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Sport Management Review

journal homepage: www.elsevier.com/locate/smr

RunTex: A community landmark run out of business

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ARTICLE INFO

Article history:

Received 18 April 2015

Received in revised form 11 October 2015

Accepted 15 October 2015

Available online 21 November 2015

Keywords:

Business models

Strategic management

Community relations

Social responsibility

ABSTRACT

The case follows Paul Carrozza and his journey in building a once highly successful running shoe store in Austin, TX. The case presents newspaper accounts and other publicly available information regarding Carrozza and the store he built and ultimately had to close, RunTex. Specifically, the case offers both undergraduate and graduate students the opportunity to evaluate the repercussions of a business that fails to engage in strategic planning. As a result, this case provides the ideal backdrop for instructors to convey the significance and obligation for future sport managers to understand the importance of strategic management. The case is primarily intended for use in strategic management, organizational behavior, and/or sport marketing courses wishing to highlight CSR strategies.

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Teaching note

This case challenges future sport managers to consider the importance of strategic management to fundamental business practices. The case presents factual information related to RunTex, a once-thriving Austin, TX-based running store. The case highlights and provides students with the opportunity to critique the failure of a business to engage in strategic planning. Thus, this case can be used in both undergraduate and graduate courses and provides an example for instructors to highlight the importance and necessity of strategic management. Students will examine: (1) the sources of competitive advantage as they relate to RunTex; (2) how a small business in the sport industry should engage in strategic planning; and (3) the relationship between business development, community development, and social responsibility.

After successfully completing the case, students will be able to:

- Articulate the importance for sports businesses to focus on developing and sustaining competitive advantage.
- Identify and discuss issues related to strategic management in small businesses.
- Discuss how small businesses can effectively utilize strategic corporate social responsibility.

1. Sources of competitive advantage and internal analysis

According to Porter (1987), the aim of competitive strategy is “to establish a profitable and sustainable position against the forces that determine industry competition” (p. 1). This case allows students to conduct an internal analysis of RunTex and identify the key determinants of a competitive advantage among firms in the running footwear/apparel industry.

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Porter's generic strategies (i.e., cost leadership, differentiation, focus) provide a useful starting point for discussions regarding competitive advantage. The two basic types of competitive advantage are (a) cost leadership and (b) differentiation. A firm that adopts a cost leadership strategy offers equivalent benefits as competing firms at a lower price, while a firm that adopts a differentiation strategy provides unique benefits that justify a higher price. Both strategies are grounded in the idea of creating value for the consumer, and the success of a strategy depends on a firm's implementation of its chosen strategy as well as its internal and external environments. Porter's third generic strategy, *focus*, allows for the application of either a cost or differentiation focus in a market with a narrow competitive scope.

While firms within an industry may have various strengths and weaknesses, each strength or weakness is a function of its generic strategy (i.e., cost leadership, differentiation, focus). This case can be used to provide a foundation for students to understand the distinction between strengths/weaknesses of a firm and the firm's strategy. Within the case, there is an emphasis on the level of service provided by RunTex employees (as illustrated by the buying process which involved potential consumers running around the outside of store while a salesperson diagnosed their gait). Students may correctly identify this as a strength of RunTex, and instructors should encourage students to think about how this strength of RunTex is, in fact, a function of a differentiation strategy.

As students think through the strengths and weaknesses of RunTex, it is helpful to introduce techniques used to conduct internal analyses. Specifically, the value chain framework and the resource-based view of the firm can be introduced. The value chain is a framework that examines a firm's primary activities (i.e., inbound logistics, operations, outbound logistics, marketing and sales, service) and support activities (i.e., firm infrastructure, human resource management, technology development, procurement). It is through these activities that a firm can establish (or fail to establish) a competitive advantage. The emphasis in value chain analysis is on value, or "the amount buyers are willing to pay for what the firm provides them" (Porter, 1987, p. 38). Students can use the facts of the case to think through the value (or lack thereof) created through marketing and sales and service, as well as human resource management and infrastructure.

For example, a firm's infrastructure includes those activities that make up overhead (e.g., general management, planning, accounting), and the case includes several examples of poorly managed infrastructure. Specifically, RunTex's failed expansion efforts (as evidenced by store closures) and its financial management problems (as evidenced by its failure to pay suppliers, the county, and other creditors) suggest that infrastructure issues contributed to RunTex's closure. On the other hand, RunTex's expert sales and service contributed to its success. While the case does not explicitly provide all of the information required for a complete value chain analysis, students should be encouraged to think through the value chain and identify specific activities that could have contributed to a sustained competitive advantage for RunTex. The value chain analysis could be an activity for students who have taken a supply chain management course, while instructors of students without this background would likely find the case useful for introducing the concept of value chain analysis.

A complementary approach to internal analysis is grounded in the resource-based view of the firm. Firm resources include everything that is *controlled by the firm* that improves its efficiency and effectiveness (e.g., assets, capabilities, organizational processes, information, knowledge) (Barney, 1991). A firm's resources must be valuable, rare, inimitable, and organized (VRIO) in order to create a sustained competitive advantage. A resource is valuable if it increases revenues or decreases costs; a resource is rare if it is a unique skill or asset that cannot be simultaneously possessed by many rival firms; a resource is inimitable if it cannot be copied by rivals; and a resource is organized if it is structured in a way to execute and protect its source of advantage (Barney, 1991).

In the case of RunTex, its owner Carrozza was one resource that met the VRIO criterion. (Instructors are encouraged to show the 7-min video bio of Carrozza referenced at the end of the CSR section, when discussing this point.) An argument can also be made that the geographic locations of RunTex's most successful stores were also VRIO. Unfortunately for RunTex, many of the firm's other resources were not VRIO, which allowed Luke's Locker (with superior infrastructure activities and competitive marketing, sales and services in the value chain) to erode RunTex's competitive advantage.

For instructors who wish to have students focus more on the competitive advantage and internal analysis in the case, Barney (1991), Barney and Clifford (2010) and Woolf (2008) would be the prerequisite readings to consider assigning students. Barney (1991) in particular provides a very thorough and strong overview of sustained competitive advantages, while Woolf (2008) offers specific insight on differentiation in the health and fitness field. Meanwhile, Barney and Clifford (2010) is an engaging text on business strategy that instructors could also assign prior to the case. Instructors would likely find that all three of these suggested supplemental readings would add greater depth to student responses and class discussion regarding the case.

Discussion questions:

- (1) What resources and capabilities contributed to RunTex's competitive advantage (which it held until 2008)?
 - (a) To what degree were those resources and capabilities rare, valuable, imitable, and organized? *Students may identify a variety of resources and capabilities, including employee expertise, support services, and attractive geographic locations. Unfortunately, many of RunTex's resources and capabilities failed to meet the VRIO criteria. For example, the level of service provided by RunTex employees initially gave RunTex an advantage and contributed to its unique brand. However, this level of service could be imitated by competitors or, more directly, RunTex employees could be recruited to work for competitors. Carrozza (and his ability to build relationships in the local community and the running community) represents a human resource that is rare and inimitable, but given Carrozza's reluctance to treat RunTex primarily as a profit-oriented enterprise, students may question his value.*

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