
Henry Spots a Problem at Sunshine O.J. (A)

Introduction¹

Henry Franklin was already imagining the praise that would come from his new boss, Virginia Silverstein. The broad smiles, the calls from upper management congratulating him, the career fast track. He could see it all unfolding in his mind's eye. It wasn't every day that the new guy, the guy who didn't even graduate from college, had a chance to stand out like this.

Franklin smiled as he pulled his Honda Civic into his usual parking spot at Sunshine O.J. (Sunshine), an organic orange juice manufacturer near Charleston, South Carolina. Sunshine was a relatively new player in the orange juice game—only three years old, but growing fast. The founders had seen an opportunity to steal market share from the entrenched leaders—Tropicana, Minute Maid, Florida's Natural, and Simply Orange—by sourcing their oranges from an organic farm in Brazil. The juice had won praise from critics for its creamy, low-acid flavor and healthy aftertaste.

Franklin had been working with the company for only six months, but had already impressed people with his work ethic and can-do attitude. He was initially hired as a floater—a jack-of-all-trades who assisted in different areas of the company as needed. He helped load trucks on some days, and he helped clean and organize the manufacturing facility on others. Because he was a good communicator, Franklin was even asked to help the marketing team cold call potential retail stores for a few weeks. Whatever the young company needed, Franklin did. But for the last month, he had been working with the operations group, directly for Silverstein.

Despite Sunshine's impressive growth throughout the southeast, the company had failed to turn a profit. It was a growing source of tension. Management believed that once the heavy marketing expenditures to launch the brand were brought down to more normal levels, profitability would improve. Maybe so, but Franklin's panoramic view of the company led him to some different conclusions. He felt a little like Sherlock Holmes, putting the pieces together and reading up on the issues outside of work hours. And this very morning, he intended to explain to Silverstein that the company was mismanaging the way it purchased and accounted for its inventory. Franklin thought an inventory fix could save the company thousands of dollars in unnecessary expenditures.

¹ Resilience Education, a nonprofit founded at the Darden School of Business, provides high-quality, customized education for vulnerable populations. For more information, contact info@resilience-education.org.

Franklin's Hardware

Before working for Sunshine, Franklin had worked for many years helping his father run their family's local hardware store, Franklin's Hardware. His grandfather, Jim Franklin, had started the store 50 years earlier. Back then, customers were loyal and profit margins were high. Growing up, Franklin listened to stories about the "old days" told and retold around the dinner table. But the rise of the big-box stores, Home Depot and Lowe's, changed all of that. Franklin's dad, Jim Jr., battled hard against the new breed of retailers, cutting prices often and marketing aggressively; but the stress took its toll, both on company profitability and on his dad's health. When the internet came along, margins shrunk yet again.

Against his mother's advice, Franklin decided to skip college to work full time at the store, doing whatever was needed. He tackled every day with an infectious smile, bringing joy to each customer interaction. But the market pressures were too great. Franklin remembered reading a quote by billionaire investor Warren Buffet that summed up the demise of Franklin's Hardware: "When a management with a reputation for brilliance tackles a business with a reputation for bad economics, it is the reputation of the business that remains intact."²

When the family was forced to finally close the store, it was too much for Franklin's father. A heart attack was listed as his cause of death, but the family knew that years of stress and his resulting alcohol abuse were really to blame. For the first time in his life, Franklin found himself out of work, empty, and rudderless. He took inventory of himself: 39 years old, no savings, no college degree. All of it was overwhelming. But the rent still had to be paid, so Franklin responded to a Sunshine job advertisement and smiled his best smile through the interview.

Inventory

As he bounded into work that morning, Franklin's comeback seemed complete. He crackled with pride and confidence, much like a well-prepared student ready to crush his exam. After a quick knock, he popped his head into Silverstein's office. "You got a few minutes? I wanted to show you something I've been working on that could help our company."

Silverstein set down her coffee and sat back in her chair, adjusting her glasses. "Well, to be honest, Henry, I'm all ears. The numbers seem to be just getting worse." She tapped the papers on her desk she had been examining, "It's like the harder we pull, the further we fall behind. What have you got?"

Franklin set down his unopened folder and cleared his throat.

Well, as you know, I worked for years in the hardware business, and it taught me a lot of hard lessons. Now, oranges aren't the same as wrenches and nails, but in the last few months, I've noticed some things about the way inventory is managed here that reminded me of how we used to do it. I wanted to share some observations. Okay, so there are four basic reasons for keeping inventory: time, uncertainty, economies of scale, and appreciation in value. And look, I know you know this stuff, but I want to go over it to "set the table" before I explain what I'm seeing.

"Well, well, well. Check out the big brain on Henry!" Silverstein said, jokingly but appreciatively.

She and Franklin both laughed at the *Pulp Fiction* reference, but then Silverstein pressed on: "I'm serious, though. That's a good summary. I've actually forgotten some of this from business school. Looks like you've done your homework—keep going."

² Andrew Munro, *Practical Succession Management* (Farnham, United Kingdom: Gower Publishing, Ltd., 2005).