on the heels of Jeffries' somewhat visionary initiatives. ANF's premium pricing and concept evolution approach aims to appeal to brand-conscious men, women, and children. ANF maintains an exclusive brand image by conducting business in only the most prestigious retail environments domestically and abroad. Avoidance of deep product discounting is a characteristic consistent with ANF's exclusive business model. Operating under a number of physical and web-based storefronts including Abercrombie, Abercrombie and Fitch, Hollister, Gilly Hicks, and RUEHL, ANF has developed a system to capture continual sales dollars in the ever-changing youth fashion industry.

This hierarchy of store concepts and merchandise intends to appeal to consumers as they outgrow opinions of fashion throughout their youth. Each storefront targets a slightly different demographic by providing merchandise tailored to its target customers. This is reflected in the breakdown of each storefront's characteristics above.

SUPPLIERS

Abercrombie & Fitch has approximately 210 suppliers worldwide. ANF does not buy more than 5% of its apparel or personal products from an individual factory with the exception of a single South American vendor. They have vendors in 37 different countries. Since ANF has such a diverse variety of vendors, the bargaining power of their suppliers is limited. This diversification also limits their exposure to political and financial risks that could occur in specific regions of the world.

MARKET SEGMENTATION



LATEST DEVELOPMENTS

In ANF's February 2009 conference call CEO Michael Jeffries outlined the company's plan for the New Year. Cash preservation, international expansion, and a reduced emphasis on domestic expansion were among the most interesting topics. Q4 2009 EPS would have been \$1.10 per share if not for one time charges due to write downs on store-related assets and execution of an element within Jeffries' employment contract. The \$1.10 EPS beats ANF's guidance along with estimates of many analysts. This news led to intraday gains of over 11% on February 3, 2009.

INDUSTRY ANALYSIS

OVERVIEW

The economic recession has had a negative effect on the majority of industries. The apparel retail industry specifically has been hurt by the downturn. The apparel retail industry is dependent on spending, and fares best when the economy is thriving. However, the recession has caused declining consumer spending and therefore has hurt apparel companies. The apparel industry is highly seasonal with a high percentage of income coming from back-to-school shopping and the holiday season. It is also subject to a high level of change due to changing trends and fads. Companies in this industry must be quick to capitalize on these trends or they will lose out to a competitor.

Companies in this industry have several different strategies to survive. Some offer a best quality strategy where the company has high prices, but the brand is known for its high quality and premium name. Others look to be a best value provider where they offer good quality at affordable prices. Some companies have formed a differentiation strategy, where they offer a unique style that other companies don't offer at fair prices. Another successful strategy is to be a low cost provider and simply compete by offering the lowest price in the industry.

CRITICAL ISSUES

GDP

The Bureau of Economic Analysis released fourth quarter GDP for 2008 on March, 26, 2009. Gross Domestic Product decreased at a reported annual rate of 6.3 percent in quarter four. The decrease is due to declining exports and decreased personal consumption expenditures. GDP was at 2.00 percent in 2007 and fell to 1.10 percent in 2008. It is also estimated to be -2.50 percent in 2009 and finally recover in 2010 where it is expected to improve to 1.80 percent (Bloomberg). The Federal Reserve has a more optimistic forecast with GDP at -.9 percent in 2009 and a larger recovery of 2.90 percent in 2010. Both forecasts agree that the economy will suffer in 2009 and this will translate to a difficult year for ANF. Abercrombie will need to be efficient in its operations to keep costs low. It will also need to do what is necessary to find ways to sell its products and turnover inventory despite an environment with decreased spending. In 2010, the company will benefit from the recovery and likely see its sales and profitability increase.

Retail Sales

Retail sales have declined year over year for the months of January and February for 2008 and 2009. The data below was taken from the U.S. Census Bureau:

	Feb-09	Feb-08	Jan-09	Jan-08
Retail & Food Services, Total (millions)	346,810	379,355	347,191	381,421
Percent Change (yoy)	-8.58%		-8.97%	
Retail	308,148	341,729	308,461	343,739
Percent Change (yoy)	-9.83%		-10.26%	
Clothing & Clothing Accessories Stores	18,227	18,804	17,739	18,981
Percent Change (yoy)	-3.07%		-6.54%	

As shown, retail sales in general have fallen from 2008 to 2009. When including food services. Clothing and Clothing Accessories stores sub-industry have fared better than the retail industry in general over the past year. One can infer that this is due to the nature of the consumer targeted by clothing retailers. Many of these stores target customers that are in their teens. These customers are dependent on a guardian who provides most things to them. Therefore, any discretionary income they have is spent on things desirable to teens, clothing being one. The downturn in the economy has likely had less of an effect on teenagers than someone who provides for themselves or a family.

Unemployment

The national unemployment rate is currently around 8.1 percent; however it can vary state to state. The estimate for 2009 is for unemployment to increase to 8.9 percent and continue to increase to 9 percent in 2010 (Bloomberg). As unemployment continues to rise, more and more people will be without a steady source of income. As a result consumer spending will continue to decrease as people only spend on necessities and look for low cost items. This will negatively affect most industries and companies. However, companies that are low cost providers such as Wal-Mart and McDonalds may actually benefit from this trend. Apparel companies will likely be affected as more people cannot afford higher quality clothing and brand names and consumers will look to cheaper sources of clothing. Apparel companies will need to compete by keeping prices as low as possible.

Consumer Confidence

According to a report on Bloomberg, consumer confidence stayed flat in March after declining in February. This decline is based on the data obtained from the confidence index. The confidence index was created by *The Conference Board* is a representative sample of 5,000 households that measures the positive or negative attitude of the surveyors on economic outlook. The decline in consumer confidence is due to

continued increases in the unemployment rate and economic estimates that 2009 will continue to be a difficult year for consumers and businesses. It is likely that confidence will remain low until consumers feel that the economy is about to recover or the government's plan to revive the economy can be successful. Until the confidence is restored, spending will be low and as a result retail sales will not be as strong as they were in the past.

Consumer Spending

The Bureau of Economic Research reported that consumer spending decreased in the fourth quarter by 3.01 percentage points. This is from a decline in demand for goods as services actually increased. Consumer spending accounts for around two-thirds of GDP and is one of the driving forces of the economic downturn. The continued job losses and fears of a long recession have caused consumers to stop their spending and save for emergency and necessities. Since consumer spending drives the economy, it is likely that when consumer spending increases retail sales will follow.

Inflation

Currently inflation is not a factor that the economy is facing. The CPI, which is a measure of the average price paid for a basket of goods and services, is forecasted to be at -.70 percent at the end of 2009 and increase to 1.90 in 2010. This shows that prices are low and that inflation is not currently a problem. However, because the economy is in a recession, the U.S. government and the Federal Reserve have done a number of things to keep the economy stable and attempt to revive it. Through the actions of the government and Fed, more money has been introduced into the economy that has the potential to cause inflation in the future. While these funds now are being used to attempt to keep companies in business and encourage spending, it is likely that a large problem will occur years after the initial recovery. The increase in the money in the economy will cause a decline in purchasing power. While the next few years the economy is not forecasted to see inflation, it will become a factor in the years to come. This will increase the price of goods and this will affect the economy and apparel stores such as Abercrombie & Fitch, which will have to increase prices to maintain margins.

Drivers of Profitability

Within the retail apparel industry, there are many factors that can be attributed to their success. First and foremost, they apparel stores must be sensitive to changing consumer preferences in trends in a well-timed manner. It is absolutely key that their shelves carry the latest products or styles before their competitors can stock their shelves with them. They must be knowledgeable about the target demographic they are catering to and sensitive to the styles they demand. Stores must effectively respond to changing trends and discontinue inventory that is not selling.

Timeliness is a major factor of the apparel industry. They also must receive their products in a timely fashion from their manufacturers. With many apparel stores, including A&F, they have third party manufacturers. The stores must make sure that their manufacturers are complying with time guidelines set forth by the apparel stores to ensure that they are meeting customer demands and not losing market share. If inventory is not received in a well timed manner, consumer confidence in the quality of the products decreases and gives market share to their competitors which would have an undesirable outcome for their profits.

Other major key success factors include the ability for corporations in the apparel industry to negotiate real estate lease. Most stores rent, and they must strive for the cheapest possible monthly rents to enhance financial stability for the firm.

Managing inventory efficiently in relationship with demands for their products is vital. The less excess they hold, the less holding and setup costs they incur. It would also be advantageous to hold less because it would require less credit borrowing. It assists in attaining exceptional operating margins for their store.

Lastly, successful market development of their products during times of expansion is key. This ensures that as the company grows in domestic and international segments, they are creating strong customer loyalty to their stores, which further enhances their brand name and raises the value of their products.

COMPETITORS

Threat of Substitutes

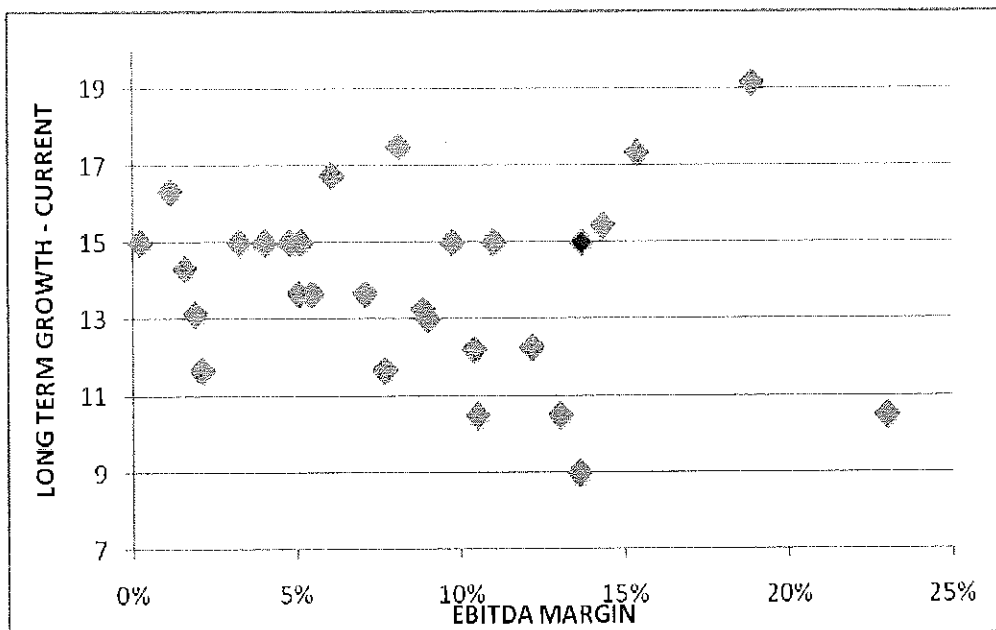
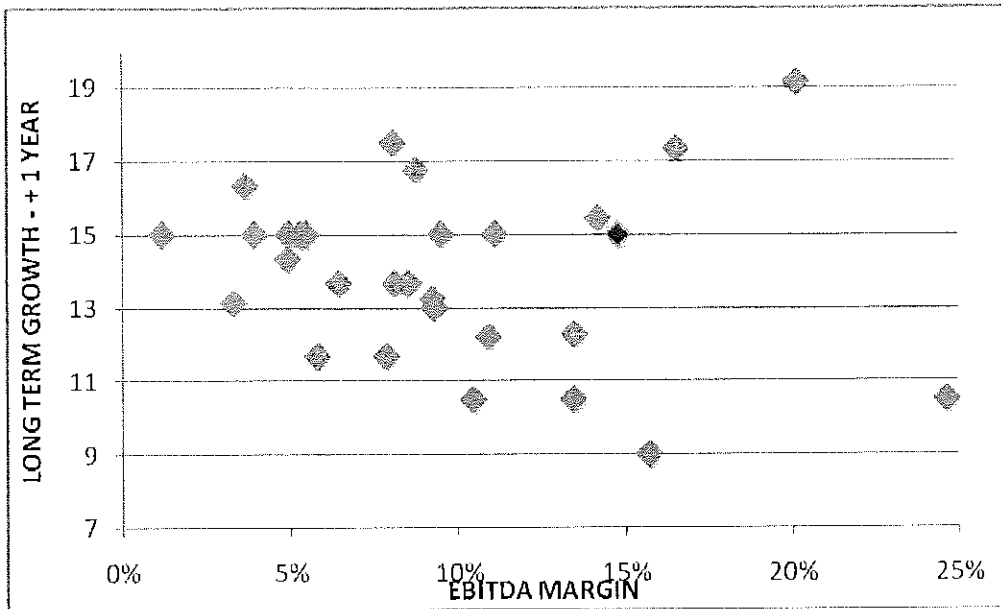
The products that Abercrombie & Fitch carries are very exclusive. The target market that wears their clothing lines take pride in shirts and wear that say "A&F" on it. It is very difficult to have a substitute for clothing, yet ANF must stay on the lookout for the latest fashion trends that aim to take market share away from them. For example, the newest look in ripped jeans or the modern new shirts with funny tag lines on them need to always be on their shelves before their competitors if they want to stay a top destination for high school kids to spend their allowance dollars.

Threat of New Competitors

The threat of entry of new competitors in this market is slim. Because of current macroeconomic conditions, the retail industry as a whole is not seeing new stores emerge. Due to the decrease in consumer spending and frozen credit markets, the apparel industry has not seen an increased entrance of competitors. This works in favor of ANF in which they can manage their pricing wars with competitors that they currently have.

Competitive Rivalry

Abercrombie & Fitch is constantly striving to enhance its image against competitors and steal more market share away. They are under the constant struggle of countering promotional actions of its competitors while not reducing the brand or image of the ANF. ANF understands that they have no guarantee that they will be successful in the future so they strive to continuously aim higher than its competition in pricing, products, and services. They aim their marketing to target demographics so they can compete as effectively as possible. Their main competitors include American Eagle, Aeropostale, and J. Crew.



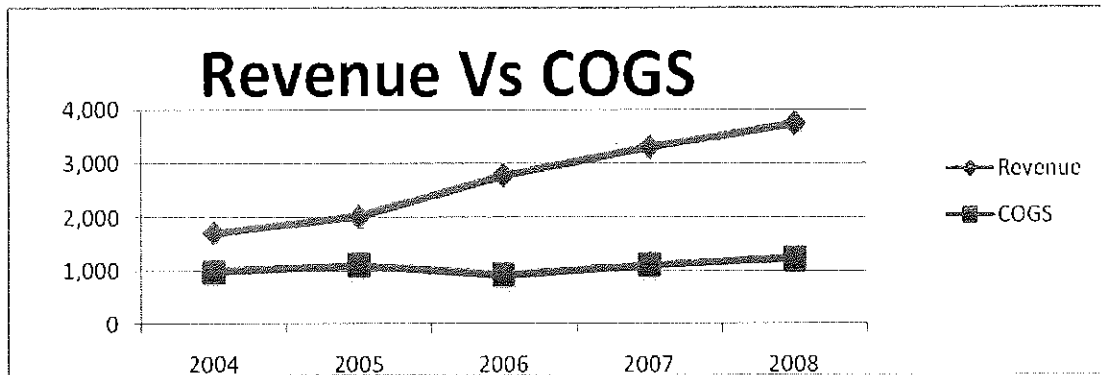
COMPANY ANALYSIS

RISK

In order to assess the company's risk, let us have a look on certain financial statement figures. The table below sums up these figures:

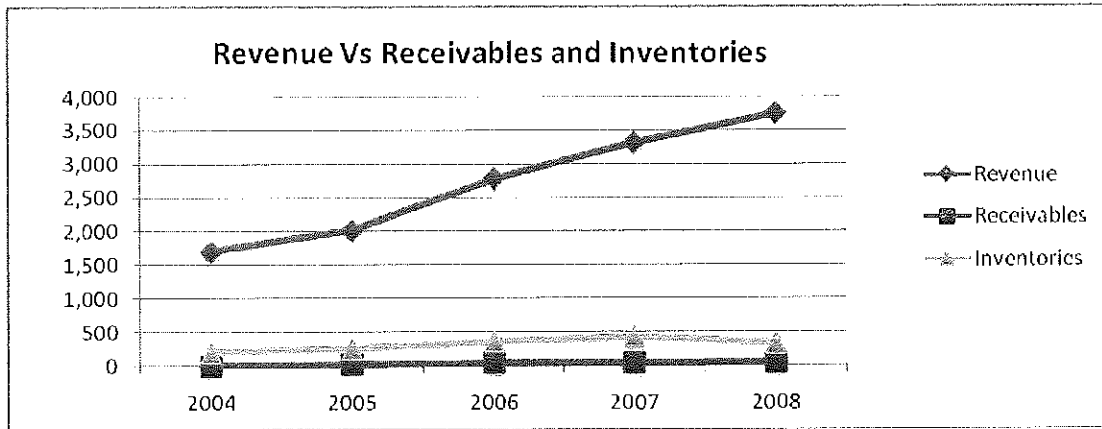
\$Million	2004	2005	2006	2007	2008	CAGR
revenue	1,708	2,021	2,784	3,318	3,750	21.73%
Receivables	7.2	26.1	42	43	54	65.49%
COGS	990	1112	933	1109	1239	5.77%
Inventories	201	248	363	428	333	13.45%
EBITDA	335	353	549	672	759	22.69%
Debt	328	678	795	843	949	30.42%
Debt/EBITDA	0.98	1.92	1.45	1.25	1.25	6.30%

Revenues increased by 21.73% from 2004 to 2008 but COGS increased by 5.77%. The company is thus able to generate more revenues to cover its COGS. The revenue growth has to be higher than the COGS's growth as it would indicate that the company will have trouble funding its COGS. According to the graph below, the company is not facing this risk.



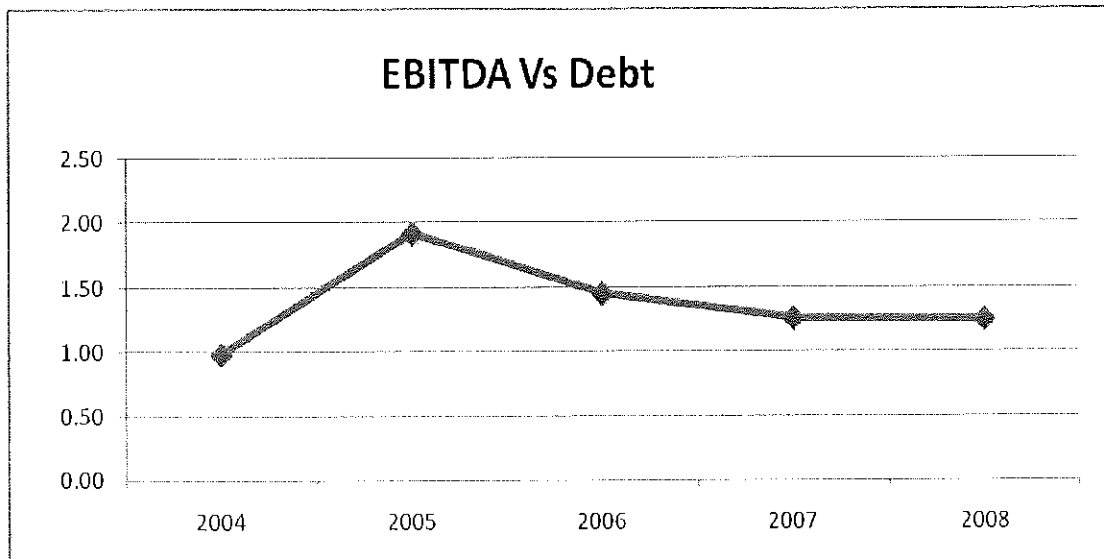
According to the table, receivables are increasing at a much higher rate than the revenues (65.49% compared to 21.73%). This could be harmful for the company if the company has trouble collecting money from its customers. ANF will have to find money to fund its receivables and take this money from its cash flow eventually and if possible. However, the receivables represent on average 1.19% of total revenues. Even if receivables keep increasing, in 2008, it represented only 1.44% of total revenues; this is not a major concern for ANF as it represents only a very small part of revenues. The company has to keep an eye on these receivables and make sure they do not increase to reach revenues.

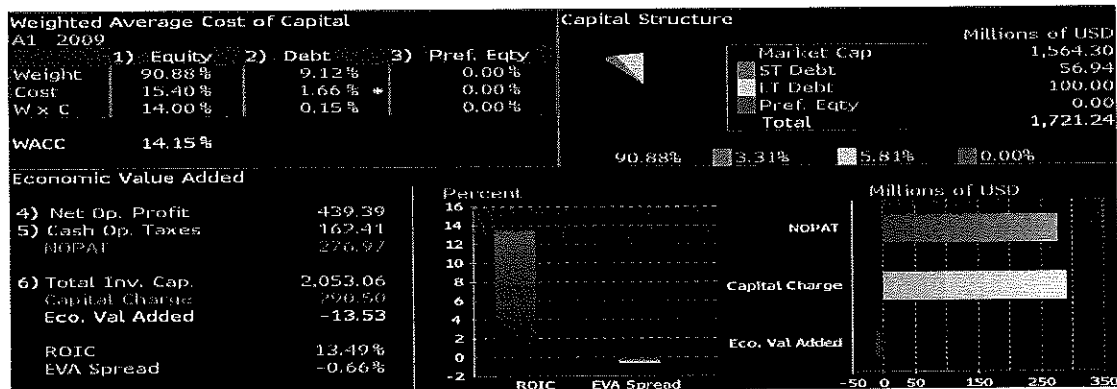
Concerning its inventories, this is the same analysis. It has been increasing by 13.45% compared to a 21.73% increase in revenues. This is a high rate of growth but over the past 4 years inventories represent only 11.77% of total revenues. The Senior Management team has to make sure it does not increase above revenues otherwise ANF will have to fund them. The graph below depicts the comparative increase in revenues, inventories, and receivables over the past 4 years.



The Debt to EBITDA ratio depicts the number of years it will take the company to pay off its debt. The ratio increased by 6.30% over the past 4 years. Indeed, in 2004, it took less than one year to pay off its debt knowing its level of EBITDA but in 2008, it took 1.25 years to pay off its debt knowing its EBITDA level. Debt increased at a higher level (30.42%) as compared to EBITDA (22.69%). Currently, the company has two loans: one of \$250 million which is maturing in December this year, and one of \$450 million maturing in 2013.

This is why the ratio rose to 1.92 in 2005 and later began decreasing after the company did not borrow additional funds. Meanwhile ANF continued to pay interest and revenues were increasing year over year.





The chart above depicts the economic value added (EVA) by the firm. It assesses the financial performance of ANF to calculate its true economic profit. EVA spread is negative (-0.66%) as the economic value added equals \$- 13.53 Million. It means that ANF's earnings are lower than the required minimum rate of return as measured by the WACC (14.15%) by 0.66%. It indicates that ANF is not generating enough cash to satisfy the creditors and shareholders, but also does not generate enough cash to get a surplus, thus the added value. In contrast the return on investment capital (ROIC) is lower than the WACC (13.49%). However, the Altman Z-score is equal to 3.70 meaning that there is no potential risk of bankruptcy for the company. The cash flow from operating activities is growing at a lower rate than the net income, at 15.82% and 25.82% respectively. The company is not able to generate more cash from its operations beyond the scope of their own net income. This could be harmful as the company doesn't have a high level of cash to cover its liabilities. However, in terms of free cash flow, it increased at a higher rate (38.82%). The current free cash flow is \$123.73 million but ANF needs to be able to pay off their \$250 million loan coming to maturity in December.

To sum up, ANF is not facing a high risk of default as its cash flow and net income allows them to cover their liabilities. Moreover, revenues are much higher than ANF's inventories and receivables allowing them to cover their short-term receivables as well as inventories.

VALUATION

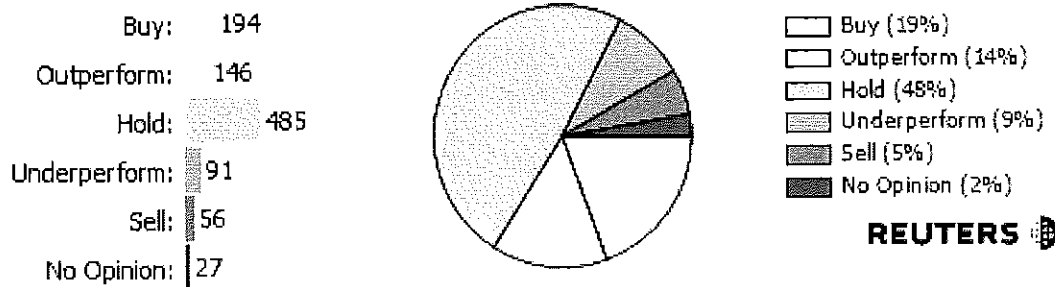
In ANF's February 13, 2009 conference call, CEO Michael Jeffries described Q4 2008 as a "retail nightmare." Citing the competitive promotional environment of apparel retailers and plummeting consumer discretionary spending, Jeffries described goals for 2009 including brand protection and international growth in a disciplined and controlled manner. Jeffries restated confidence in the management's ability to 'control' the business yet CFO Jonathan Ramsden described ANF's ability to provide estimated EPS guidance as "an exercise in false precision." This, according to Ramsden, is a result of largely unpredictable sales trends as a result of macroeconomic conditions.

Our calculated target price of \$25.98 a share is somewhat conservative given the almost inevitable recovery of the consumer discretionary environment. Meanwhile, ANF must minimize the decline of its profit margins while maintaining the inspirational images of its unique brands. ANF's ability to weather the volatility of its overall operating environment will play a predominant role in determining share valuation upon economic recovery. We feel ANF's business model of utilizing five separate storefronts to customize selling is among the company's strongest features. This model minimizes variations in consumer spending as a result of unavoidable changes in lifestyle brought by age. ANF's ability to capture sales revenues through the opening of new stores has not yet experienced the power of foreign markets to full capacity.

Though ANF trades slightly above our projected target price, this can be attributed to the conservatism of our projection, but we do have a strong feeling that ANF is a long-term bull. The consumer discretionary segment is one that can rebound right alongside the economy, as increased spending will surely increase with consumer confidence. Specialty retailers will benefit the most within the

segment, as brand loyalty becomes a key factor. The following Reuters chart shows analyst expectations for the retail apparel industry, and much of the weight is on the bullish side. Nearly half of the brokers did recommend a hold on the market, and this is an indication why our target price is very similar to ANF's current price.

Broker Recommendations



We do expect ANF to be profitable in upcoming quarters, though EPS is well lower than figures from a year ago. 2010 is not going to be a blockbuster year as the economy still needs to regain momentum, but estimates for 2011 EPS figures look strong for ANF and the apparel retail industry. The following chart shows 3-years of EPS data for ANF.

Reuters Consensus Estimates (Mean)

Recommendation		Target Price			LT Growth Rate	
HOLD(2.96)		USD 23.53			15.00%	
EPS (Pre Except) (USD, Major)						
FY (Jan.)	Q1	Q2	Q3	Q4	FY	
2009:	0.69a	0.87a	0.72a	1.10a	3.38a	
2010:	0.02e	0.30e	0.42e	1.02e	1.78e	
2011:	0.06e	0.23e	0.44e	1.28e	2.12e	

As mentioned, some weaker quarters (Q1;2010) will happen due to the nature of the industry and its timing with the movement of the economy, but FY EPS is projected to begin to climb from 2010 into 2011 by nearly 20%. This exceeds the company's long term growth rate of 15% and shows that they are poised to start to regain sales momentum and profitability which has been slashed over the past few quarters. ANF has a strong brand name and recognition, which are key to bringing repeat and new customers into their stores.

SWOT

Strengths

ANF's single greatest strength is its tried and true brand image. Largely a product of CEO Michael Jeffries' visionary approach to brand development, Abercrombie and Fitch now consists of 5 brands. Realizing the rapid development within the youth fashion industry, ANF has devised a comprehensive plan to appeal to consumers of all ages and tastes. ANF's captures revenues from consumers aged 10 to 35 years of age through the utilization of each brand's unique storefront initiative. Overall expansion may result in

revenues totaling over \$1 billion considering strong international demand for brands such as Hollister. Domestically, Hollister's strength will likely result in an expanded amount of storefront locations beyond the current number of 516. Other operations, such as ANF's Gilly Hick's brand aims to capture market share currently enjoyed by the likes of Victoria's Secret. Consumers who have outgrown the Abercrombie and Fitch brand may expand their wardrobes via ANF's RUEHL brand established in 2004. The RUEHL brand intends to appeal to post-collegiate consumers age 22-35 with more established merchandise and higher price points.

Weaknesses

The overall nature of ANF's teen fashion business is their most prevalent risk. A large drop in consumer discretionary spending has resulted in a 19% year over year decline in ANF's sales revenues. Combined with higher expenses associated with running its stores, ANF's operating income has dropped from over 27% of sales in Q4 2007 to a modest 12.5% in Q4 2008. This decline is further illustrated by a -64% 1 year return on ANF's publicly traded equity.

Opportunities

Domestic expansion of brands such as Gilly Hicks and Hollister will provide ANF with opportunities to grasp additional market share. By entering into specialty retailing at luxury prices, brands such as Gilly Hick's stand to grasp higher revenue from market share not yet tapped by ANF. As a growth retailer, ANF experiences sales growth as a result of opening new store locations. Strong international demand for many of ANF's brands will provide the company with the opportunity to expand their operations globally. This is consistent with ANF's plans to expand into the markets of Tokyo and Milan throughout 2009.

Threats

With relatively high priced merchandise falling into a "Luxury Casual" category, ANF faces the risk associated with consumer confidence and subsequent discretionary spending. Controversial marketing schemes may prevent certain customers from purchasing ANF's branded merchandise. Ironically, these tactics are relied upon by ANF to maintain brand image. ANF's exclusive brands and customer devotion could be damaged as a result of mistakes made within constant development and growth efforts. Limited discounting tactics could hurt sales revenues in times of decreased consumer spending and result in slower consumer traffic upon retail environment change. Brand loyalty, in this case, could be considered a double edged sword. The same note, domestic growth has been maximized in recent years, forcing prospects beyond ANF's realm of familiarity, in some cases.

RECOMMENDATION

We recommend a buy below \$26.07. Strong growth potential and tested brand image makes this stock a long-term buy. Historically strong returns on invested capital indicate ability to adapt and expand in an inherently volatile luxury-retail environment.

Target prices

Target Prices

Yahoo target price	\$25.56
Reuters target price	\$23.53
Bloomberg target price	\$23.93
Thomson one target price	\$22.50
Siena College CGFS target price	\$26.07
Siena College CGFS target price volatility	3.23
Siena College CGFS 68 percentile target price	\$22.84
Siena College CGFS 95 percentile target price	\$19.61
Siena College CGFS 99 percentile firm target price	\$16.39
Siena College CGFS industry target price	\$12.49

1-year forecasted Returns

1-year forecasted Industry Return	-16.39%
1-year forecasted Industry Return Volatility	33.00%
1-year forecasted Firm Return	13.31%
1-year forecasted Firm Return Volatility	60.18%

MARKETING PLAN FOR LOISABA COMMUNITY CONSERVATION FOUNDATION

Lizzy Van Horn, Siena College

EXECUTIVE SUMMARY

This paper attempts to assist the Loisaba Community Conservation Foundation in the marketing and distribution of the products that are hand-made by women within the conservation. In order to affectively accomplish this goal, many different aspects were examined including the many facets of the products themselves, competitor's products, and market and distribution opportunities. Taking on this project was a combination of finding an effective market while keeping the focus that the foundation has established. The goal is to find a profitable marketing and distribution plan to help raise the quality of these women and their families' lives, given that they receive one hundred percent of the revenues.

Many different current and potential stores and websites were evaluated in order to determine what opportunities are available for these products. The result of this examination is the awareness of already established fair trade organizations that sell similar products, such as Global Girlfriend, in which the jewelry and home décor products could be offered. This alternative provides immediate channel access and shortens the amount of time to grow awareness of the products, through their already established customer base. Other alternatives were found for the dog collars and horse bands. The dog collars seem to have the greatest potential at boutique's and pet stores while the horse bands have potential at becoming very popular by offering them at horse shows immediately through Lizzie Redkey at Siena College. In addition to these distribution channels, all products will hopefully be available through the Loisaba website at www.loisabaccf.org.

Thorough research and time was put into recommendations to improve the Loisaba website, which will hopefully have a designated e-commerce segment in which the products are offered. Each aspect has been assessed and recommendations are made in order to enhance the aesthetic while also the functionality of the website. These recommendations include color schemes, particular pictures that represent a potential theme, a tag line to be used consistently throughout the cite, and basic functional proposals as to improve the visitor's overall experience. Each suggestion has been examined in detail, and research is presented in order to support the recommendations.

This is a large project to undertake, but the impact that it could have on the lives of the women and their families makes it worthwhile. The hope is that one day these products will be distributed all throughout the United States and the women and families of the Loisaba Community will reap the benefits. Hopefully, this paper is a starting point on the long road of changing these lives forever.

LOISABA COMMUNITY CONSERVATION FOUNDATION

"A partnership of man and nature, serving wildlife and the local Laikipiak, Masaai, and Samburu Tribes"

Mission:

To meld the needs of man and nature by providing a refuge for native species of animals which also allows the local Laikipiak, Masaai, and Samburu tribes the opportunity for employment and sustainable agriculture. To improve the quality of life for these traditionally marginalized tribes while assuring a vast wilderness for endangered species.

Company Description:

Loisaba Community Conservation Foundation- A 100 square mile ranch in the middle of the Laikipak Plateau in Kenya. This conservation was created to help give the tribes in this area an opportunity at having a sustainable income and higher level of life. They have been successful in creating 166 jobs in an area where little

prior employment existed. It has also successfully set up five nursery schools affording five women's groups the opportunity to work together to raise funds for their families. The women's group is comprised of mainly widows who otherwise would have no means to support their families. The LCCF has built multiple classrooms and helps to support over 800 students education annually, and have paid for nearly 100 children to attend Secondary School. Water projects have been put in place to help with the sanitation and availability of clean water to the tribes. Along with the schools that have been created and supplied, a medical clinic has been built and is currently run by two capable nurses, financed by the LCCF. The LCCF works with the African Wildlife Federation in the preservation of many species of animals in the area. In summary, the Loisaba Community Conservation Foundation works hard to preserve, sustain, and consistently enhance the lives of the tribe members and the animals within this particular 100 square mile ranch (www.loisabaccf.org).

Loisaba Hotel- "Loisaba's 'Mind, Body & Soul' concept encompasses the enriching experience a stay in the wild can evoke, one which affects visitors not only visually but also spiritually and emotionally – vast tracts of wilderness alive with wildlife of every shape and form, local tribes continuing their traditional lifestyle little changed for centuries, and a majestic landscape sweeping down to the indomitable Mount Kenya." The Mind concept encompasses the wildlife research and enriching the community. The Body concept is giving visitors the ability to hike, rock climb, take helicopter rides, mountain bike, river rafting, horseback riding, and camel riding throughout the land. The Soul concept involves the Losaiba Lodge, which is a large part of the Loisaba trust. The lodge includes a swimming pool, tennis courts, bocce court, croquet lawn and open-air bubble bath. The Star Beds, Spa, and a Balloon Safari are all options and added features of that one may get when going to the lodge. The lodge helps to employ multiple locals who would otherwise have no jobs, and offers visitors an unforgettable trip unlike any other (www.loisaba.com).

Women's Group- The main goal of the women's group is to make income producing projects available for women to be able to support themselves and their families. In addition to financial support that the women's groups give to the women, it also helps give the women a sense of pride and empowerment. While the women are working on these projects there are five nursery schools that have been created, in which the children benefit as the time is spent in early educational group activities. The Loisaba CCF helps to distribute the products currently in a few retailers located mainly in Upstate New York. The women are currently making beaded products such as bracelets, necklaces, dog collars and horse bands, and have recently added placemats. These products are fair trade products. Fair trade is an economic approach to trade which protects human dignity and rights and prioritize people over profits. The main points of fair trade are as follows: producers receive a fair price for their products, forced labor and exploitative child labor are not allowed, buyers and producers trade under direct long-term relationships, producers have access to financial and technical assistance, sustainable production techniques are encouraged, working conditions are healthy and safe, equal employment opportunities are provided for all, all aspects of trade and production are open to public accountability, and the environment is conserved and protected (www.handcraftingjustice.ccdriis.org).

Industry Analysis:

Ten Thousand Villages- This organization that sells only fair trade products has a store located in Stuyvesant Plaza in Albany, NY. The products in this particular store seemed to be well-made, reasonably priced products. They had a wide assortment of ceramic items and seemed to focus on home decorations that held the native feel while also being Americanized. They did not use too many tribal colors or native bright colors but tended to use more neutral colors such as brown, tan, or an animal print. The jewelry in particular seemed to be very well made, and was mainly in popular modern colors and patterns. This differs from the products produced within the Women's group in that the women are currently using very bright and what seem to be African type patterns. The products that are currently being produced by the Losiaba women's group would not fit in with the theme of 10 Thousand Villages. The products could be altered to look higher quality and use an Americanized scheme to be able to be distributed to a store such as 10 Thousand Villages (www.tenthousandvillages.com).

Global Girlfriend- This online organization is also focused on selling fair traded products of all kinds, but focus particularly on benefiting women. They only offer the products online and sell a large assortment of products including clothing, bath and body items, home décor, handbags, and jewelry. The products are not completely Americanized but still tend to represent those who produced them. The jewelry differs in that some are brightly colored and used tribal colors while some look more Americanized. The experience of the website goes along with

the feel of the products that are currently being produced by the Loisaba women's group. The quality of the jewelry is hard to determine through the pictures, but seems to be well made and is priced reasonably, although higher than those products sold in 10 Thousand Villages (www.globalgirlfriend.com).

The "O" Bracelet- "Mary Fisher became convinced: 'Women who share poverty and AIDS can be empowered only by employment.' Now when she travels the world -- as artist, author and ambassador of the United Nations' HIV/AIDS program -- Mary focuses especially on income-generation projects that help AIDS-affected women earn a living, care for their families and sustain their health." Mary Fisher has focused her efforts in Rwandan and Zambian, teaching them how to make what we now know as The "O" Bracelet. The bracelets sell anywhere from \$28 - \$330, with 100% of the profits can go to the women of Africa. These bracelets are featured in The "O" Magazine and are sold exclusively at Macy's. They have been so popular that they actually sold out at Christmas time in 2007. These bracelets are high quality and sold at a premium, which does not fit well with the products we are considering. (www.maryfisher.com/bracelets_main.htm).

Situational Analysis (SWOT):

Strengths

- The devotion and passion that Jim and Susan have to sell these products in order to help support the Loisaba tribe, in particular the women
- Support from many individuals that are willing to help if told how they can help
- Considerably broad range of products
- The purchase of the products goes back to help a good cause
- Women have the time to create multiple products and innovation and new ideas are welcomed

Weaknesses

- Lacking organization and communication.
- No awareness of the products or the Loisaba tribe situation
- No particular theme or direction of the products
- Lag time in getting products
- The type of products can be limited due to limited resources
- Do not currently have a point of purchase displays to put in stores
- Do not have packaging or branding of any sort
- Limited financial resources
- Not high enough quality to ask premium prices

Opportunities

- Connect with a fair trade organization that will help promote the products, such as World of Good, Greater Gift, and Global Girlfriend.
- Put brochures around churches and other organizations to build awareness of the women and their products, and inform consumers where products can be located.
- Contact boutique type stores about consignment of products.
- Selling products at craft fairs or women's festivals
 - 4H Events
 - Altamont Fair
 - Schaghticoke Fair
 - Other local or county fairs
- Having a booth or putting horse products in stores around the Saratoga Race Track.
- Through Lizzie Redkey, a professor at Siena College, who has offered her services of taking the horse bands to horse shows with her.

Threats

- There are already similar products out in the market, referring to the jewelry.
- The economy is struggling which may give consumers less disposable income to spend on such products as these.

- Have to pay to get products in places, such as renting a booth at a festival, which takes away the amount of money that the women will get.
- Have a wide variety of products, so need different type of stores to have the right target market, or make a connection between products to be able to sell in one store.

Market-Product Focus and Goal Setting

Market Segments

1. High to mid income women who are looking for well made products and will pay a premium (Mainly for Jewelry).
2. Mid-income women who are more interested in a getting a good deal than the quality of the product.
3. Consumers who are actively looking for products that will benefit others, who are more focused on the type of products and less concerned with price.
4. Young children/adolescents whose parents have sufficient amount of disposable income and will buy the products for their kids (Belts and jewelry).
5. High to medium income level consumers that do not mind spending money on their pets.
6. Jockey's or horse owners looking to accessorize their horses. Most likely those involved in shows or races.

Marketing and Product Goals

To sell an assortment of well-made products at a reasonable price to consumers who are aware they are helping women and their families survive through their purchase.

Target Markets

1. Middle to high-income level consumers, most likely women, that are environmentally conscious and do not mind spending their disposable income on jewelry, accessories, or items for their pets.
2. Jockey's or horse owners looking to accessorize their horses. Most likely those involved in shows or races, such as the Saratoga Race Track events.
3. Middle School, High School, and College aged girls who will be interested in the bracelets and jewelry in particular. Can look into what patterns will be of interest to them and try to tailor the products towards them.

Points of Difference

- All handmade.
- Unique in that no one will have two of the exact same product.
- Impact and truly benefit entire tribe with the purchase of products.

Positioning

- These jewelry, accessories, and animal products will be positioned in consumers' minds as good quality dependable accessories, which are being sold to drastically improve the lives of women in the Loisaba tribe.
- The horse accessories will be positioned as high quality unique and one of a kind product that sets you apart from others.

Marketing Program:

Product- Offer multiple products such as bracelets, necklaces, belts, placemats, dog collars, and horse bands.

Price- Jewelry and accessories such as belts should be priced competitively. Pet items should be priced a little above the competitors in that they are much more detailed and better quality than most. Horse items should be priced at a premium, but still reasonably priced, in that they are going to a higher income target market.

Promotion- Brochures that tell about the women's group and the products which also include how the products may be purchased. Through the Loisaba website and any other fair trade organization that the products might be sold through.

Place- Jewelry and accessories should be sold in connection with an already established fair trade organization such as Global Girlfriend. The pet supplies could be sold through an already established organization or in higher end boutiques and pet stores. The horse products should originally be sold around large horse events, either in stores or in booths.

**Both pet, excluding the horse products, and the jewelry and accessories can be offered through craft fairs and festivals.

CURRENT INDUSTRY TABLE

<u>Existing Product</u>	<u>Price</u>	<u>Promotion</u>	<u>Distribution</u>
Leather Belts	\$65-\$80		Adirondack Cotton Co. Bolton Landing Sutton's
Leather Dog Collars	Small- \$20 Medium- \$25 Large- \$30 Xtra-Large- \$35		Sloppy Kisses
Nylon Dog Collars	Small- \$15 Medium- \$20 Large- \$30		Sloppy Kisses
Leather Beaded Bracelets	\$20		Adirondack Cotton Co. Bolton Landing
Beaded Cuff Bracelets	\$15		Adirondack Cotton Co. Bolton Landing
Single Twisted Bracelets	\$3		Adirondack Cotton Co. Bolton Landing
Necklaces	\$10-\$20		Adirondack Cotton Co. Bolton Landing
Napkin Rings (Set of 4)	\$15		
Placemats (Set of 4)	\$30 and up		
Horse Bands	Small- \$20 Large- \$25		

RECOMMENDED INDUSTRY TABLE

<u>Existing Product</u>	<u>Price</u>	<u>Promotion</u>	<u>Distribution</u>
Leather Belts	\$40-\$60	<ul style="list-style-type: none"> • Brochure • Website • Flyers posted in churches • In person through distribution networks. • High schools and colleges through bulletin boards or booths 	<ul style="list-style-type: none"> • Global Girlfriend and other already established fair trade organizations. • Booths at women's festivals and/or craft fairs.
Leather Dog Collars	Small- \$20 Medium- \$25 Large- \$30 Xtra-Large- \$35	<ul style="list-style-type: none"> • Pet catalogs • Brochure • Website • Flyers posted in churches 	<ul style="list-style-type: none"> • Global Girlfriend and other already established fair trade organizations. • Booths at women's festivals

		<ul style="list-style-type: none"> • In person through distribution networks. 	<ul style="list-style-type: none"> • and/or craft fairs. • Pet stores similar to those that are already being utilized
Nylon Dog Collars	Small- \$15 Medium- \$20 Large- \$30	<ul style="list-style-type: none"> • Pet catalogs • Brochure • Website • Flyers posted in churches • In person through distribution networks. 	<ul style="list-style-type: none"> • Global Girlfriend and other already established fair trade organizations. • Booths at women's festivals and/or craft fairs. • Pet stores similar to those that are already being utilized
Leather Beaded Bracelets	\$20	<ul style="list-style-type: none"> • Brochure • Website • Flyers posted in churches • In person through distribution networks. • High schools and colleges through bulletin boards or booths 	<ul style="list-style-type: none"> • Global Girlfriend and other already established fair trade organizations. • Booths at women's festivals and/or craft fairs.
Beaded Cuff Bracelets	\$15	<ul style="list-style-type: none"> • Brochure • Website • Flyers posted in churches • In person through distribution networks. • High schools and colleges through bulletin boards or booths 	<ul style="list-style-type: none"> • Global Girlfriend and other already established fair trade organizations. • Booths at women's festivals and/or craft fairs.
Single Twisted Bracelets	\$4 for one or 6 for \$20 (Buy five get one free)	<ul style="list-style-type: none"> • Brochure • Website • Flyers posted in churches • In person through distribution networks. • High schools and colleges through bulletin boards or booths 	<ul style="list-style-type: none"> • Global Girlfriend and other already established fair trade organizations. • Booths at women's festivals and/or craft fairs.
Necklaces	\$10-\$20	<ul style="list-style-type: none"> • Brochure • Website • Flyers posted in churches • In person through distribution networks. • High schools and colleges through bulletin boards or booths 	<ul style="list-style-type: none"> • Global Girlfriend and other already established fair trade organizations. • Booths at women's festivals and/or craft fairs.
Napkin Rings (Set of 4)	\$15	<ul style="list-style-type: none"> • Brochure • Website • Flyers posted in churches • In person through distribution 	<ul style="list-style-type: none"> • Global Girlfriend and other already established fair trade organizations. • Booths at women's festivals

		networks	and/or craft fairs.
Placemats (Set of 4)	\$30 and up	<ul style="list-style-type: none"> • Brochure • Website • Flyers posted in churches • In person through distribution networks 	<ul style="list-style-type: none"> • Global Girlfriend and other already established fair trade organizations. • Booths at women's festivals and/or craft fairs.
Horse Bands (Brow Bands)	Small- \$20 Large- \$25 Custom Colors- \$30-\$40	<ul style="list-style-type: none"> • Brochure • Website • Flyers posted in churches • In person through distribution networks 	<ul style="list-style-type: none"> • Horse Catalogs such as Dressage Extensions or Dover Saddlery • Table as a vendor at horse shows • Through a current vendor at horse shows

Recommendation Summary:

There are many different options and directions that one could take with the products, but the recommendation that is being made is that the jewelry and home accessories be distributed through an already established fair trade organization such as Global Girlfriend. In contacting Global Girlfriend, they have responded saying that they are always looking for new organizations and products to be added to their current selection. This would include selling the leather belts, leather beaded bracelets, beaded cuff bracelets, single twist bracelets, necklaces, placemats, and napkin rings on their website and possibly in their catalog. The recommendation for the dog collars is to continue distributing through the current "pet stores" and expanding on through that avenue in places such as Pet's Smart or any other boutique that specializes in pet accessories. There are online vendors that could be utilized such as PETCO.com. The horse bands should be offered at trade shows through current vendors. Producing typical combination of color schemes for horse shows would help to attract customers, and offering custom colors that would allow the price of the horse bands to be sold at a premium. Along with vendors, the horse bands should be offered through catalogs such as Dressage Extensions. The recommendation in respect to prices is that each product be priced competitively while also making sure to make a certain level of profit. Penetration pricing can be used, in that as awareness and demand grows the prices can slowly be raised to increase the profit percentage. The promotion of all of the products should be through placing brochures and flyers throughout local areas such as churches and community centers. Also, promotion should also be done through whichever outlet is chosen to be utilized, such as through Global Girlfriend and Dressage Extensions.

Conclusion:

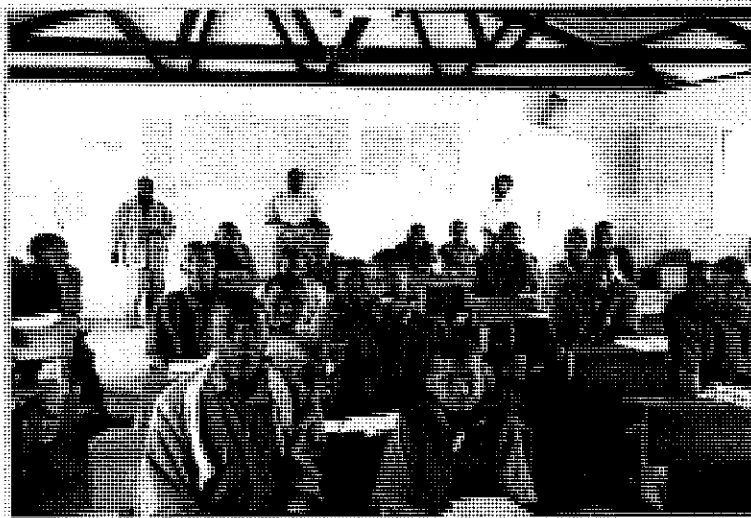
The goal of this project was to determine what markets are viable for the products that are being made by the women and their families within the Loisaba Community. An evaluation of the Loisaba Community Conservation Foundation website, www.loisabaccf.com, was the first step that was taken to accomplish the goals at hand. Researching the market and being able to gain an understanding of the products, in order to be able to better position them, took a lot of time and research. Through researching the different options and markets, the realization is that it is not going to be easy. There are some avenues that would be easier than others, but not guaranteeing that they will be successful. Many individuals assisted in giving insight into what promotion and distribution methods could be utilized, and those have been taken into consideration with the recommendations. A lot of comparative analysis of websites, stores, and products has been conducted to see what the competition is doing and what possible alternatives are available. All in all, through hard work, specific recommendations have been made to hopefully enable the women and families of the Loisaba tribe to have a higher quality of life.

APPENDIX 1: WEBSITE ANALYSIS

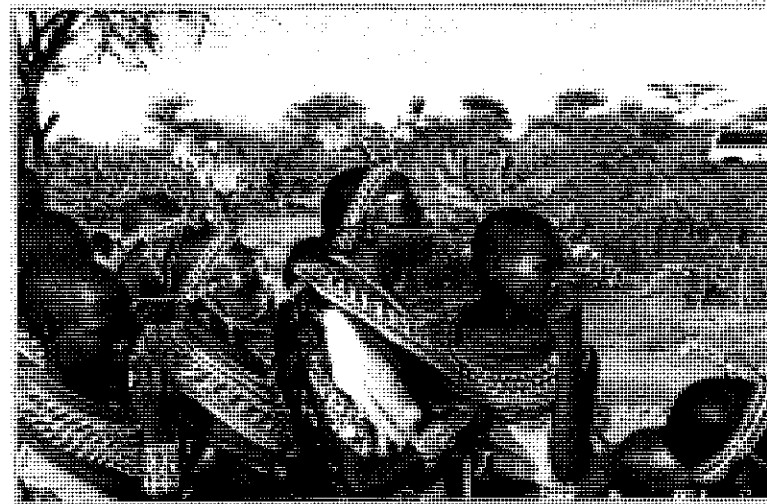
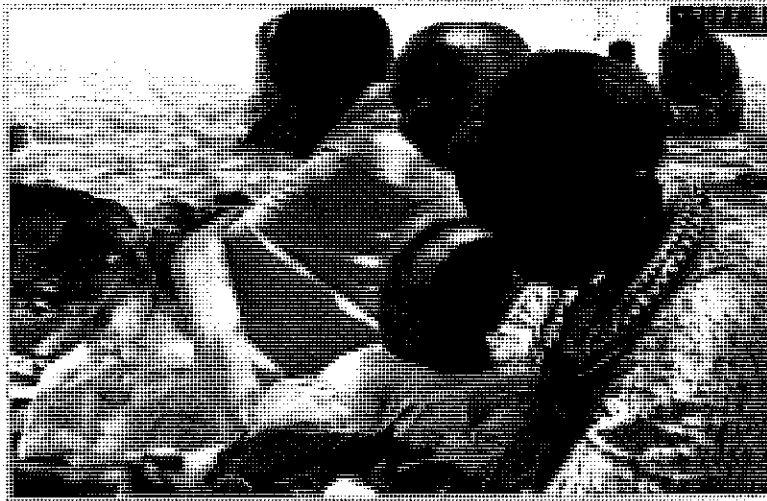
A. Evaluation of the website design elements:

1. The context of the Loisaba website is drastically lacking. "Context refers to a website's aesthetic appeal and functional look and feel reflected in site layout and design" (Berkowitz, Hartley, Kerin, Rudelius, 2006). The main goal that the website accomplishes at this point is providing the consumer with information on the Loisaba tribe. The look of the website is quite dull, with the use of tan and brown as the predominant border colors and mainly black font color. It is not clear what the website is trying to convey to the consumer, and does not seem to have a particular consumer that it is targeting. If anything, one would think that this is predominately about animals because of the colors chosen and two out of the three pictures on the home page are animals. The pictures on the home page are very small and you cannot see details within the pictures. The amount of information that you see when you first open the website is overwhelming and could discourage a consumer from continuing through the website. Past the home page, the pictures continue to be small and there continues to be a lack in color. The functionality of going to different parts of the website is difficult. One must keep clicking and clicking to get to more information, such as updates, news, videos, etc. It feels as though you have clicked twenty times before one actually gets to see anything with substance. This could easily turn off a website visitor to the site and have a large negative impact on their overall experience. This is because Americans are focused on instant gratification and might not have the patience to keep trying to get to the information. I feel that the overall context of this website is very poor.
2. There is some good content on the Loisaba website but the problem is that it is hard to find. "Content includes all digital information included on a website, including the presentation form – text, video, audio, and graphics" (Berkowitz, Hartley, Kerin, Rudelius, 2006). The actual pictures themselves are nice pictures that really show all the different parts of the conservation, but they are too small to really get across what the website is trying to accomplish. The pictures should be large and clear enough to give the website visitor a clear idea of what the CCF is all about and give the user an opportunity to look at products that can be purchased in order to support the women's. It is difficult to view the video, and once one figures out how to find it only the first few seconds plays and then it stops. This obviously is a negative and could easily discourage people from continuing through the website. In addition, the video image is small and could be hard for some people to see clearly. The content has the potential to engage the website visitor, but at this point, does not. Here are a few pictures that would be good for site visitors to see in addition to the close up product pictures:





4th Annual Siena College Student Conference in Business
April 17, 2009



4th Annual Siena College Student Conference in Business
April 17, 2009



3. Customization has not yet been added to the website. "Customization is the ability of a site to modify itself or be modified by each individual user" (Berkowitz, Hartley, Kerin, Rudelius, 2006). The website does not currently have the ability to tailor its settings to particular visitors. It is a possibility for the future, such as a section titled "What's New" that could be added for those who frequently visit the website and would like to stay updated.
 4. The Loisaba website has done a mediocre job allowing the website user to connect to other organizations' websites. All a user must do is make their way to the last menu option at the top of the home page, which is the links page of the website and then they can be connected to the other organizations, conservation projects, and general area information. However, these links are not embedded into the bulk of the website and they do not have pictures, both of which might improve the usage of them.
 5. The communication that is offered through the website is on the "contact us" page. It offers the mailing address, phone number, and e-mail.
 6. The Loisaba website is not currently designed to have any consumer-to-consumer communication, also called community. This could be changed by adding a message board in which those interested in the products or the conservation may post messages to each other or to the head of the conservation.
 7. At this point, the Loisaba website does not have the element of commerce. "Commerce is the websites ability to conduct sales transactions for products and services" (Berkowitz, Hartley, Kerin, Rudelius, 2006). It has one page dedicated to the products that are being offered, but does not currently offer customers the ability to purchase the products through the website. This could be improved by adding a system such as pay pal in which a consumer can go on the website, choose a product that they would like to purchase, use credit card information to pay safely through pay pal services and in the end receive the product.
- B. Analysis of where the website excels and where it struggles:
1. The Loisaba website excels in that it has a lot of good information for the visitor to really get into and understand all about the Loisaba tribe. It also does a good job of being updated and giving the website users ongoing information on how things are going. This is important for those people who have donated or are looking into donating because it allows the donator to see how their money or products have been used to help the tribes. In addition, I feel that they have done a nice job in thanking and giving credit to those people who have donated or helped in any way.

2. The ways in which the Loisaba website struggles is in the presentation (physical appeal) and how complicated it is to get through the website to the real information and all that the website has to offer. The colors and pictures do not help to bring life to the website as much as they could and one just feels bored when first opening the site. They have struggled with giving the users easy access to such things as videos and the news articles. I feel that one of the most important points that the website is struggling with is the products page. The pictures are so small that you really cannot even tell what the products look like. It does not do a good job of describing the products, which leaves the website user clueless to what exactly is being offered. The website does not tell the real story of the women's group and how much buying these products would help these women and their families. By improving just the products page, it could have a drastic effect on the Loisaba tribe and the women's group in particular.

C. Recommendations:

1. "Never let the sun set on those in need" is under the picture on the home page of the website. I feel that this line should become the tag line of the Loisaba website. This could be used as the title on the home page and then continued consistently throughout the entire site. Research has been conducted to find out if this phrase has already been used or has a patent or trademark. Although there are many close variations of the phrase, "Never let the sun set on those in need" could not be found. The sources that were checked were first a Google web search, making sure to use variations of the phrase. Also quotation dictionaries were looked through such as "Bartlett's Quotations," "Political Quotations," "Chamber's Dictionary of Quotes," and "Oxford Dictionary of Quotes." The international public library was also checked through the website at www.ipl.org. Throughout the search quotes such as "Sun sets to rise again," "Sunset and Silence," and many other variations containing sunset and sun usage were found, but as stated before the phrase "Never let the sun set on those in need" was not found.

2. An option of changing the colors of the website to represent the tribe and bring brightness to the website, only if it is decided to have the products be brightly colored and tribal patterned. One option is using the color red because it is the tribal color, and is colorful and would brighten up the entire website. Another option is to use the colors green, yellow, and black to improve the aesthetic appeal of the website. These colors are the national colors of Kenya. Using these brighter colors in particular on the home page and then throughout the entire site will grab the user's attention and hopefully make them feel happy and bright instead of bored and dull. However, if it is decided that the products are going to be designed, color and pattern, then I believe the website appeal could be enhanced by using the color blue as the main color, and yellow as the accent color.

"It is important to note that many colors have a subconscious reference in our collective psyche and thus can be used to effectively communicate aspects of your product" (www.thunderdata.com). According to <http://www.color-wheel-pro.com/color-meaning.html>, blue is the color of the sky and sea. It is often associated with depth and stability. It symbolizes trust, loyalty, wisdom, confidence, intelligence, faith, truth, and heaven. Blue is considered beneficial to the mind and body. It slows human metabolism and produces a calming effect. Blue is strongly associated with tranquility and calmness. In heraldry, blue is used to symbolize piety and sincerity. Light blue is associated with health, healing, tranquility, understanding, and softness. Dark blue represents knowledge, power, integrity, and seriousness. Using a lighter blue would better portray what the website is trying to accomplish as opposed to dark blue representing power, integrity, and so on.

Yellow is the color of sunshine. It's associated with joy, happiness, intellect, and energy. Yellow produces a warming effect, arouses cheerfulness, stimulates mental activity, and generates muscle energy. Use yellow to evoke pleasant, cheerful feelings. You can choose yellow to promote children's products and items related to leisure. Dull (dingy) yellow represents caution, decay, sickness, and jealousy. Light yellow is associated with intellect, freshness, and joy. With that said, using a light yellow would be the best option because we do not want to represent caution, decay, sickness, or jealousy.

3. I feel that the website should be split into two different and separate sites in which the focus of each is different. One website should be all about the products and the women's group, but be a much more transactional website and not have too much information. It should include information on the products, including how they are made and exactly what products are offered, keeping the information limited and

just the basics. Information on the women in particular, but not too much information to where the user gets bored and forgets to focus on the products that they are being offered. Very close up pictures should be taken so that the consumer can see exactly what they can buy. A more efficient way to offer the products would be to give consumers the ability to order the products on-line and show store locations where they are offered. The goal should be to make the transaction and purchase of the products as easy as possible for the consumer.

4. Another website should be created that is focused on the informational side. Separating the products from the informational website will make it easier on the user to understand all about what the Loisaba tribe. This will allow users to get to what they are trying to and not force them to search through information to get to the products. This website should include large detailed pictures of the land, animals, houses, schools, tribes, etc really giving the user the opportunity to learn as much as they would like to. This site should be easy to navigate through and not require the user to feel like they cannot find the information without going through multiple pages. This site would be connected with the products site but at the same time be separated and seen as completely different sites. To be the most effective, the two separate websites should be set up in a way in which it is easy to go from one to the other. This could be done by having a link at the bottom of every page that if clicked on takes the website visitor directly to the other site's home page.
5. When it comes to all the pictures, I think that having a page in which a website visitor can scroll through all types of pictures would enhance the informational website. The most appealing pictures could be displayed throughout the website, but giving users the capability to look through even more pictures could help them connect in an emotional way to the people, land, and animals. The bulk of these pictures should be available on the informational website and only having pictures of the products on the transactional website.

Industry Comparatives:

Global Girlfriend

(<http://www.globalgirlfriend.com/gifts/site.do?siteId=344>)

Use brown and pink as their main colors, in a neutral not bright way. The home page has one picture of women and the rest are of products. The website is purely transactional, in which they do not provide much information on the women but their goal is to get you to purchase the products. The website is easy to navigate through by providing a list of different product groups that the user can navigate toward. They have a lot of close up detailed pictures of the products that are being offered, which is very appealing.

10 Thousand Villages

(<http://www.tenthousandvillages.com/home.php>)

Uses burnt orange as the main accent color while the surrounding colors are light grey and white. The home page has pictures of nature and the website has been set up to be both informational and transactional, having one heading that is labeled "shop" and the rest that are informational headings. Within the "shop" option, one can choose to navigate towards different types of products. It is not very hard to determine where to find what you are looking for. On every page that you navigate to, whether products or information, they always have the telephone number that the user may place and order in the top right corner.

Mercado Global

(<http://www.mercadoglobal.org/index.php?section=1>)

Use a lot of white in the surrounding color with orange as a main bordering color. The accent colors change with the page that you are looking at. On the home page, they have a slide show of pictures of tribal people and the products that are being offered. This website seems to be more focused on providing information than selling products, but has the same "shop" option that the Ten Thousand Villages has.

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