Workbook Overview

Corporate Context

Tinkleman Wholesale is a well established wholesale company serving retail companies that sell electronic entertainment and productivity devices, with a direct sales model for certain lines of business. They have successful manufacturing plants located in China, Indonesia, and Mexico, with regional sales offices throughout Europe, North America, and they are considering expanding into Asia, Australia and New Zealand. Headquarters is based in Dallas, Texas. Tinkleman feels they are about to experience explosive growth and have some decisions they must make about how they position themselves.

John Frum, CEO explains "We finally have the opportunity to be an approved supplier for Wal-Mart, but there are some requirements that we don't meet. We also have a strong market through Amazon, and with online direct ship purchases. We need to decide if we should expand to support brick-and-mortar stores or stay focused on our online efforts, or if there is a way we can do both. I've been reading that my competition is implementing RFID in their packaging and I need to know how much that will cost and what it will give me. There could be impact to our materials suppliers and I've been considering expanding our lines by becoming a pass through for some of our suppliers. I also believe that we are in a down market and there is an opportunity to buy some of the smaller competitors that will help us expand in the areas we want to grow."

For Jaylene Ruth, the CFO, the picture is a little different. "While we are doing better than the competition, our operational efficiency is horrible. We absolutely, positively must reduce operational costs by twenty percent in the coming fiscal year and I believe the biggest improvement must come from the IT department. Between the line of business owners and centralized IT we are spending more in IT than anywhere else and I am not seeing a return on the investment."

As you might guess, Harry Pearson, the CIO is nearing his wit's end. "With the expansion and acquisitions we've made, and the regulatory constraints of manufacturing across the world I am surprised we can keep this company running from an IT perspective. It seems that I spend all of my time putting out fires and trying to keep things working together. Each B2B solution we have is customized, we use different authentication methods for different organizations, and now I hear we want to add RFID and expand into more markets. Has anybody even considered the infrastructure, communications linkage, power and facilities costs, regulatory constraints, and business rules that we'll need to implement? How are we going to integrate the different platforms into our structure and how are we going to train and balance our staff now?"

Elise Morrison, owner of the gaming line of business, has the ear of the CEO and states: "All I need is an automated way to allow buyers from our customers to change priority of shipping and size of order and I can increase sales AND satisfaction by 25%."

Lewis Curtis, owner of emerging product lines, has different needs and suggests: "Electronic books have finally taken off. I was wrong when I first brought a line of eBooks on in the 90s and that cost us dearly, but I made up for it with my digital music decision shortly after. I really feel that eBooks are the next big revenue stream for us, but I'll need some IT projects to make
it a reality."

Corporate Facts and Figures

Tinkleman had gross revenues of $200 million last year. The IT group spent 10 million or 5% of sales. The CFO has discovered that average IT expenditures in industry are 3% of sales which is why she is adamant about decreasing the cost of IT significantly.

The company has 4 lines of business, Gaming, Music, Online retail (both for consumer and corporate sales), and electronic components which come from their manufacturing centers. They began as a game component manufacturer with their chief product being a joystick used by the Sony Play Station in 1989. A recent acquisition of another gaming device company has brought them to the attention of Wal-Mart which would triple their sales in a year.

The company has 450 employees with an IT staff of 100. The IT staff breaks down as follows: - 15 developers

- 15 data center staff
- 3 project managers
- 3 quality assurance
- 7 business analysts
- 7 managers
- 20 IT staff have come from the recent acquisition
- 30 of the staff are operations for business units

<u>Current State IT Environment</u>

E-Books – Product Expansion

Issue

Electronic books have finally taken off. Tinkleman Wholesale first brought a line of eBooks on in the 90s and that cost us dearly, but made up for the loss with the introduction of digital music decision shortly after. The Emerging Markets business unit feels that eBooks are the next big revenue stream for us, but will require some IT projects to enable the new capability.

Anticipated Outcomes

A new line of business focused on eBooks will be created. By partnering with SSGQG who has created a new eBook device and Tinkleman will be exclusive content partner. Additionally, we initially plan to provide content for the top 3 readers on the market, and will expand to cover the additional readers and new readers on the market over time. The Emerging Markets team estimates that a modest estimation of market share we can capture in our first year is 5% and can grow that share by 20% year over year.

Justification

A study completed by BookTrader research group last quarter shows that the eBook business has grown by 23% over the previous year and represented a $2.3Billion business last year. If Tinkleman can deliver this capability early we have the ability to enter the market and generate additional revenue of $115Million the first year. With the projections of SSGQG the minimum revenue generate through that partnership will be at least $87Million in revenues.

Constraints

When Tinkleman broke into the music distribution business they purchased a Digital Asset Management system from a custom vendor called Digital JAM. The product manages the workflow for music ingest, metadata management, workflows for operations staff and B2B integration. A custom integration with the retail store was built 2 years ago. The system is built in .NET and Tinkleman is one of about 30 customers the company supports. Unfortunately the product doesn't currently support anything but music titles and would need to be updated to support e-Books. The vendor has said they think it would cost roughly $50,000 to make the basic changes necessary to support books as well as music.

Competitive Environment

Tinkleman was in a strong cash position and were able to acquire their largest competitor which has allowed them to be in a position to grow. There are a number of similar sized companies in the manufacturing space that are competing for the same sales. Recently ACME

Game Devices has built similar manufacturing capacity to Tinkleman and has a strong European market in direct sales and is bidding aggressively to be a key Wal-Mart supplier. ACMEs strength in direct sales has resulted in their lowering the quality of their controllers thus resulting in higher returns. In addition their supply chain technology is not nearly as sophisticated as Tinkleman's but they have a stronger retail technology. The rate of return for ACME products is up to 3-4% and Tinkleman is around 1.5% which they dropped significantly the previous year.

Company Competetive Details:

About the Company	Tinkleman	ACME
Assets	$280 M	$280 M
Liabilities	$64 M	$140 M
Revenue	$200 M	$320 M
Revenue per Employee	$444 K	$420 K
Operating Income	$70 M	$93 M
Net Income	$4 M	$8 M
Operating Margin	3.5%	2%
IT Costs	$10 M	$34 M