

CASE • *China Rose Gifts, Inc. (A)**

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Cynthia Wong sat staring out the window of the jet. Deep in thought, she didn't notice the ocean far below. As she traveled back to the U.S. after a hurried visit home, Cynthia wrestled with a desire she had to start her own business.

"China Rose Gifts," Cynthia muttered. She loved the way that sounded.

For years, Cynthia had dreamed of opening a small shop to sell gifts and other novelties native to her home in China. For years, she had pondered the idea, churning it over and over in her mind, constantly changing and adding detail to it until she was convinced it had merit.

Now, only weeks after her graduation from an American business school, Cynthia was forced to make a decision: should she open an Oriental Gift Shop as she had always dreamed or should she accept an attractive job offer she had received from a prestigious investment firm?

"The time has come to decide," she thought. The investment firm had been unusually patient in allowing Cynthia several weeks to make up her mind. She had promised them an answer by the end of the upcoming week.

"This is it," Cynthia thought, "it's now or never. The investment firm is a wonderful opportunity but I'm afraid I'll get trapped in the job. Importing into my own shop might be difficult at first," Cynthia continued, "but I'm certain it can work."

Still, there was a nagging doubt in Cynthia's mind. The consequences of a wrong decision seemed so harsh at this point in her life. Was she about to make the right decision?

Background

Cynthia Wong was born in Beijing, China, the eldest of four children. Her family belonged to a privileged class. Both of her parents worked at a manufacturing company her father owned. While their lives weren't material by U.S. standards, their family was quite comfortable and never lacked the necessities of life.

Cynthia's early years had been uneventful. A quiet child, she was nonetheless popular with her playmates and frequently organized field trips with her closest friends.

As she grew up, Cynthia was exposed to two different worlds. In school, she studied Chinese history and was fascinated by the traditions of her ancestors. She felt a responsibility to her heritage: a strong desire to dedicate her life to the culture

*This case was written by Research Assistant, Julie Schmidt, under the supervision of Assistant Professor John W. Newman, Babson College, Family Business Institute.

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she so loved and respected. At home, most of the family's energies were devoted to her father's factory, a small company which made lacquer vases and other gift pieces.

The passion with which her father devoted himself to his work made a powerful impression on Cynthia. Through her father, she came to appreciate business and the way in which a fulfilling career could enhance the quality of one's life.

Cynthia studied hard at school and was a very good student. Her teachers were impressed by her devotion to her work and her unshakable sense of discipline. By the time she graduated from secondary school, her determination had paid off: Cynthia won several awards and a state scholarship to continue her studies abroad if she chose.

Cynthia was excited about the prospect of going to school overseas but was nervous about how her family would react. At first, her family expressed disappointment that she would consider leaving home, but eventually her parents were supportive. They wanted what was best for their daughter and knew that Cynthia was mature enough to make her own decisions. They had confidence that, someday or other, their daughter would return to them, stronger for the experience.

Cynthia applied to many schools in Europe and the United States. Her strong academic record and thoughtful application essays helped her get accepted to most of the schools to which she'd applied. After a great deal of deliberation and consultation with her family, Cynthia decided to continue her studies in the United States, at business school in Seattle, Washington. Before she knew it, Cynthia was on a plane to America and was starting her first semester classes.

The adjustment to a foreign country was difficult. Cynthia had studied English in China and considered herself to be bilingual. But, as she soon discovered, the work vocabulary of college students was not part of what she had learned at home.

Of more concern to her than her language problem, however, was the extreme difference between the two cultures. Cynthia was surprised by how important money and prestige seemed in this new country and by how relatively less important personal values and ethics seemed to be. She had numerous debates on these subjects with her classmates but never felt that they understood her views. Cynthia simply accepted these differences and adapted well to them. Her language problems, too, diminished over time.

International Trade

During the summer between Cynthia's sophomore and junior years, she had an idea. While at home for the summer, Cynthia spoke with her father about the possibility of exporting some of her father's products overseas. Cynthia proposed a test: she would bring some unique vases back to school with her the next semester and try to sell them to other students. If the test was successful on a small scale, they could consider exporting the products in larger quantities. To Cynthia's delight, her father agreed to the idea.

When she returned to school, Cynthia set out to sell the vases she had brought back with her. She showed them to her schoolmates and even to some of her professors and charged \$24 for each vase. Her original supply of 25 vases sold out within three days.

Encouraged by this response, Cynthia called her father and asked him to send more vases. Much to her surprise, he refused, stating that she was in the U.S. to go to school, not to be a merchant. When she was all done with her studies, he would discuss the idea further. Cynthia was disappointed by his decision but sensed that he was right.

Graduation Nears

Cynthia's junior and senior years passed quickly. As at home, she applied herself to her studies and did very well in school, becoming a favorite of many of her professors. As her senior year progressed, she thought more and more of her plans after graduation. By this time, she had grown fond of Seattle and was beginning to think about settling there after school if she could get a work visa.

Meanwhile, another idea was evolving in her mind. She was growing increasingly excited about the possibility of opening a shop to sell Oriental gifts which she would import from China. She had been convinced by her vase experience that Oriental gifts would be very popular in the Seattle area. So, she decided not to participate in the job search process with her fellow students and would, instead, discuss her ideas with her family when she went home after graduation.

Opportunity Abounds

About a month before graduation, one of Cynthia's professors approached her with the name of a large, prominent investment firm which was looking for creative, young, business students. The company was eager to hire students for a new management training program but would only consider students who were referred by faculty members known to the firm. The professor suggested to Cynthia that she would be highly appropriate for the position and encouraged her to contact the company. Cynthia thanked the professor for thinking about her and for his support.

The professor's remarks created a dilemma for Cynthia. Although she had previously decided not to interview for jobs, she felt that there was no harm in exploring the opportunity further. Cynthia sent a letter to the company. About ten days later, she received a call from Lisa Turin, an officer of the firm. They arranged a meeting at the company's headquarters.

Several days later, Cynthia was sitting in Lisa Turin's office. The two women hit it off immediately and spoke nonstop for two-and-a-half hours. Originally, Cynthia was sure that she would not be interested in a job with the company, but there was something about Lisa's enthusiasm that was contagious.

Lisa spoke in detail about the company, its history, her relationship with the firm, and finally about the new management training program that was being instituted for college students. Cynthia would assist one of the account managers but not in a clerical function. She would have her own secretary and would train as she worked with the manager. The job would require a lot of traveling, mostly by car, around the state. For the first year, she would receive quarterly reviews to make sure that everyone's expectations were realized. After that, there would be substantial opportunity for advancement based upon performance.

"Cynthia, your professor speaks very highly of you," Lisa finished. "After meeting you, I'm sure that you'd fit in right away. I'd like you to say you'll join us. What do you say?"

Cynthia was stunned. She had researched the company briefly and knew that the company had an outstanding reputation in the financial community. Her research had shown a lower-than-average turnover rate at the firm. In all, the company would be an excellent one for which to work.

Cynthia paused, not knowing quite how to respond. She explained to Lisa that, while she greatly appreciated Lisa's interest, she had been considering another opportunity for some time. She asked Lisa if she could have some time to make up her mind. Lisa agreed.

As a parting gesture, Lisa reached for her briefcase and took from it a single sheet of paper and handed it to Cynthia. On company letterhead, it was a detailed job description.

"Maybe this will help you over the next few weeks," Lisa added.

As she got up to go, Cynthia graciously thanked Lisa for her offer and her patience.

Going Home

After graduation, Cynthia flew home to Beijing. During the first few days of her visit, Cynthia did nothing but spend time with her family. Her father hosted a big celebration in her honor.

After several days of relaxation and revelry, Cynthia decided to discuss her dilemma with her father. Her father tried to be supportive and listened intently. He felt that the investment firm opportunity sounded very attractive but had a hard time understanding why Cynthia would want to stay in the United States in the first place. Despite his good intentions, Cynthia found his support not to be particularly helpful.

Cynthia decided that it would be a good idea to research the types of gift items available and the vendors of those products while she was in China. Cynthia began her research by walking through several of the gift shops in the city. As she went on her rounds, she made a list of all the items she liked and wrote down the name of the manufacturer. She also made a brief description of each item and noted the price. By the end of the day, Cynthia's list was almost four pages long. By noting in the margins which items on the list belonged to which gift shops, Cynthia began to see similarities in the stock of the shops. Certain manufacturers' names kept showing up over and over again. In this way, she compiled a list of what she believed were the major suppliers.

Next, Cynthia contacted the major suppliers and requested catalogs and dealer price lists. In a few instances, she managed to speak with the company's representatives and got a lot of information about credit terms, export requirements, and minimum order sizes.

About a week later, it was time for Cynthia to bid farewell to her family and return to the U.S. She went out of her way to express to her parents that she would return to visit them soon and often. Nevertheless, it was a tearful goodbye.

The Day of Reckoning

Cynthia's daydream was interrupted by the gentle prodding of a cabin steward.

"Miss, I'm sorry to disturb you but the captain has turned on the seat belt sign. We'll be landing in just a few moments."

Cynthia gathered her belongings together. Several minutes later, the jet landed smoothly and taxied into the hangar. After picking up her luggage, Cynthia walked outside to hail a cab. Once in the cab, Cynthia's mood turned very somber.

The cab pulled up in front of Cynthia's apartment, she paid the driver, and he helped her take her bags from the trunk. Once inside her apartment, she set her bags down and walked to the window to let a little fresh air in. It was Sunday night, and before the end of the week she would have to decide on her new job. She still didn't know which path to follow.

Cynthia wondered if there was anything she could do in the few days remaining that would help her make up her mind.

C A S E • *China Rose Gifts, Inc. (B)**

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Cynthia had one week to decide whether to open China Rose Gifts or accept the position offered by Lisa Turin. She knew that the position in the investment firm was an outstanding opportunity, but the gift shop was an idea Cynthia was reluctant to discard; it was something she had always wanted to do.

She decided to spend her one week grace period doing more research on China Rose Gifts. Maybe, she thought, additional information could provide a better picture on whether or not China Rose Gifts was a feasible idea.

Her visit to the Orient had proven very productive. Cynthia returned with an excellent idea of the products she would carry and of the importing costs involved in getting those items into the United States. She had collected wholesale price sheets from several leading Chinese gift suppliers and had researched approximate shipping, insurance, and duty costs. She also understood the credit terms and financing vehicles (primarily letters of credit) that would be involved.

In order to make the best decisions possible regarding China Rose Gifts, Cynthia began researching those areas that were the cloudiest in her mind. Studying the market and determining demand were her first priorities. Then, she would research and estimate the cost of renting space.

The week went by very quickly. Using reference materials in the City Hall, Cynthia found that the 1980 U.S. Census listed Seattle's population at 493,000,

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Exhibit 1

Seattle Gift Shops

	Anne's Hallmark	Clever Hand	Peacock Shop	Christmas Shop
Sales	\$174,600	\$198,600	\$125,700	\$166,650
Square feet	2,200	2,700	1,900	2,050
Dollars/square feet	79	74	66	81

up 11 percent from the 1970 survey. The local economy, it appeared, was recovering nicely from the massive round of layoffs by the Boeing Corp., one of Seattle's largest employers. Disposable income per capita for the state ranked high in the nation.

Cynthia also spent some time visiting the existing gift shops in the area. She identified four and, through conversations with the managers and a little outside research, she estimated the sales for each store (Exhibit 1). Some of the drug stores and most of the hotels in the area carried a small selection of gift items (usually 15 pieces or less), but she didn't see them as her competition. Cynthia estimated that combined these secondary channels probably accounted for \$100–200,000 in annual gift and souvenir sales. In general, the gift industry worked on 50 percent margins—or what was called a keystone markup in the business. Whatever the cost was of a product, the retail would simply be double.

After long hours in the library, Cynthia assembled information on the demand for her product category. The National Association of Gift and Novelty Item Retailers (NAGNIR) had surveyed thousands of gift shops throughout the country. Excerpts from the 1987 NAGNIR report are provided in Exhibit 2. Cynthia recognized that this information was an annual average and would vary depending on the season.

About midweek, Cynthia contacted several real estate brokers in Seattle to check on retail space. Two locations were immediately available. The first was a street-level shell in downtown Seattle. It was within a two-block area comprised mostly of retail shops with a few professional offices intermingled. There were no other gift shops in the area. The 1,600-square-foot space was being offered for \$19 per square foot. Since the space was unimproved, Cynthia would be responsible for the interior work necessary to obtain an occupancy permit. The broker estimated that this work would probably cost \$20,000 to \$30,000.

The other location was in a strip mall several miles outside the city. The property consisted of a 1,500-square-foot storefront with an additional 500 square feet of basement storage. The landlord was asking \$14 per square foot plus a 5 percent override on gross sales over \$600,000 annually. The road on which the mall was located drew a great deal of weekend shoppers. Two of Cynthia's prospective competitors, Anne's Hallmark and The Peacock Shop, were located within one-half mile of the empty store. This store already had a glass front—perfect for gift merchandising—and a small stockroom already partitioned in the back.

Armed with this information, Cynthia sat down to reconsider her options.

"The investment firm is a wonderful opportunity," Cynthia mused, "but I'm afraid I'll get bored."

Like it or not, the time to decide was almost at hand.

Exhibit 2

Excerpts from the National Association of Gift
and Novelty Item Retailers Study
(as of 1987)

City	Population	Sales/100 People
Anchorage	173,017	90-110
Atlanta	425,022	130-145
Boston	562,994	160-185
Chicago	3,005,072	180-210
Dallas	904,078	132-150
Denver	491,396	155-175
Detroit	1,203,339	177-195
Houston	1,594,086	180-200
Jacksonville	540,898	140-165
Los Angeles	2,966,763	250-275
New York	7,071,030	325-350
Philadelphia	1,688,210	150-180
Portland	366,383	115-130
San Diego	875,504	140-160
San Francisco	678,974	140-165
Seattle	493,864	135-165
Spokane	171,300	100-120
Washington, D.C.	637,651	165-180

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Cynthia became increasingly convinced that Seattle could support a gift shop which specialized in Oriental items. As her enthusiasm grew, she decided that her next task would be to determine her monthly operating expenses and how much she'd need to open the store.

First, Cynthia considered the store's staffing requirements. She figured that she would have to hire someone to help run the store. Cynthia estimated that a competent assistant manager could be hired full time for about \$18,000 annually. Cynthia decided to defer her own salary for at least six months until the store was profitable.

Based on information real estate brokers had given her, Cynthia knew that her rent would be about \$2,400 per month. A security deposit of \$5,000 would be required along with prepayment of the first three months' rent. Rent would be the company's largest monthly expense.

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Before she could begin to move inventory into the shop, there were some improvements that would be necessary to display the merchandise and to create the proper Oriental environment. Wiring was already in place but additional track lighting would have to be added to highlight the store displays. New carpeting was needed as the previous tenant ripped the carpet out when they left. Including the interior and the storefront, Cynthia estimated that the shop would need about \$35,000 in capital improvements.

While the store renovations were being completed, Cynthia would have to begin ordering stock. Cynthia figured that she would need about \$30,000 in inventory (at retail prices) to open her store. Her foreign suppliers had insisted that she pay for all goods COD. After she developed an operating history, Cynthia felt confident that her suppliers would offer her more liberal credit terms.

Equipment for the store included a cash register, a small safe, metal shelving units for the stockroom, and display fixtures for the selling floor. Cynthia estimated that these items would cost approximately \$5,000. Costs amounting to about \$1,000 for letterhead, purchase orders, and office supplies also had to be considered. Eventually, Cynthia wanted to invest in a personal computer for the business, but she did not think it would fit in the "budget" right now.

The cost of the utilities for the space would not be substantial. There was a deposit of \$500 that would have to be paid three weeks before the power would be turned on. From then on, utilities of about \$150 per month could be expected. Virtually all of her suppliers were in the Far East and phone expenses might be quite high. She estimated that her monthly phone bill would be about \$350. The phone company also required \$115 to install the phone and a \$250 deposit.

Cynthia discussed her idea with a local attorney who suggested that she incorporate China Rose Gifts for protection. In addition to the incorporation papers, the attorney would also prepare the necessary documents to allow Cynthia to import goods wholesale. Initial legal fees would be approximately \$1,600.

Insurance was also a must. Cynthia could not operate her business without proper coverage. She would need a standard retailing policy which would include fire, theft, and vandalism. The estimated annual cost would be \$3,600. Premiums would be due at the beginning of each quarter with a requirement that the first installment be prepaid.

Cynthia now had the difficult task of projecting her annual sales. She based her sales estimates on the market research she had done which indicated that no other gift shop in the area imported or carried Oriental wares. She decided to follow the standard industry practice of pricing her goods based on a 100 percent markup (i.e., doubling her cost of goods).

Monthly Sales Estimates (Year One)

January	2,500	May	12,500	September	10,000
February	5,000	June	15,000	October	10,000
March	7,500	July	12,500	November	12,500
April	10,000	August	12,000	December	20,000

Cynthia wasn't quite sure what to do with the figures she'd collected. How could this financial information help with her career decision?