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CASE 3 A. MONROE LOCK AND SECURITY SYSTEMS

Ray Monroe was sitting back in his chair in his home office trying to understand why the new venture had not made him the rich man he thought he would be. A. Monroe Lock and Security Systems (AMLSS) had been established about 2 years ago and offered locksmithing services to residential and commercial customers as well as automobile owners in the greater Boston area. These services included lock rekeying, lock and deadbolt installation and repair, master key systems, emergency residential lockouts, foreign and domestic automobile lockouts, and window security locks. In addition, AMLSS was certified by the Commonwealth of Massachusetts to perform alarm installation and offered a full range of alarm products.

Financial results have been relatively poor, with losses of \$6,500 in the first year and a profit of only about \$4,000 in year 2. Currently, AMLSS's target market is three local communities in the Boston area with similar demographics (see **Exhibit 1**).

EXHIBIT 1 Demographic Profile of Present

| Demographics | Newton | Needham | |
|---|----------|----------|-----|
| Total population | 83,829 | 28,911 | |
| Total number of households | 31,201 | 19,612 | |
| Percent family | 66.7 | 73.3 | |
| Percent nonfamily | 34.3 | 26.8 | |
| Total number of families | 20,486 | 7,782 | |
| Number of married-couple families | 17,209 | 6,887 | |
| Number of female householder families | 2,500 | 728 | |
| Average household income | \$86,025 | \$88,079 | \$1 |
| Education | | | |
| Percent high school educated | 94.5 | 96.4 | |
| Percent college or higher educated | 68.0 | 64.9 | |
| Labor force | | | |
| Percent total population employed | 66.1 | 64.9 | |
| Percent female population employed | 62.4 | 56.4 | |
| Disability | | | |
| Percent with mobility or self-care disability (21–64) | 10.4 | 9.0 | |

| Demographics | Newton | Needham |
|---|---------------|----------------|
| Percent with mobility or self-care disability (65+) | 31.5 | 28.8 |
| Total number of housing units | 32,112 | 10,846 |
| Median number of rooms | 6.4 | 6.9 |
| Total number of owner-occupied housing units | 21,692 | 8,587 |
| Total number of renter-occupied housing units | 9,509 | 2,025 |
| Retail industry—number of establishments (2000) | 595 | 168 |
| Service industry—number of establishments (2000) | 1,077 | 336 |

BACKGROUND

Ray Monroe is the only child of parents who were both successful entrepreneurs. His parents are now deceased, and Monroe received a substantial inheritance that would satisfy any of his financial needs for the rest of his life. Ray had been educated at a local private high school and then at a small liberal arts college in Vermont. He was not a great student but always seemed to get by. His summers were usually spent at the college, taking summer courses.

Upon graduation, his father had helped him get a job with a friend who owned a security and alarm manufacturing business in the western part of the state. Ray worked in various areas of the business learning a great deal about alarms and locks. After 2 years there, Ray decided that he'd prefer to be his own boss and, using some of his inheritance, entered a special program to learn more about the locksmith business. His intent upon completion of the program was to start his own lock and security business. He felt from his experience and education that this market offered tremendous opportunities. Increased crime and residential house sales that often required new locks offered many opportunities to succeed in this business.

Ray did not want to offer alarm installations as part of his new venture since he felt that they were bothersome to install. He also knew that there were many large competitors already in the alarm market that would be able to offer products and service at much lower prices.

INDUSTRY STRUCTURE/COMPETITION

The locksmith industry was dominated by small operators, 60 percent of which consisted of an owner and one employee. Only about 20 percent of these firms had five or more employees.

Because of the low entry barriers, the number of small operators had grown dramatically in the past few years. These businesses were often operated out of the home with no storefront and concentrated mainly on the residential market. There were also a large number of family-owned businesses that usually had a retail store serving their communities for several generations of family members. The larger operators were the most sophisticated in terms of service/products and relied primarily on commercial accounts.

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The Boston area was densely populated, with 160 locksmiths all advertising in the area yellow pages. In the three communities on which AMLSS concentrated, there were 37 other locksmiths.

PRESENT STRATEGY

Excluding alarms, Ray offered just about every locksmith service. His company van was used to store these products and any necessary tools for servicing his clients. This company van was 10 years old with a few minor dents, but it ran quite well.

Ray had a beeper system and a cellular phone in order to respond to customer requests. After 5 p.m., however, Ray turned off the system and refused to take calls. During his operating hours, he was able to respond to all requests fairly quickly even if he was not in the office, primarily because of the beeper and cellular phone. He had tried using an answering machine, but it did not allow him to respond to a customer fast enough, especially if he was at a job that kept him out of the office for a number of hours. He also knew that many job requests were emergencies and required a quick response.

During the past year, Ray had decided to advertise in the yellow pages. He felt that with all the locksmiths listed in the yellow pages he needed to be at the top of the list, so he decided to use his middle name initial (for Arthur) to form A. Monroe Locksmith and Security Systems. The yellow pages ad seemed to help business and contributed to the \$4,000 profit (see **Exhibits 2** and **3** for billing and expenses).

EXHIBIT 2 A. Monroe Monthly Billings for Year Two

| | |
|-----------|-----------------|
| January | \$ 1,200.01 |
| February | 2,260.85 |
| March | 2,777.26 |
| April | 1,748.62 |
| May | 922.20 |
| June | 1,414.12 |
| July | 1,595.18 |
| August | 1,652.37 |
| September | 2,264.64 |
| October | 2,602.19 |
| November | 4,087.37 |
| December | <u>1,905.80</u> |
| Total | \$24,430.61 |

EXHIBIT 3 Year Two Expenses

Business expenses

Selling expenses

Memberships (chambers of commerce and Associated Locksmiths of America)

Telephone (includes beeper and cellular)

Office expenses (materials/supplies)

Yellow pages

Other promotional expenses

Total expenses

Ray spent a lot of his time in the office thinking of ways to increase his business, yet to this point nothing had been very successful. His understanding was that many of his Page 454 competitors had found that the yellow pages were the most likely place for customers to find a locksmith. His ad identified the three communities, the services he offered, and a telephone number. In addition, he included that he was bonded and insured and a member of the Massachusetts Locksmith Association. Competitors typically stressed products and services, 24-hour emergency service, follow-up guarantee service, being bonded and insured, and membership in the locksmith association.

Time was running out for Ray, and he was trying to think of other businesses that he could start up. He would often question his decision to enter the locksmith business, but then

he would quickly decide that since he didn't really need the money, it wasn't a big deal. However, at some point, he felt he should try to establish himself so he could settle down to a more routine life.

Source: This case study was prepared by Michael P. Peters with the intention of providing a basis for class discussion.



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