SCOTSMAN'S DELIGHT

Dave Shaw and Elizabeth M.A. Grasby revised this case (originally titled "Maverick's" written by Ilana Rubin under the supervision of Elizabeth M.A. Grasby) solely to provide material for class discussion. The authors do not intend to illustrate either effective or ineffective handling of a managerial situation. The authors may have disguised certain names and other identifying information to protect confidentiality.

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In October 2012, Dougald MacDonald returned from a holiday trip to Scotland where he discovered, by chance, a business opportunity wholesaling Scottish-themed soft toys and novelties, many with musical components, to retailers in North America. Since then, he had gathered information about the products themselves, their possible markets, selling prices, the seasonal nature of the business and the competition in North America. If MacDonald decided to go ahead with the business, he would run it as a proprietorship from his home and garage in Saint John's, New Brunswick, Canada, and call the business "Scotsman's Delight". He now had less than a week to make up his mind whether to go ahead with the opportunity or to walk away.

THE IDEA

MacDonald was 51 years old and had recently sold the latest of his entrepreneurial ventures so he was looking for something new and had always enjoyed the challenge of a new venture. His previous business venture was technical in nature so a toy and novelty business was a significant change in direction and expertise and he was hoping to utilize his excellent organizational skills to earn a healthy profit. He loved the products when he saw them in Glasgow, Scotland, and believed this could be a profitable and intriguing business opportunity. So, while on holiday, MacDonald tracked down the manufacturer, Consolidated Toys (UK) Ltd. (Consolidated Toys), in Aberdeen, and its chief executive officer, Gregor Harding. As it turned out, Harding was in pursuit of a distributor for the products in North America and he offered MacDonald the option to be that distributor. This meant that MacDonald would have exclusive wholesaling rights for these products in North America, buying them from Consolidated Toys in minimum lots of $50,000[1] with terms of 2/10 net 90 days, F.O.B. destination.[2] The deadline for exercising this option was now less than a week away.

THE PRODUCT

The battery-operated soft toys and novelties, some with their Scottish tartan and bagpipe music, would be purchased by consumers as either a novelty item or for sentimental reasons (i.e., a touch of their

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[1] *All currency in U.S. dollars unless specified otherwise.*
[2] *Transportation costs would be paid by Consolidated Toys.*

homeland). For examples of a few of the many products Scotsman's Delight would sell, see Exhibit 1. There was no question in MacDonald's mind that the sound of the Scottish music, especially the bagpipes, coming from these adorable toys, dressed in kilts and tartan, would attract those North Americans with a Scottish heritage.

Scotsman's Delight would sell only to retailers. The retail selling price of these products ranged from $9.99 and $30.00. The wholesale selling prices for the products were between $3.49 and $9.99. Since there was no direct competition in North America for these unique toys and souvenirs, MacDonald projected wholesale sales in North America for the products to be between $525,000 and $550,000 annually for the first two or three years while he built a network of contacts. After that, he believed the sales potential was virtually unlimited.

THE MARKET

Consolidated Toys' distance from the North American retailers had made it very difficult, if not impossible, to provide smaller, more frequent orders to retailers who did not want to buy in larger quantities. Harding hoped that MacDonald's proximity to North American retailers would provide Consolidated Toys with a competitive edge for two reasons:

- Delivery costs would be reduced which would be attractive to retailers.
- Smaller, more frequent orders could be provided to interested retailers.

The U.K. wholesaler had specialized in selling the products successfully for years, had years of industry experience, and had described the U.K. market to MacDonald in great detail. The wholesaler believed the biggest challenges MacDonald would face would be making contact with the targeted retailers, showing them the products, taking orders and delivering the merchandise. There were a lot of potential retail store customers and the first contacts would clearly take time and probably generate only small orders. MacDonald believed repeat business would be carried out by telephone or through the company website.

Harding had told MacDonald that his orders would receive priority from the U.K. production facility because of their friendship and Harding's eagerness to develop the North American market for the manufacturer's products. The lead time to receive orders from the U.K. facility depended on how busy the production facility was and could be anywhere from one week to one month.

Most of the retailers MacDonald planned to target sold novelty and gift and other tourist attractions and were predominantly located on the North American eastern seaboard, which included the Maritime Provinces in Canada and the New England states (this was also where the greatest number of Scots lived in North America). Additionally, there were smaller markets throughout North America.

The tourist business was highly seasonal, with June to October being the busy months. MacDonald knew that retailers ordered new products cautiously so he was prepared to accept small orders and would agree to pay the retailers' freight charges on orders over $1,000 (U.S. or Cdn.). He estimated the shipping costs at 5 per cent of sales.

THE SALES FORCE

Since the products were unique and sales volumes were comparatively small, MacDonald and Harding believed they could not be sold successfully through regional or national retailers.[3] Consequently, Harding

[3] *In the future, MacDonald planned to print a catalogue for customers who requested it.*

and MacDonald agreed that Scotsman's Delight would initially sell through trade shows and personal calls to retailers. MacDonald realized the "hands-on" nature of the selling activity, combined with the geographical size of the market for the products, required a sales force to reach the targeted market. MacDonald had contacted three sales agents, who acted for other similar but non-competing lines of business, who would sell for Scotsman's Delight. The three sales agents regularly called on MacDonald's targeted retail customers with their other product lines. All three agents lived in the United States: one in Portland, Maine; one in the Boston, Massachusetts vicinity; and one in Philadelphia, Pennsylvania.

MacDonald would meet with all three sales agents at one time for two days to decide on sales strategies, credit granting, territory coverage, promotions and other marketing programs. MacDonald estimated this meeting would cost $10,000. Each sales agent would be assigned a territory and would receive a 20 per cent commission on sales generated in the agent's territory.[4] MacDonald conjectured that the peak sales period would be from February to July each year.

In his first year, MacDonald estimated that he could personally generate $150,000 in sales in his own territory which would be the three Maritime Provinces, and the three sales agents could each generate about $125,000 in sales in the upcoming 12-month period. The sales agents could cover their territories from home for much of each month. MacDonald would pay up to $2,000 per month per sales agent for their travel costs and projected his own travel costs would be a similar monthly amount.

OTHER PLANS AND CONSIDERATIONS

MacDonald would mark the manufacturer's selling price up by 100 per cent to set Scotsman's Delight's wholesale price. Payment terms for the retailers would be net 60 days. U.S. customers would be billed in U.S. dollars and Canadian customers would be billed in Canadian dollars,[5] Consolidated Toys would bill Scotsman's Delight in U.S. dollars.

MacDonald could minimize overhead costs, particularly storage, since he planned to run the business out of his home. Investments in inventory, accounts receivable, and accounts payable would be negligible. He planned to store the inventory of goods in his garage initially and to use a room in his home as an office. His wife, Mollie, was an accountant and she was more than willing to help with the processing of orders and keeping the books.

MacDonald intended to have a website designed that described and illustrated the products in detail. The website would also allow retailers to purchase directly online and then credit the appropriate sales agent with the commission. Designing a website would cost $6,000.

Surrounded by the information he had gathered, MacDonald sat down to evaluate the venture and to make a decision. MacDonald, himself, was a reluctant traveler, not wanting to be away for long periods from his family. While his two older sons were away from home at university, MacDonald still had two primary school-aged children at home. In the back of his mind, he wondered if the time it would take to run the business and the profit earned were worth the time away from his family. MacDonald knew Harding needed an answer within the next three to four days.

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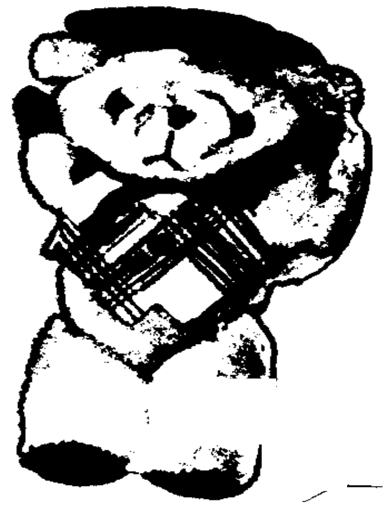
[4] Sales agents would be paid commissions earned after Scotsman's Delight received payment from the retailer. Commissions were calculated on Scotsman's Delight's wholesale selling price.
[5] For purposes of analysis, consider an exchange rate of Cdn$1=US$1.

Exhibit 1

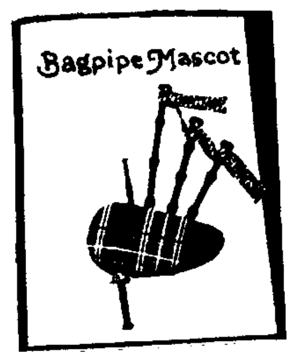
SCOTSMAN'S DELIGHT'S PRODUCTS

Bagpipe Air Freshener



Jointed 5" Teddy with Tartan Waistcoat

Tartan Scottie Fridge Magnet



Bagpipe Pin Broach

Musical Bagpipe Mascot

Lion and Tartan Playing Cards

Source: Maverick's. Version 1998-02-04.