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| The Non-Market Environment and Public Politics |
| New Strategy for Mindful Measures |
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| In an effort to adapt to an international recession that has devastated Mindful Measures sales, the owner is looking for alternative distribution channels and new product opportunities. Along this line, Mindful Measures is considering retooling one of their existing products to be distributed through the public school system. By expanding the “Boost Your Brain-Power” product to include additional music, and by changing the delivery method, Josh Fradenburg hopes to penetrate the Education Aids, Devices and Supplies Industry. |
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| **Fradenburg** |
| **12/13/2011** |
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# Industry Overview:

Currently Mindful Measures is in the Personal Development Industry. The industry consists of businesses that provide services and products designed to help customers improve their quality of life through improving themselves. The industry is dominated by enigmatic personalities, such as Anthony Robbins, Wayne Dyer, Stephen Covey, Deepak Chopra, Robert Kiyosaki, and Bob Proctor. They founded companies that provide different types of products and services to facilitate growth for clients, so the companies that they form to accomplish those ends will fall under different industry codes. For instance, Deepak Chopra runs a facility that clients go to for his personal development services. His facility is categorized as a Fitness Center (SIC Code 79910102). Robert Kiyosaki in contrast, licenses his name to different categories of products and services that span several industry codes. This lack of standardization of classification codes makes it difficult to track how much market-share each personality (and hence their core product or service that fills customer needs for personal development) captures. One thing is certain, with the current downturn in the economy, businesses and individuals are being forced to tighten their budgets, resulting in massive drops in industry revenues.[[1]](#footnote-1)

In an effort to adjust to an international recession that has devastated Mindful Measures sales, the owner is looking for alternative distribution channels and new product opportunities. Along this line, Mindful Measures is considering retooling one of their existing products to be distributed through the public school system. By expanding the *Boost Your Brain-Power* product to include additional music, and by changing the delivery method, Josh Fradenburg hopes to penetrate the Education Aids, Devices and Supplies Industry.

The Education Aids, Devices and Supplies Industry is represented by SIC code 39999910 and accounts for between $130-140 million. The industry includes many companies that manufacture teaching aids for students with special needs, such as autistic, blind or deaf children. Other educational supplies produced by the industry include flash cards, art supplies, electronic learning devices, educational software, lab aids, and puzzles. [[2]](#footnote-2) This industry covers a broad array of products, each with their unique sets of suppliers, buyers, rivalry conditions, barriers to entry, and substitutes. Throughout the analysis, I will be using the term “industry.” This term will be used to represent the portion of The Education Aids, Devices and Supplies Industry that fills the same need as most similar to the Mindful Measures product category (*Boost Your Brain-Power*), namely to improve the efficiency of learning. Hence when addressing Buyer Power, this report will be addressing the power of the school districts as buyers of any educational items for the public school system. That would be the principle buyer for many of the product lines in this industry. However, when looking at Supplier Power, the providers of licensed music distribution rights present a different set of threats to controlling costs than educational software engineers. Thus the focus will be on allowing for a large enough scope to get an accurate analysis of the important resources and organizational competencies.

# Economic Forces:

The current budgetary environment for the United States Education System has been tough. The decline in the GDP is reflected in the decline in income tax revenue for the federal and state rolls. This puts a strain on the funding provided by Congressional and State budgets. Local school districts have also seen a decline in funding that stems from dropping real estate values. As property taxes are based on the value of the home being assessed, the 33% drop in real estate prices since the peak in 2008 has devastated school funding. This has resulted in per student funding dropping from the high in 2007 of $10,042 to a projected $9,987 in 2011.[[3]](#footnote-3) This has led to budget cuts for the schools, threatening their ability to purchase learning aids. This phenomenon is explored further as a nonmarket issue later in the report.

# Non-Market Environment:

***Overview:***

Mindful Measures is a sole proprietor business that focuses on publishing personal development and learning-aid products. MP3’s and physical CD’s are distributed through their business website, Amazon, and mom-and-pop stores. Additionally, revenues have been driven by co-branding and special-order programs. Research and Development efforts go into creating new product lines to service strategic niches.

***Concerns for academic performance spur misguided standards:***

New concerns about the negative side effects of the current “No Child Left Behind” policy is leading to a reformation of educational accountability practices. Schools that struggle to meet stringent federal standards have been losing federal funding and autonomy. NCLB was signed into law by President George W. Bush in 2001. It calls for schools to be held accountable for the scores of their students in an effort to improve the quality of the public education system. Schools that failed to maintain student scores above the minimum Adequate Yearly Progress (AYP) would be punished by receiving limited funding for future budget cycles. They would also be forced to follow stringent federal guidelines on how to raise student performance. This issue had been in the Enforcement stage of the Issue Life Cycle, and school districts were forced to find products and policies that would allow them to measure favorably in order to avoid funding restraints. Side effects of the “No Child Left Behind” policy included:

1. Teaching to the test, rather than comprehension.[[4]](#footnote-4)
2. Overemphasis of core subjects such as math and reading, at the expense of arts, history, and other humanities.[[5]](#footnote-5)
3. Rigid “catch-up” programs for schools labeled as “failing.”[[6]](#footnote-6)
4. Teachers and principals altering student answers on tests in order to rate more favorably and secure higher levels of federal funding.[[7]](#footnote-7)

In an effort to address these side effects, President Obama has offered a *Blueprint for Reform*. This *Blueprint* has led Senator Tom Harkin (D- Iowa) and Senator Mike Enzi (R- Wyoming) to introduce a bipartisan bill in Congress to overhaul NCLB.[[8]](#footnote-8) Hence this issue has reemerged as an issue in the Legislative stage of the Issue Lifecycle.

Although a case could be made that everyone benefits from a well-educated populace, it is clear that the people who most directly benefit from a quality public school system are those families that have students attending the schools. Parent organizations, such as the Parents Teachers Association (PTA) represent their interests on a local, state and federal level. PTA members pay dues that partially fund PTA advocacy and lobbying efforts. Other local parent organizations, commonly referred to as PTO’s (since PTA protects its trademarked name, they are referred to as Parent Teacher Organizations).[[9]](#footnote-9) PTA and PTO’s are both very active in California, the first geographic market segment Mindful Measures will likely consider (being located in California themselves).

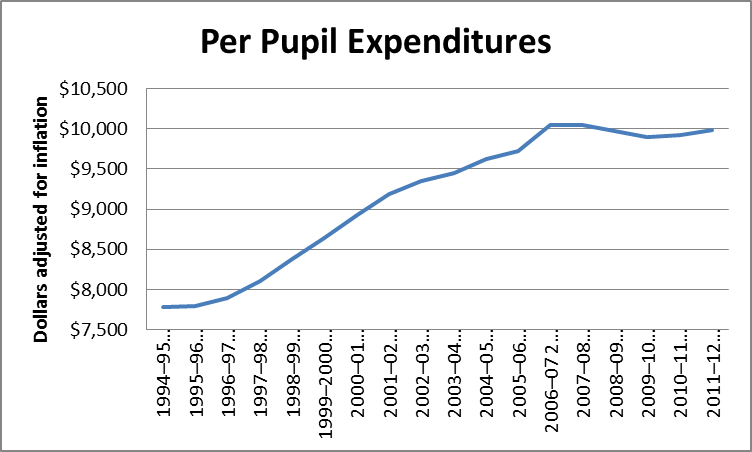
Teacher unions also represent the interests of teachers. In California, the California Teachers Association (CTA) represents teacher related issues. They do so through political lobbying and advocacy, collective bargaining activities, and public awareness campaigns. Broadly speaking they seek better salary and compensation, lower student-teacher ratios, additional resources for underprivileged students, and tax policies that would provide better funding for the public school system.[[10]](#footnote-10) Hence the CTA is in a position to seek additional resources for the Education Aids industry.

Organized interest groups, such as the PTA and CTA will continue to push this issue through the Issue Lifecycle in an effort to facilitate the effectiveness of teachers. Their infrastructures are already in place, so the cost of mobilizing support among members will be relatively easy and inexpensive. Since there is no organized resistance that advocates lower educational effectiveness, the issue should continue to receive bipartisan support.

The issue of needing to overhaul NCLB is a strong opportunity for the Educational Aids, Devices and Supplies Industry. By giving states and local school districts more flexibility in addressing poor performance, and by removing fiscally punitive measures taken against poorly performing schools, districts will be better able to experiment with new products from the industry. This bodes well for the industry, as it produces more demand for their products.

***Austerity measures force local and state budget cuts for education:***

Reductions in Educational funding are limiting school resources to spend on educational aids. Declining tax revenues that result from a struggling economy are forcing governments at all levels to cut back on funding for the public school system.[[11]](#footnote-11) Budget cuts are so bad, that schools such as those in California’s Santa Clara Elementary District are being forced to close for 5 additional “furlough” days in order to save money from salaries. This is renewing vigor in the opposition to school funding cuts. Hence this issue is gaining prominence again in the public awareness. This issue would be considered in the Legislative stage of the Issue Life Cycle.



Budget constraints force school districts to explore new teaching methods in order to accomplish adequate levels of education with fewer resources. School must become more efficient, else suffer lower performance (as measured by student standardized test scores). The pain of sub-standard test scores poses further difficulties to schools, as it means limiting autonomy and funding from the US Department of Education. These penalties only serve to further exacerbate the financial crunch that local school districts experience. Hence companies within the Education Aids industry that can provide improved educational efficiency stand to gain market share.

School funding sources come from many levels of government. The funding is part of a larger government budget that gets debated and negotiated every year. Hence, the issue will continue to be addressed as an issue in the Legislative Phase of the Issue Lifecycle. Institutions, such as the PTA and CTA will continue to lobby and advocate policy makers in order to influence budgetary decisions. Unfortunately, there are also other political institutions that also lobby for the same funding. Policy makers will sometimes base their decisions on the merits of information provided to them by the aforementioned institutions as well as government agencies. The current partisan politics that is so commonly found in state and federal government however often leads to decisions that are made in order to support larger platforms.

[[12]](#footnote-12)

Many of the interests and institutions that exist for this issue are the same as the previous issue caused by NCLB. The PTA and CTA actively lobby and advocate for greater funding for the public school system. As part of their public awareness efforts, the CTA features suggestions for sources of additional funding. They recommend eliminating income tax breaks for corporations and closing property tax loopholes that were extended to businesses.[[13]](#footnote-13)

In addition to political advocacy, lobbying, and grass-roots organizing, the PTA also does significant fundraising for their schools. By organizing sales campaigns, they generate funds to help schools provide Educational Aids and Supplies that would otherwise be unavailable due to budget restrictions. Funds raised through bake sales, magazine and candy sales provide supplies and scholarships for financially strapped schools.

Organized interest groups, such as the PTA and CTA will continue to address this issue as it goes through the Issue Lifecycle. Their interest of improving the effectiveness of teachers will keep them engaged in the political process as Congress (and on a more local level, states). Their infrastructures are already in place, so the cost of mobilizing support among members will be relatively easy and inexpensive. The only resistance they are likely to experience will be from fiscally conservative budget hawks. Currently the Republican Party has taken a stance of requiring budgetary increases to be offset by equivalent budget cuts. As politicians are typically reluctant to take the heat for cutting funding for public programs, the only alternative would be to find revenue sources to offset educational budget increases. On this matter, Republicans and some conservative democrats have made it clear that they will not raise taxes under the current economic environment. It is likely that some compromise will be made that will include minor tax increases, budgetary cuts in other programs (such as Medicaid), and accounting manipulation.

Budget increases for the public school system would be a boon to the industry. While a large portion of the additional funds would be earmarked for increasing the number of teachers, the increase in funding for school supplies and teaching aids would provide an increase in demand for the products supplied by the Education Aids, Devices and Supplies Industry. This additional sales volume will drive sales and profits for the industry.

***The desire for economic stimulus leads to R&D funding needs:***

Need for job creation requires funding to spur innovation. It is through the development of new products and technologies that new jobs will be created. In 2009 the American Recovery and Reinvestment Act provided funding to states in order to stimulate the economy. Funds have been issued to the state to fund research and development of products designed to improve K-12 education. So far $788,263 has been distributed to California for this purpose.[[14]](#footnote-14) An additional $9.9 billion was allocated in 2011 for national disbursement to foster research and development in general sciences.[[15]](#footnote-15) Normally, this would place the issue in the Enforcement Stage of the Issue Lifecycle; however, since President Obama has requested a funding increase for R&D, Congress is taking up the issue again for the 2012 budget.[[16]](#footnote-16) The Congressional Research Service provided a report to Congress that addressed the issue of R&D funding. The report points out that Congress will determine the prioritization of fields to receive research grants. Hence, the issue currently falls under the Legislative Stage.

Research and Development funds provide opportunities for the Education Aids, Devices and Supplies Industry to receive grant money to cover R&D expenses. With an average cited grant of $850,000[[17]](#footnote-17), companies who receive grants can improve the quality positioning by developing products that fill educational needs. These cost savings (funded R&D expenses) would also allow firms to capture a larger portion of the value in the value chain; a portion that otherwise would have gone to efforts spent on acquiring the information (info suppliers).

Education leaders desire better tools for educating school children. They are organized through various groups. PTA, CTA have already been mentioned. Educational leaders also participate in institutions such as the Education Research and Development Institute through panel groups. These groups provide ERDI participants the opportunity to help firms develop products that will truly help the education system. By bringing firms who are looking to bring new educational products to market together with educational leaders, better products can be developed for the public school system. Feedback that firms receive can also aide the companies in applying for and receiving federal grant money.

The U.S. Department of Education oversees the Institute of Education Sciences in awarding the grants for Research and Development of products designed to improve the education system. This is a Federal Government agency that chooses which research will receive grant funds. Congress, in their budgetary capacity will determine how much funding the various fields will receive. Hence, firms and advocacy groups in the Educational Aids industry have an opportunity to lobby Congress to allocate more funds for researching and developing new products designed to improve the public education system. As Congress determines funding levels, they will use reports such as the *Federal Research and Development Funding: 2012* report that was issued by the Congressional Research Service.

# Global Forces:

Intense international competition for economic power has led to a strong demand for highly educated work forces in order to capture high value positions. In order to keep up with other countries, the United States needs to find ways of improving an education system that is falling behind the global standard. This is an opportunity for the firms in the Education Aids, Devices and Supply Industry, as it results in an increase in demand for their products. The increased demand drives sales and prices upwards.

International migration patterns also affect the Education Aids, Devices and Supplies industry. States that face large populations of immigrants, are often forced to provide education for English as a Second Language (ESL) students. This is reflected in various product lines that are offered in multiple languages, most notably Spanish. This global force represents a threat to the industry as it increases the cost of developing new products to accommodate multiple languages.

# Ethical Factors:

**Intellectual Property Theft**

Intellectual Property theft is ***a systemic or external ethical issue*** that is faced by Mindful Measures as well as their rivals, suppliers, and buyers. As IP theft is easy to accomplish, difficult to identify and prove in court, and can erode potential profits, *this is a serious ethical issue* for any company that publishes or creates Intellectual Property. Each firm along the value chain has a vested interest in protecting their company’s capture of profits by minimizing the number of thefts. For instance, in the case of music publishing, the writer, performer, recorder, distributer, and retailer all have rights to the portion of value that their operational activities produced along the value chain. That value is split between the firm and the buyer.

Users along the chain who fail to pay for the proper IP licensing/usage rights cheat the preceding member of the value chain by *capturing part of firm’s surplus as buyers’ surplus*. For example, end consumers misappropriate the retailers profits as buyers surplus when copy IP. Likewise, publishers who fail to properly license artwork or music, and then sell it to the public also violate the **Justice** model of ethical standards. The Justice paradigm requires that benefits (i.e. payment) should be appropriately distributed (i.e. when product is taken/sold). Hence the IP theft subverts the moral compensation of profit/revenue to those who added value to the product or service. Such Intellectual Property theft typically results from *moral disengagement*.

Moral Disengagement is the mechanism by which buyers and mid-links along the value chain absolve themselves from the moral obligation to pay for services or goods that they receive. By disengaging from making an ethical decision, ethics violators are able to disconnect their actions, from the moral consequences. Hence moral disengagement allows ethic violators to seek personal interest without endangering their sense of identity of being an “ethical person.” Consumers often use *euphemistic labeling* to alter the way they view their behavior. Instead of calling IP theft “stealing,” they often use more ethical sounding terms such as “file-sharing.” In so doing, they maintain their self-identity as an “ethical” person. *Diminishing comparisons* are often used by IP thieves (all along the value chain) to absolve themselves of guilt or responsibility. By comparing IP theft to a more serious crime such as homicide, the perpetrator is able to make the consequences of their actions seem less significant. There is also a strong element of *diffusion of responsibility* common among IP thieves. By viewing themselves as only one small, inconsequential instance in a very prevalent ethical issue, they try to frame their transgression as insignificant to the larger impact of the transgression of the whole group of IP violators. IP thieves also tend to *distort and disregard harm* that their actions cause. In cases of end users, they often do not see a loss of potential profits as harmful. For other violators along the value chain, they may minimize the amount of profit lost by other preceding links of the value chain.

The ethical issue of Intellectual Property Protection (IPP) is currently in the Enforcement Stage. Unfortunately, due to budget constraints, government agencies are unable to proactively seek out IP violators. Hence IPP is largely dealt with on a case-by-case basis when the victim files a tort lawsuit. As a result, many in the publishing industry have taken it upon themselves to disseminate information (through blogs, magazine and newspaper articles), which aims to educate the public (end-consumers of IP) about the harm that results from IPP violations. This is because the public’s awareness and framing of the ethical issue still does not allow for a complete view.

As a company, Mindful Measures has always been proactive in seeking out only music and photography/artwork that has a proper legal trace of IP licensing. This ensures that Mindful Measures is consistent with the ethical reference point that they would need to rely upon to halt (and seek redress) IPP violations. If the public were to discover any behavior that deviated from this ethical stance, they would be reluctant to purchase Mindful Measures products. This is particularly the case for local school districts and State governments which have strict standards of conduct for their vendors. Though the standards are not always codified, politicians and government officials are never willing to stand up for companies that are facing public scrutiny.

**Truthfulness**

Truth in advertising is an ethical issue that has been around since the dawn of marketing communications. The internet, while providing a new arena in which an unprecedented amount of information is circulated, has given new rise to the ethical importance of Truthfulness in commercial publications. With the adoption of Web 2.0 (a technology that allows anyone to pull, push and coordinate electronic information), the internet is being flooded with a myriad of claims. Many claims lack little, if any, valid scientific basis. Although the issue of Truth in Advertising is in the Enforcement Stage of the issue life-cycle, there are no agencies adequately funded or tasked with proactively testing the validity of marketing claims. The Federal Trade Commission investigates claims as they are made in accordance to the agency policies and federal law. If there is legal grounds the FTC can bring a case against an untruthful firm. Cases can also be brought forth directly by injured members of the public. The United States has a long history of court cases which establishes a legal precedence for evaluating cases of untruthful claims made in commercial communications. Since sales and marketing professionals often receive compensation packages that are based on sales or revenue goals, they experience a pressure to inflate product claims in marketing communication pieces.

While making invalid claims in order to secure sales may fit the self-interest seeking framework of *Libertarianism*, it falls short of the moral requirements established by the *Caring* or *Justice* paradigms. The Caring model suggests that retailers should be honest with their potential clients, because as a stakeholder, clients have a closer connection to the firm than the public at large. The case could be made that the Caring model would suggest that managers of the firm place higher importance on the benefits to the firm over benefits to their clients, because they associate more closely with the firm than the clients. However, decision makers under the Caring model would tend to integrate their customer into their “realm of caring” as they become more connected to them through their work experience. The more time, energy, and resources allocated to understanding and knowing (personally) the clients, the more impactful the Caring model becomes in encouraging sales and marketing managers to consider the interests of the clients over (or at least in conjunction with) their own. Truthfulness also fits the Justice model of ethics as this model calls for appropriate distribution of benefits. It can be easily seen that inaccurate claims, when used to secure sales, unfairly claim benefits (profits) for undeserving firms. Hence when clients fail to obtain claimed results or are injured by the product, then *compensatory justice* requires that the injured client be fairly compensated for their losses.

Mindful Measures takes special care to make sure that all claims can be backed up by scientific evidence and their own client histories. Special measures are taken to research relevant experiments and verify the validity of the process used to determine the researches conclusions. Although citing sources may be all that is legally required, the executives at Mindful Measures adopt a *Caring Model* of ethics which suggests that they have a responsibility to fulfill the interest of their clients, for whom they are responsible.

If the public were to discover any behavior that deviated from this ethical stance, they would be reluctant to purchase Mindful Measures products. For companies that distribute their product through government agencies, this is particularly important, as most of them have strict codes of conduct for their vendors. If the public were to discover any behavior that deviated from this ethical stance, they would be reluctant to purchase Mindful Measures products. This is particularly the case for local school districts and State governments which have high standards of conduct for their vendors. Though the standards are not always codified, politicians and government officials are never willing to stand up for companies that are facing public scrutiny.

# Other Forces:

Technological advances in music delivery systems (e.g. advances in satellite communications, digital media encoding protocols such as MP4, speakers, etc.) will result in new ways to deliver the musical teaching aids to the classrooms. These advancements may lead to cost savings that could allow providers of music-based Education Aids to capture a larger portion of the value chain. They will likely provide a value increase that can lead to higher quality position, allowing for greater profitability through higher prices. Other advancements in computer and software also pose opportunities for producers of computer-based Education Aids. New technologies will allow those firms to capture a high-value position in new innovative ways. This offers an opportunity for companies in the industry that produce hardware and software driven aids.

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