STERLING MARKING PRODUCTS INC.

Jonathan Calof prepared this case under the supervision of Professor Paul Beamish solely to provide material for class discussion. The authors do not intend to illustrate either effective or ineffective handling of a managerial situation. The authors may have disguised certain names and other identifying information to protect confidentiality.

On November 27, 1988, Jan d'Ailly, the 29-year-old International Marketing manager for Sterling Marking Products of London, Ontario, was reviewing his options with regards to selling the Mark Maker embosser in the United Kingdom. He had identified possibilities for licensing, exporting, joint venture, and acquisition. Jan was expected to make his recommendations at tomorrow's International Marketing Committee meeting.

In addition to the U.K. market, a larger question loomed. The Mark Maker, which had captured over 60 per cent of the Canadian embosser market in just two years, was starting to attract attention from dealers around the world. He had received enquiries from firms in Australia, Japan, Sweden, Italy, France, Barbados, Spain, and Indonesia. These firms were interested in selling, and in some cases manufacturing the Mark Maker. How, thought Jan, should Sterling move on these world-wide opportunities?

EMBOSSERS AND THE EMBOSSER MARKET

Used to imprint seals on corporate, legal, and certain government documents (Exhibit 1), embossers had been around for hundreds of years. During that time, the only significant innovations were the development of a pocket seal and the Mark Maker. Throughout the world, lawyers, corporations, and consumers had purchased seals for either legal requirements or personal reasons such as embossing their names on books and documents to show ownership or to make them look more official. In countries where the legal system was based on English common law, an embosser was frequently a legal requirement for notary publics (lawyers who authenticated documents). Currently, 90 per cent of Mark Makers were purchased by lawyers and corporations. The fact that embossers appealed to business and non-business consumers alike made any country in the world a potential market for embossers. Exhibit 2 outlines per capita GNP, population, and basis of law (common, civil and so forth), as well as the available statistics on lawyers, notaries and incorporations for 31 countries.

In 1986, the Canadian legal embosser market was estimated to be $1.5 million per year. While an embosser was not a legal requirement for companies, almost all the 70,000 incorporations and 20,000 corporate name changes per year resulted in embosser sales, with the remaining sales provided by those new lawyers who decided to become Notary Publics. Most embosser sales involved the traditional desk seal.

Throughout most of the world, the process of producing and selling embossers was similar (Exhibit 3). The embosser was composed of two parts: a sub-assembly which was the actual body, and a die which contained the text and graphic to be imprinted on documents. The die was then placed in the sub-assembly. Sub-assemblies were typically manufactured by national firms with metal-working expertise. Within Canada, five firms produced most embosser bodies. Embosser die production was more diffused with a proliferation of small, regional die manufacturers.

The actual sale of a complete embosser (sub-assembly and die) occurred through either product suppliers or service suppliers. Product suppliers (e.g., legal stationers) stocked products such as incorporation kits, and other supplies required by lawyers. Service firms, such as name search houses, were usually employed by lawyers to assist in the incorporation process. Typically, these firms, as part of their service, provided an embosser.

An embosser sale resulted for one of two reasons: (1) a firm approached a lawyer to help it incorporate or (2) a lawyer became a notary public and required a seal. In both cases, the lawyer would then approach either a product supplier or a service firm (if the lawyer was using the particular service) and would request an embosser. The product and services suppliers had two avenues for supplying embossers: they could purchase the sub-assembly, contract out the die manufacturing to one of the regional die suppliers, assemble the complete unit and then sell it to the lawyer; or they could purchase the sub-assembly, produce the die internally, and then assemble the embosser.

Throughout the world, the legal seal industry had remained stagnant. While the number of models had grown, there had been very little innovation for 50 years.

Three factors had contributed to this: the legal profession had accepted the problems associated with the seal; most of the die manufacturers were small, without funds for product development; and, for the larger firms, embosser sales were typically not the dominant product. Thus there was little incentive to undertake embosser research and development. The combination of these factors resulted in a deterioration in the function of embossers so that it ceased to be an image product. The once proud seal became a commodity purchased on the basis of price alone.

In many cases, medium and large manufacturers in the embosser industry also produced rubber stamp products. The rubber stamp industry had higher margins and was more competitive than the embosser industry. Much innovative product and process R&D had occurred for rubber stamps. Since rubber stamps and embossers were both used for marking purposes, until recently the products were complements and not competitors. However, in some countries where corporations did not require an embossing seal, firms were starting to purchase rubber stamps, to stamp their corporate seal on documents, rather than the harder-to-use embosser.

THE MARK MAKER

Sterling Marking Products Inc. was founded in 1945 by Warren R. Schram, initially as a one-man rubber stamp company in London, Ontario. Under Warren Schram's leadership and focus on customer service, Sterling developed a committed dealer network almost 1,000 strong. In 1976, Mr. Schram's son, Bob, a University of Western Ontario MBA, who had worked at Sterling for 11 years (since he was 19), acquired the business. At that time, Sterling's primary focus was still on the production and sale of rubber stamp products. In 1981, Bob Schram, Sam Hassan (Controller) and Cam Fink (General Manager) decided that the time was right to strike out into a new area. In the past, Sterling's embosser involvement consisted of supplying customers with assembled embossers. Since the sub-assembly was not manufactured by Sterling, their only value-adding activity was the actual assembly of the embosser and the manufacturing of the die. In management's view, all Sterling offered was an easily copied service. They decided that getting into embosser production and supply made strategic sense as it increased Sterling's independence. Bob, Sam, and Cam debated whether the new embosser should be a bold innovative design or the old, traditional desk seal with some of its flaws corrected.

Bob wanted his firm to bring back the prestige of the embosser. The suppliers believed that lawyers wanted to buy the lowest cost items, regardless of utility or prestige. Bob felt that this assumption was inappropriate. "Lawyers buy BMW's and have large offices — prestige must be important to them." However, to try to develop a new, more functional, and prestigious embosser could be dangerous. Failure of an innovative design could damage their credibility with the employees, an asset which the new management team was trying to establish. There were some significant benefits: they would learn about plastic molding and how to manage new product development. Further, if they succeeded, the nature of competition could shift from a commodity-like product dominated by small firms, to a differentiated product market dominated by one large firm, Sterling.

As a first step, Sterling applied for and received a $30,000 grant from the Ontario Provincial government to underwrite Mark Maker's industrial design. To improve the design, Bob conducted interviews with lawyers in which they were asked what they would like in a seal. From these discussions, and an analysis of other problems which he had identified with desk and pocket seals, Bob obtained an idea of the product features required in the new seal (Exhibit 4). Sterling then turned the design over to an industrial design consultant.

By the end of 1981, after extensive meetings with Bob and Cam, the consultant returned with the completed design, molds, and tooling required to produce the Mark Maker. A meeting was subsequently held in which the product was shown to Sterling management. Bob assembled the Mark Maker, and to his horror discovered that "it would not even emboss toilet paper."

Employees were already questioning the young management team's initial decision to develop the Mark Maker. At the same time, a poor economic climate was affecting Sterling profits. Bob felt that attention was better spent focusing on Sterling's current problems, rather than on developing the Mark Maker. For the next 30 days management discussed possible modifications for the Mark Maker — subsequently, the project was shelved.

By the end of 1982, attention started to shift back to the Mark Maker. Management felt that perhaps they had been too hasty in their abandonment of the project. Since they already had the basic design and the tooling for Mark Maker, they could develop the product internally. Cam Fink hired Anthony Gentelle (a Fanshawe College industrial design student). Willy Brandt, an independent mold maker, was contracted to help with the mold design, and DuPont Canada Inc. was brought in to select the appropriate materials for the Mark Maker. Cam and Anthony met after work for over a year, attempting to correct the flaws in the initial Mark Maker. By October 1984, the project which had taken five years and $400,000 to develop was finished. All that was left was to apply for a patent and then enter the new product on the market.

Sterling was proud of the Mark Maker (Exhibit 1). It weighed less than one pound and was trim. The weight and durability came from using DuPont "Delrin" acetal resin and glass reinforced "Zytel" nylon resin. It had a collapsible nylon handle which could lie flat at the push of a button, making the unit 13.5 centimeters long, seven centimeters high and 5.4 centimeters wide (small enough to fit into a briefcase). Its impression quality was tested to 25,000 embossing operations, and with the handle serving as a lever, the manual force needed to exert pressure on the die and achieve a clear impression was reduced. The parts were injection molded so that the assembly could be quickly snapped together. While Sterling would own the molds and tooling, sub-assembly production was contracted out to Willy Brandt's firm, Exacu Mould Inc. in London.

In December 1984, Sterling entered the product on the market. The sub-assembly was priced at $8.05 allowing Sterling a 50 per cent profit. Competitors' products sold for $6.50 but Sterling felt that if they met this price, the ensuing 25 per cent profit was insufficient to justify the investment. Further, it was felt that the Mark Maker's superior features should allow for a price premium.

Mark Maker orders were encouraging. In the first year (1985), 40,793 Mark Maker sub-assemblies were sold. Unfortunately, Sterling learned that many Mark Makers were gathering dust on the shelves of the legal stationers and name search houses. Sterling identified two primary reasons for the poor results: changing the image of the embosser from a commodity-like product to a differentiated one required more direct sales than dealers had used in the past; and, as Sterling only sold the sub-assemblies, they had no control over die production, and unfortunately, most of the dies were not manufactured to the rigorous specifications set out by Sterling. The inferior dies were damaging Mark Maker's credibility in the market.

As dealers were unwilling to change their die production processes, Sterling realized that they had to somehow convince their customers to exit the lucrative seal production aspect of their business and allow Sterling to sell them both the Mark Maker sub-assembly and the die.

At the same time that this problem was developing, Sterling's computer systems/services division was implementing a program which interfaced the computer with the typesetter. This initiative, started around 1981, was not related to Mark Maker. Rather, it was an attempt to increase the efficiency of stamp-making operations by standardizing activities and automating production. Cam, Sam and Bob realized that with some modifications, the program could be used for on-line ordering and production of the Mark Maker. Customers would be supplied with terminals and modems (approximate cost $1,000) that would dial into Sterling's computers in London using telephone lines, and would enter the text for their embosser. The host computer could then communicate with the production computer engraving systems which would then output the text for the die. Getting the client to enter the text directly into the system virtually assured error-free final text. In the past, some errors had occurred as a result of operators entering the client's text incorrectly from the order form. The on-line text outputting processes would also result in improved quality and lowered production costs. As a by-product of the automated text processes during the same run, text could be output to use in manufacturing a brass identification plate. Previously, customers used a piece of paper placed in a plastic window on top of the Mark Maker for identification purposes.

Management felt that increased quality and service would convince the majority of their customers who manufactured the dies to relinquish die production, and consequently, make the customer captive to the Sterling system. However, Sterling realized that the major hurdles for getting dealers to relinquish production of the die were the price and speed of delivery. Die production, though only a small part of most of Sterling's customers' business, was none the less extremely profitable with margins of 50 per cent. Sterling found a price that maintained most of their customers' old profit. In addition, Sterling endeavored to provide dealers with sales support (marketing literature and sales incentives). The new Mark Maker, which cost Sterling $6.64 in labor and materials ($5.01 for the sub-assembly and $1.63 for the die), $1.75 for shipping and $2.00 for selling and computer allocation, was retailed at $34.95 with wholesale volume discounts of up to 55 per cent. Direct sales could be made to lawyers at the full list price of $34.95; however, this was not encouraged as it would put Sterling in competition with their primary customers (legal stationers and name search houses). To ensure that dealers did not produce their own dies for the Mark Maker, Sterling limited sub-assembly sales to 20 per cent of a customer's order. Sam Hassan felt that this was a necessary but high risk decision, as it precluded Sterling from selling only sub-assemblies as they had in the past.

In 1986, 22,948 assembled Mark Makers had been sold ($424,359) and five of Sterling's largest customers were using the on-line ordering system. In 1987, 41,287 units were sold ($712,332). Sales in 1988 were forecasted to be 58,705 ($1,004,415) — 67 per cent of all Canadian embosser sales. With its gross margin of $8.63 per unit and a forecasted $6.63 per unit contribution after allocated expenses, Mark Maker was the number one product for Sterling. Mark Maker had become so entrenched in the Canadian market that it was becoming difficult to find the old metal desk seal sub-assemblies in Canada. Few sales went to the traditional stationer houses (the bulk of the 1,000 dealer network developed by Warren Schram). Ninety per cent of sales went to a new type of customer: the legal stationer and law firms.

True to their initial objectives, Sterling had managed to change the competitive dynamic of the Canadian embosser market. Smaller, regional die manufacturing firms were being pushed out of the business; the product was losing its commodity-like status; and metal sub-assembly manufacturing (which was dominated by American firms) was dying out. The only competitive reaction had been by Marque D'Or, a Quebec rival of Sterling. In response to the introduction of the Mark Maker, Marque D'Or had lowered their price for the old metal seal. However, in the past month, Marque D'Or had begun to place more orders with Sterling as their largest customer had requested the Mark Maker. Sterling management felt that with this latest development in Quebec and recent inroads in

Western Canada, it was conceivable that Mark Maker would have a 90 per cent market share within the next few years.

The innovativeness of the Mark Maker was widely recognized. In 1986, the Mark Maker received two awards: a Design Engineering Achievement Award at the Plast-ex show in Toronto; and the Federal Government's Award for Excellence in industrial design.

Despite this success, and the lack of competitor reaction, management decided to continually innovate Mark Maker's product and service to discourage competitors. While the product and its design were patented for the next 15 years in Canada, the United States, and the European Economic Community, any modification (such as a different handle mechanism) would allow a competitor to legally duplicate the Mark Maker concept. However, the on-line ordering system could be difficult to replicate.

STERLING MARKING PRODUCTS INC. — 1988

Sterling operated its production facility and head office in London, Ontario with sales offices in London, Toronto and Windsor. Directly employing 141 people, Sterling offered a variety of products and services (Exhibit 5) which were divided into four operating segments: (1) Stationer items — rubber stamps, signs and markers; (2) Industrial marking systems — code dating; (3) Graphics — artwork, commercial printing and typesetting; and (4) Data management and printing real estate books.

Many of these products were developed by Sterling. However, most of the industrial sales products, such as high speed label makers and line coding machines, had been developed by other firms with Sterling holding the Canadian distribution rights.

This diversified product line arose from the visions of Bob Schram (42), Cam Fink (32) and Sam Hassan (42). Bob Schram's commitment to customer service and desire for innovation led him to seek ways to increase the utility of products. He often discussed new product ideas with customers, suppliers and employees. Sam's main interests were in computer technology. When he joined Sterling in 1978, he had a vision of a firm with unique computer capabilities. To help realize this, he formed a relationship with Ultimate Computers, a value-added resaler of computer hardware. Cam joined Sterling in 1981 after working for a firm which supplied automotive products to General Motors. Cam brought with him a focus on production efficiency. He saw Sterling making thousands of "somethings" efficiently, thereby reaping the benefits of economies of scale.

One of the by-products of these visions was the development of Sterling's computer skill advantage. The original purpose of the computer technology was to assist in processing and storing transactions. The custom nature of Sterling's marking products activity (e.g., stamps are personalized), created a tremendous paper burden in the organization as each sale generated its own order form. As Sterling grew, so did the number of individual orders. By 1980, the processing of transactions had become a costly and time-consuming part of the production process. Sterling realized that, without an efficient method of processing transactions, future growth would be limited; thus, they looked towards computers.

In 1980, Sterling bought their computer system. As they spent time developing administrative applications for the system and learned more about the computer's capabilities, they started to realize that the computer could also be used for production and product development purposes. For example, the data manipulation routines used for order information coupled with the typesetting expertise garnished from the production of stamps could also be used to produce data base systems for real estate agents. All that was needed were some efficient searching routines. As well, the on-line production system would, if interfaced with the real estate data base, result in a cost effective method for printing the Real Estate books. In 1986, MLS database products and real estate book production were added to Sterling's business lines. In September 1988, this lucrative area had attracted contracts from 14 real estate boards in Canada. Other products and services (such as on-line ordering and production) arose from this technological edge. Another innovative extension was the production of Bingo cards. A program was developed which would design Bingo cards. The program determined the number of cards to produce based on hall sizes, output the printing plates and designed the bingo cards so that no card had a higher probability of hitting "BINGO" than any other.

The company also focused attention on improving production processes. Sterling's quality standards were fast being adopted by the larger firms in the industry. However, most firms could not keep up to Sterling's process innovations. Without Sterling's level of expertise, most were unable to progress much beyond the technology and processes of the 1960s.

Product and process innovation was viewed as a principal task for Sterling. The impetus behind this was a desire for growth. Sterling viewed themselves as a potential future IBM in terms of size. But the focus on growth, innovation and service had to be balanced with management's deep concern for employee well being. Schram felt that employees were the key to Sterling's success.

One of the primary objectives for the organization was to increase the satisfaction of employees and managers. Consideration of this and other intangible benefits was so important that Sam Hassan's job was not merely to look at return on investment but to rationalize investment on the basis of its long term benefit to the company. Sterling's investment decision criteria focused on the investment's effect on the learning benefits of the investment, the impact of investment failure on both the employees' respect for management and overall operations, and what the employees would think of management for undertaking the investment. Financial considerations (e.g., ROI), while important, were usually of secondary status.

The focus on innovation, service and employee well-being led to an adaptable, flexible organization, the result of which produced dramatic increases in sales and profits. Between 1983 and 1987, sales increased 73 per cent going from $4.6 million to $8 million, with 1988 sales estimated to be $10 million (Exhibit 6).

MANAGING GROWTH

Management's primary concern was the management of growth. They felt that what had "made" Sterling was its identity — a focus on innovation and a 40-year-old service ethic. Maintaining the sense of commitment and an environment where "it was fun to come up with something that benefits the customer" would be difficult. In recruiting, they sought individuals like themselves. They looked for people who could "share the vision." Salaries were low but Sterling offered would-be employees opportunities for growth. An apprenticeship period was served by most new management employees (with the exception of marketing) where the individual was expected to develop informal leadership in the organization. Titles were meaningless and new hires were expected to work their way slowly into management, gaining respect from other employees and distinguishing themselves as leaders. New hires who were not able to earn the respect of employees would not last long. Management personnel were seldom given a clear role, direction, or authority.

ORGANIZATIONAL STRUCTURE

Although Sterling had explored the possibility of many different structures, they maintained the simple structure of the past, with most major decisions made by Bob Schram after receiving input from various employees. Recently, the three senior managers had begun a process of adding more management employees, thereby removing themselves gradually from day-to-day operations and allowing them to focus on longer-range strategic issues. Despite this, the three senior managers continued to work six to seven days a week.

The structure was undergoing other transformations. Attempts were being made to divisionalize Sterling's product groups. For example, Jan d'Ailly was put in charge of marketing for all marking devices. However, as one employee stated: "We see ourselves in the longer run going towards a divisional structure, but given the current dynamic of Sterling and its success, it is hard to get any sort of structure; functional or divisional."

Sterling's international activities were coordinated by the international marketing department and the international marketing committee. The international marketing committee consisted of Jan, Sam, Cam, Bob, Rick Verette (operations manager), and Vince Lebano (a representative of the Ontario Provincial government), and was chaired by Mel Dear, an ex-3M sales executive who was now a private consultant. The committee met every two to four weeks to discuss all aspects of international operations. The committee used a broad definition of international which included any sales outside of Ontario.

Jan d'Ailly was hired as the one-man international marketing department in 1986, shortly after completing his MBA at the University of Western Ontario. Jan had worked in France, Taiwan, Australia, and South Africa and spoke English, Dutch, French and Mandarin. Consistent with Sterling's focus on customer service, Jan was hired more to provide customer support than to make sales. In fact, Jan did not have previous sales experience prior to joining Sterling. It was Jan's job to identify foreign markets for Sterling's products and to help out foreign customers. Since joining Sterling, Jan's time had been devoted to the Mark Maker. He had personally conducted market research trips to the United States and the United Kingdom and was also involved in selecting Julius Blumberg Inc. to introduce the Mark Maker into the United States.

THE UNITED KINGDOM TRIPS

Three market research trips had been made to the United Kingdom. These trips yielded information on the U.K. embosser market as well as on labor availability, and information pertinent to Sterling's other products. Exhibit 7 presents a portion of Sterling's market study. The last trip was in November 1988. Jan together with Cam, Warren Schram, and a consultant, went to the United Kingdom for one week. The purpose of this trip was to confirm Sterling's perceptions of the U.K. market and to investigate alternative modes for competing in the United Kingdom. The information in this section is based on the results of these research trips.

The United Kingdom was the only European country where seals were a legal requirement for corporations. Thus, all of the 100,000 to 120,000 incorporations, 50,000 corporate name changes, and 12,000 new lawyers per year required embossers. This provided a fertile ground for embosser sales. The U.K. government, however, had recently indicated that an embossed seal might not be legally required in the future. As in Canada, sales were dominated by the traditional desk seal (approximately 50 per cent of all sales). The major buyers of seals were lawyers and accountants who purchased 70 per cent of all seals, primarily for their incorporation clients.

Unlike Canada, the major embosser manufacturers were fully integrated. The largest manufacturers of both dies and embosser sub-assemblies were Jordan and Bolson. Most of Jordan's sales were to their own name search houses. In recent years, some of these were expressing displeasure at this arrangement as they wanted the flexibility to select embossers. The largest market shares of the seal production market were held by Bolson's (50 per cent) and Jordan and Sons (28 per cent).

Eighty-five per cent of legal seals were handled through company formation agents. Similar to the service firms in Canada, formation agents were hired by lawyers to assist in incorporations. These agents also provided an embosser as part of their service; thus, if Sterling were to compete seriously in the U.K. market, they would have to either usurp Jordan's production or supply Bolson's customers. The major agents were Jordan and Sons (26 per cent share of seal sales), Stanley Davis (13 per cent), and London Law (10 per cent).

The relationship between the seal producers and formation agents was one of great loyalty. Jordan and Sons purchased their seals from Jordan's, while Stanley Davis purchased from Bolson's.

Pocket seals were priced at £5.50 and desk seals at £7.50 (prices in Pounds Sterling — £1 = Cdn$2.10, US$1 = Cdn$1.22). Similar to the Canadian product, the quality of the seals was poor.

THE CURRENT SITUATION

Jan looked again at his notes on the United Kingdom. Several possibilities existed. They could continue exporting sub-assemblies to Jordan. In 1984 to 1985, Sterling had sold 5,000 Mark Maker sub-assemblies to Jordan. They were originally selected to be a distributor for Mark Maker; however, due to problems in die manufacturing and weak sales efforts, not only were sales low, but there was some concern that the Mark Maker was developing a bad reputation. Jordan had recently improved the quality, developed an effective on-line production system and were manufacturing high quality dies. This, coupled with placing the Mark Maker prominently in their brochure, resulted in sales of 3,000 Mark Makers in the past year. Jordan was interested in continuing the relationship with Sterling, but they wanted to produce the dies themselves.

Perhaps, thought Jan, Sterling could export the finished product. Duty was only 4.6 per cent, the value added tax (a tax levied at each stage of production) was 15 per cent, and overnight courier costs were $7.50 per Mark Maker (the minimum courier charge was $60). Meeting U.K. demands would be no problem. Sterling could produce 168,000 Mark Makers with seals per year out of its London, Ontario plant, 250,000 if they added a third shift.

Alternatively, Sterling could use licensing. MBF McFarlane, a U.K.-based rubber stamp manufacturer, had expressed an interest in this possibility. Maybe, thought Jan, all MBF wanted was Sterling's computer technology and the opportunity to keep Sterling from marketing other products there. In fact, MBF had visited Sterling in the spring of 1988 and in their recent catalogue claimed to have computer ordering capability.

Perhaps, Sterling could purchase one of the seal producers or construct their own branch. Labor availability was not a problem. Martyn Wright, a director of production with Jordan, had expressed a strong interest in leaving Jordan and heading up a Sterling operation in the United Kingdom. Martyn felt that Sterling could purchase Jordan's seal operations and tie the computer typesetting business into Jordan's production facility. Alternatively, Sterling could build their own branch. A plant producing 60,000 Mark Makers per year required two employees and $50,000 in equipment. This included the on-line ordering and production systems, and the software. Administrative support, rent and the employee salaries were estimated at $5,000 per month.

Jan tried to elicit management opinion on the various entry mode options. They saw Mark Maker as a product which could open foreign market doors for Sterling, thereby paving the way for the introduction of Sterling's other products. Unfortunately, senior management were not in total agreement on the appropriate entry modes required to attain these objectives. One of the managers believed that greater profits could be attained by licensing the product to a U.K. manufacturer. He felt that Sterling should be focusing its attention on developing new products and a stronger sales organization, not spreading resources thinner by getting involved in an overseas branch. Another senior manager felt that if there was a reasonable chance of success in the United Kingdom, it would be in Sterling's best interest to have a branch there. This manager envisioned creating five branch plants with sales offices each year over the next five years. Each branch would control $1 million in yearly sales. Branch plants in the United States and United Kingdom were essential for the realization of this plan. He also felt that Sterling had developed a culture of innovation and risk-taking. Accepting a licensing agreement would send the wrong message to employees.

Management was unsure of Sterling's ability to manage a foreign branch. They had experienced difficulties in managing the Windsor and Toronto offices and thought that a branch overseas would pose even greater difficulties. They were considering putting a production and sales branch in Montreal within the next few years as a test of Sterling's ability to manage a foreign operation.

Another more recent experience was Sterling's recent foray into the United States. On May 1, 1988, Julius Blumberg Inc., (a U.S. legal stationer) was made Sterling's exclusive sales agent for the United States for a seven-month period, after which Sterling would have the option of appointing other agents. Under this arrangement, Blumberg would not produce the seal; rather, they would send their customers' orders to Sterling who would produce the seal and then ship both the seal and sub-assembly to the appropriate Blumberg office. It was felt that the market presence of Blumberg, and a guarantee of featuring the Mark Maker in its catalogue would result in substantial U.S. sales. Jan looked back over the past five months. Overall sales had been disappointing (under 100 units per week). However, Sterling had learned much about the U.S. market from this experience. Jan felt that the low sales could have resulted from using the traditional passive approach to selling embossers. A catalogue could not impress upon customers the advantages of the Mark Maker over other embossers. Jan suspected that some direct promotion was required. During the past year, he had travelled to Blumberg offices in Albany, New York, and Texas. During these visits, he had tried to convince the salespeople to use a more direct sales approach. As an incentive, he offered them one dollar for each Mark Maker sold. The results of these visits were impressive. For example, in Albany, prior to Jan's visit, Mark Maker sales averaged five per week; shortly after his visit, sales increased to 70 per week. Blumberg felt that the direct approach was inappropriate and instructed its salesforce to tone down the sales approach. Subsequently, sales dropped to their old levels.

The same problem had occurred in Canada. However, when the legal stationers started using more aggressive sales techniques and Sterling started dropping into legal offices to show them the Mark Maker, sales increased dramatically.

Jan looked over the U.K. market report again: How to decide? How fast to move? More fundamentally, should they do anything with respect to the United Kingdom without first developing a broad approach to international markets?

Exhibit 1

EXAMPLES OF SEALS AND SEAL IMPRESSIONS

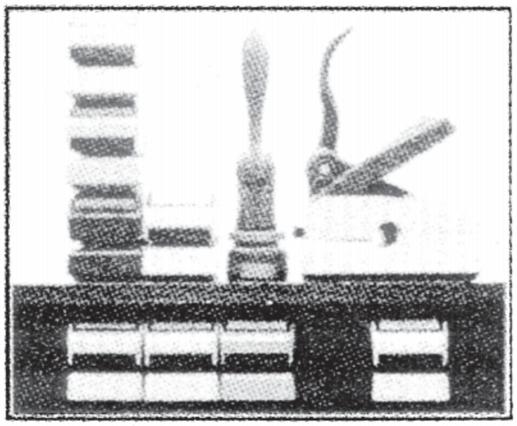

Illustration from an advertisement comparing the Mark Maker to traditional desk seals

Exhibit 2

INTERNATIONAL MARKETS — SELECTED INFORMATION

Country	Population (000,000's)	Per Capita GNP 1987	Notary	Number of Lawyers	Yearly Increase Lawyers and Incorporations	Basis of Law
Argentina	30	2,130	Yes			Civil
Australia	16	10,840	Yes	16,077		Common
Bangladesh	101	150	Yes			Common
Brazil	135	1,640	Yes			Civil
Canada	25	13,670	Yes		82,000	Common
China	1,041	310		12,000		Other
Colombia	28	1,320	Yes			Civil
Egypt	47	680	State*			Civil
France	55	9,550	Yes			Civil
Germany, Fed	61	10,940	Yes	30,510		Civil
India	765	110	Yes	200,000		Common
Indonesia	162	530	Yes			Civil
Iran	45	N/A	Yes			Other
Italy	57	6,520				Civil
Japan	121	11,330	Yes	82,042		Both
Kuwait	1	14,270				Other
Mexico	79	2,080	Yes			Civil
Nigeria	100	760	Yes			Both
Norway	4	13,890	State*	2,000		Civil
Pakistan	95	380	Yes			Common
Philippines	55	600	Yes			Both
Poland	37	2,120	State*			Other
South Africa	32	2,010	Yes			Common
Spain	39	4,366	Yes			Civil
Sweden	12	6,421		2,000		Common
Switzerland	10	16,380	Yes			Both
Thailand	51	830				Both
Turkey	49	1,130	Yes			Civil
U.K.	56	8,390	Yes		200,000	Common
U.S.A.	239	16,400	Yes		820,000	Common
U.S.S.R.	277	N/A	Yes	127,000		Other

**In these countries, notarization of documents is the responsibility of state bureaucratic officials and not lawyers.*

Exhibit 3

THE PROCESS OF EMBOSSER MANUFACTURING AND SALES IN THE LEGAL MARKET

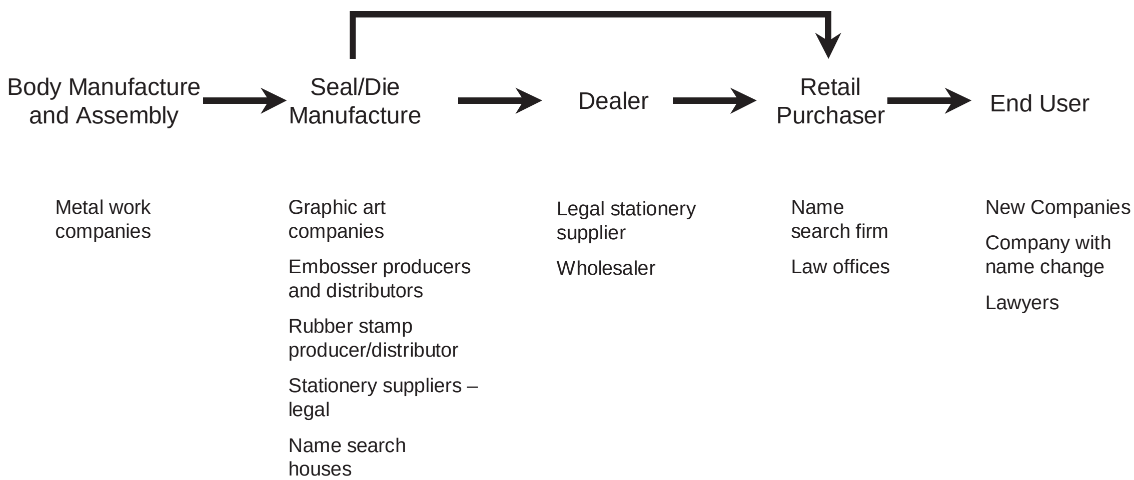

Exhibit 4

FEATURES OF THE MARK MAKER AND COMPETING PRODUCTS
(ALL PRICES ARE IN US$ FROM BLUMBERG CATALOG)

MARK MAKER — $29.95

Advantages	**Disadvantages**
On-line ordering system:	Non-changeable dies
- ease of ordering	Non-reversible dies
- accuracy	Die size limitation
- speed of delivery	
Plastic impression quality	High sub-assembly cost
Modern appearance	Will not fit in corporate registration binder
Ease of use	
Durability	
Easy to read index system	
Non-skid/non-mark pads	
Easy to use handle mechanism	

POCKET SEAL — $19.00 – $30.00

Advantages	**Disadvantages**
Compact — fits in corporate registration binder	Poor impression quality
Light weight	Hard to use
Inexpensive	Looks cheap
Proven market acceptance	No indexing possible
(80 per cent of the U.S. market)	Short throat
Rotating die set	
Various die sizes available	

TRADITIONAL DESK SEAL — $25.00 – $35.00

Advantages	**Disadvantages**
Various die sizes available	Impression is inconsistent
Good quality impression	Heavy
Recognized as the classic	Awkward
Special intricate logo capability	Awkward to use
	Non-interchangeable
	Non-reversible
	Frames crack
	Not easily stored
	Hard to transport
	Sharp metal edges

Source: Advantages and disadvantages from Sterling records

Exhibit 5

PRODUCT OVERVIEW

Products	Distribution	Strengths
Marking Device & Stationery Products		
- Legal and consumer Markmaker Embosser® - Rubber and perma stamps - Dating and numbering devices - Signage systems - Desk plates (badges)	- Large consumer customer base - Direct mail programs - Major national accounts	- Loyal customers - Strong customer service - Unique on-line computer integrated manufacturing system
Industrial Products Group		
- Date coding application (mechanical and computer spray-jet machines) - Shipping supplies - Steel type and punches - Mechanical presses	- Large consumer customer base - Regional sales force based in Toronto, London, Windsor & Niagara Peninsula - Dealers	- Application responsive sales and manufacturing group - Worldwide product sourcing
Graphics Product Group		
- Commercial artwork and typesetting - Printing plates Corrugated cartons Tape and label Flexo for poly bags - Bingo plates and computer programs - Printing MLS Directories Direct Mail Brochures	- National sales effort - Large consumer customer base - Major national accounts (Labatts)	- Outstanding responsive sales and manufacturing capability to satisfy customer requests - Superior technical capability
Computer Systems/Services		
- Hardware selected from a wide range of vendors which support ultimate operating system - Specialty software - Bingo programs - MLS on-line system - Dealer on-line system incorporating our proprietary computer-integrated manufacturing software driving typesetting and N/C computerized engraving output - Real estate broker systems for administrative function and on-line inquiries	- Company wide sales and marketing effort - Satisfied customers including 11 real estate boards - On-line sales through our consumer customer and dealers	- Superior operating system offering excellent migration flexibility of software - Creative, responsive sales and programming staff - Unique programs for typesetting output and data manipulation

Exhibit 6

SELECTED FINANCIAL AND CORPORATE INFORMATION

	1983	1984	1985	1986	1987	1988*
Mark Maker sales:			(Sub-assemblies)		(Complete units)	
Units			40,793	22,948	41,287	58,705
$000's			343	424	712	1,004
Gross margin ($000's)					428	615
Contribution ($000's)					224	402
Employees:						
Full-time	106	103	120	122	130	
Part-time		9	11	6	11	
Sales ($000's)	4,598	5,369	6,536	7,285	7,971	
Debt/Equity	2.13	1.57	1.24	1.16	1.06	

**Estimate*

Exhibit 7

STRUCTURE OF THE LEGAL SEAL MARKET

Market Size			**Rubber Stamp Market**	
Company registrations	100,000	Range to 170,000	MacFarlane – $22,000,000	35% – 50%
Name changes	50,000		Mark C. Brown	? – 10%
Vehicle Testing stations	10,000	best guess	William Jones Clifton	? 5% – 10%
Personnel Embossers	12,000	Jones Clifton	40 – 60 Smaller Firms	
Total Market	172,000	seals/year	Said no one is making any money	
	Work with 680 per day			

Seal Production			**Name Search Houses**			**End Users**		
Jordans	48,000	28%	Jordans (A group of small houses)	45,000	26%	Lawyers	60,000	35%
Bolsoms	84,000	49%	Stanley Davis	22,500	13%	Accountants	60,000	35%
			London Law	17,200	10%			
Western Pro Marketing City Seals	21,000	12%	Smaller Houses (All less than Stanley Davis) Rubber Stamp Companies	65,300	38%	Private Legal	30,000	17%
	153,000	89%		150,000	87%	Vehicle Testing Stations	10,000	6%
Jones Clifton	18,000	10%	Retailers, Wholesalers Direct Mail			Consumers	12,000	7%
			Rubber Stamp Man.	22,000	12%			
			MBF Clansman	?				
Totals	172,000	100%		172,000	100%		172,000	100%

Price Competitive.
Generally very low quality seals.

Seals delivered to Name search houses or mailed direct to end users.

As a whole, a very fragmented market.
Heavy price competition "Cheaper is Better."

Jordans seen as a leader in the industry, higher priced, and maintains a whole database and reporting business.

Stanley Davis determined to catch Jordans.

Source: Company report on the U.K. market.