ZEIT SAIC: THE ENTREPRENEURIAL HISTORY
OF A FAMILY BUSINESS IN ARGENTINA

Paul S. Marshall, Widener University
paul.s.marshall@widener.edu

Christian Balfhor, Pontificia Universidad Católica Argentina
cbalfhor@uca.edu.ar

CASE DESCRIPTION

The primary subject matter of this case concerns developing an action plan to attempt to save an old line Argentine manufacturing and service firm in the face of a collapsing economy in Argentina and significant technological change making their main product obsolete. The primary focus is that of general management and as such encompasses most of the business disciplines, but stresses primarily finance, marketing and corporate strategy issues. Secondary issues include the role of preparing and analyzing financial statements to aid management decisions and an appreciation of international issues. The case has a difficulty level of four, and is positioned for use in an undergraduate senior level cap stone strategy and policy course. The case is designed to be taught in ten class hours and is expected to require about five hours of outside preparation by students.

CASE SYNOPSIS

This case follows the career of George Brown, particularly in relation to Zeit, S.A.I.C., his family’s business. After an on and off early association with Zeit, George, late in his career, joined the Company permanently in 1990 as V.P. In 1998, against the objections of his family, he purchased full control of the Company. That year was momentous since it began a steep decline in the business fortunes of Zeit precipitated by both changing technology and the Argentine financial collapse. The setting for student recommendations is in the middle 2003, near the bottom of the Argentine depression.

THE BEGINNING.

The muddy water of the Rio de la Plata slapped against the hull of the old British freighter as the city of Buenos Aires (Bs.As.) came gradually into focus through the morning mist. The long and dangerous journey from Southampton was nearing its end. German U-boats prowled the Atlantic and would have liked nothing better than to send this or any English ship to the bottom. The year was 1940 and an eight-year-old boy, George Brown, his extended family and all of their limited physical possessions were aboard. They were about to begin a new life in what most would then agree was the greatest city in the richest country in the southern hemisphere. Even though their prospects appeared bright, Buenos Aires was a very foreign place. None of the Browns spoke Spanish; in fact, only the children were truly fluent in English. Six years prior the Browns, then known as the Brauns, left Germany ahead of Nazi oppression of the Jews. The Browns were not only smart to leave Germany early enough to assure their safety; they were smart enough to get a substantial sum of money converted to British pounds sterling and have it wired to Barclays Bank.
in London. Despite that money was frozen in the bank because of the war prohibitions, it acted as a guarantee for a big loan from a distant relative and provided the cushion necessary to re-establish themselves in their new home.

Argentina in 1940 was very different place both absolutely and relatively than it is in the early days of the third millennium. The country’s population was only 15 million and of that 4.5 million were Portenos, versus 36 million and 11.3 million respectively in 2001. Some would argue that Argentina had passed its peak position in relative wealth prior to their arrival. In the late 1920s it was estimated that GDP per capita was equal to that of France and not far behind the U.S. or the U.K. In 2001, the Argentine per capita GDP was 38%, 28% and 41% of that in France, the U.S. and the U.K. respectively. The Great Depression, still going strong in most of the world, had not been kind to any country, but the associated falling prices for commodities such as wheat and beef, particularly devastated the Argentine economy. Good prices and high demand had not yet returned. In 1940, Argentina produced little sophisticated manufactured goods. Yes, it was self sufficient in its simple needs such as pots and pans, soap and furniture, as well as fully competent to process its agricultural based exports. Most high technology manufactured products such as high-tension electrical cable, light bulbs, telephones and gas turbines were imported, up until the year before mostly from England; more recently from America. Furthermore the war, just really beginning in Europe, would both greatly increase the demand for Argentine foodstuffs, but perversely, make its delivery to market almost impossible. The Brown family, since the early days of the 20th century, had an involvement in the German electrical fixtures and components manufacturing industry. The hope was that this expertise would be valuable in Argentina.

THE ZEIT SWEET TIME.

The protectionist environment existing all over the world in 1941 permitted the Brown family to discover a business opportunity in Buenos Aires. The production and distribution of technology based manufactured goods such as telephones and other electro-mechanical devices in an expanding and protected market was a niche crying out to be filled. In partnership with another family, the Weiss’s, who immigrated at the end of the 19th century, the Brown’s bought 40% of Zeit stock. Despite the crisis of the Second World War, the Argentine domestic market was growing rapidly. Although The Browns were dealing with a new business culture, their commitment to hard work and their wise business judgment permitted them to improve their financial situation. In 1951, George’s father bought an additional 10% of the stock, reaching 50% control of Zeit.

Other than three years spent in Germany in the mid-1950s working as an apprentice at Lichtlilghter, a Hanover based manufacturer of time recorders, George had been educated in Bs.As., married, raised a family and felt himself to be fully Argentine. Over time, George gained more experience in the family business, but as the youngest son of one of the partners he found it difficult sometimes to have his business ideas taken seriously by his father. In 1959 his expectations started to be fulfilled when the management offered him the possibility of running a new business as CEO of Roticator Co., a new affiliated company. At that point, Zeit management discovered a new market challenge through the development of a new product, the “Tele-Communicator”. Their business technology was so innovative that it permitted customers to easily make external and internal calls on one single device for the first time. At Zeit this product line was usually referred to as the “intercom.” In order to minimize risks Zeit decided to divide the company into two business units. They settled on a new corporation called Roticator with George the 27-year-old CEO. While Zeit continued offering their mechanical time recorder and other mechanical devices, this new product line set Roticator free to explore and experiment with new markets. Obviously, in order to preserve and nurture the new business, Zeit was prepared to give financial support in the early years. Fortunately, the business was a success from the beginning. In five years, Roticator became the clear market leader in a new growing market: business telecommunications. By helping their customers
fulfill their needs in communications, Roticator conquered their competitors and dominated domestic market share. The business became so strong that Roticator was in a position to open branch offices all over the country. Within ten years, Roticator offered their services in most populous Argentine cities: Rosario, Cordoba, Santa Fe, Mendoza, Parana, Mar del Plata and La Plata.

The secrets of their success were based in two strategies: the rental equipment system and ultimate quality support maintenance. Through the former, the company was able to rent medium and small devices to their wide range of customers. Through rental systems, both parties got several benefits. The customers got updated equipment (though not as often as today) and excellent technical support without paying a heavy initial investment. Roticator received an increasing and steady cash flow and loyal customers. Literally, the latter strategy was a sine-qua-non condition for the success of the former. Without excellent technical support, nobody would ever have trusted Roticator as their strategic partner to propose and implement communications solutions.

Everything was almost perfect until the mid-1970s. By then the political and economic environment of Argentina had shifted outrageously. A violent political environment and growing economic instability created an inadequate framework for innovation and business success. At that time, George was really worried. He was afraid that the business would not be able to survive these joint threats. George was preoccupied not only with external threats, but also with their own company internal weaknesses. The Zeit shareholders were really delighted with the high dividends paid over the last ten years and they were not capable of suffering a reduction. Even though Roticator profits were “juicy”, shareholders hardly recognized that the underlying technology was becoming old. In a market closed to imported goods, such as in Argentina over that period of time, sometimes seeing true world competitive reality was difficult. George was the only one who identified this as the major challenging problem for the future of Zeit.

During October 1978, George reached a tough conclusion about the required future direction of Zeit. He decided to force the issue and announced an ultimatum to the shareholder Board of Directors at their November meeting. Either Zeit would modify their short-term business focus and invest substantial funds into the R&D needed to update the product line, even if dividends had to be substantially reduced, or George would present his resignation. Unfortunately, the Board accepted his resignation. The major shareholders were unreceptive, particularly to the idea of reduced dividends. The intercom business was a great cash cow! Perhaps at that stage of their lives, the older generation viewed sure cash now as far superior to uncertain cash later.

GOING BACK TO THE BATTLEFIELD.

The convulsive situation in the 1980s demonstrated that George was “right on” about the problems facing Zeit. Since 1975, triple-digit annual inflation (and sometimes even higher) was the norm in Argentina, lasting until 1992. All the economic uncertainty (high inflation, huge interest rates, increasing governmental liabilities) adversely impacted the political and social order. Within this crisis environment, the enterprises and entrepreneurs were forced to modify their business practices. At this point, all their efforts and decisions were focused to survive the inflation not to serve the client needs. All companies’ profits were made from financial operations, such as investing in junk and government bonds and other high-risk investments, not from the normal reality of making and selling products. Zeit was not an exception in this speculative game.

After some successful personal entrepreneurial activities during the 1980s, George returned to his first love: Zeit, and its time recorders and telecom equipment. At his return in 1991, the Board was quite different. His father and the Weiss’ were retired and his brother Jerome ran the business. As Commercial VP, George, now age 59, carefully analyzed the then current situation and discovered that the company was far away from its earlier operating margins. George inspired the preparation of a short-term plan in order to reach the break-even point. The first measure of the plan...
was to merge Roticator back into Zeit in order to reduce fixed costs and an unproductive organizational structure. Secondly, the plan initiated a profound downsizing process all over the company. Employment went from 142 to 91. At first, these initiatives were well accepted by the Board.

**FACING THE CRUEL REALITY: ZEIT IN THE NINETIES.**

In 1992, the macroeconomic environment was modified once again. The Argentine government stopped the high inflation and opened the market wide to all kind of imported capital and consumption goods. Zeit not only still had a substantially out-of-date technology (electromechanical vs. digital controls), but also their overheads were inefficiently high and costly. At this point, without high inflation, which they had learned to live with, and being thrown into a competitive market now opened to imported goods, George and the Board quickly realized the real dimension of the enterprise’s crisis.

The telephone ringing on the morning of May 6, 1992 in the Zeit office on Calle Alsina was eventful. It was not just another customer notifying the Browns that their Zeit intercom system was no longer needed. This cancellation took the Zeit installed base of intercom systems to four digits from five. At their peak in 1987, Zeit had 12,348 systems in almost every Argentine business of any size and each generated an average monthly rental payment to Zeit of approximately $42*. In that year, intercom systems, first

All monetary values are translated into 2005 based U.S. constant dollar amounts.

introduced by Zeit (really, their Roticator subsidiary) made up 87% of revenue. From 1960 until 1990, cancellations were rare and the installed base continued to grow as the Zeit sales force successfully “beat the brush” for new customers. What was disturbing in the early 1990s was that other than the normal amount of bankruptcies, cancellations were mostly from their technically most sophisticated customers. They claimed that the Zeit systems were primitive and that much better and cheaper intercom communication systems were available from new Asian suppliers. The writing was on the wall! It was only a matter of time until the main product of Zeit, that product that sustained the Browns and allowed them to prosper financially, would be at the end of its product life cycle.

Even more disturbing, the electronics and telecommunications revolution that was just beginning to sweep the world in the early 1990s seemed ever accelerating. The Zeit installed base of intercom systems was melting away at an ever-increasing rate and the ability of the sales force to find new customers was falling even faster. Exhibit 1 shows the pattern of the annual lease revenue from the installed base of Zeit intercom systems over the years. Fortunately though, over time Zeit had added new products to their line. In 1956 they purchased the right to produce and sell the mechanical time recorder (AKA “time clock”) system of Lichtlighter, Gmbh. of Hanover Germany. Over time Zeit refined and expanded its offerings of time recorders. Exhibit 1 also shows annual sales revenue related to time recorders over the same 1965-2002 period.

Under George’s management as Commercial VP, performance of the Zeit time recorder business in the 1990s was good and getting better. Unfortunately, the intercom business continued its steep decline. Manufacturing of both time recorders and intercoms was sited in a Zeit owned 1200 square meter facility in suburban Bs.As. Most products were assembled from foreign imported electrical components and domestically produced mechanical parts. The success of the time recorder business could primarily be attributed to Zeit’ contacts with thousands of Argentine businesses through the customer’s use of Zeit intercoms. Of course, the 1989 withdrawal of their major foreign competitor, Bailey Controls of Boston, USA, certainly helped. Early versions of time recorders also provided auxiliary (and very profitable) sources of revenue such as proprietary paper time cards specially printed to accept time records. Overtime though, as time recorders became more electronic and particularly as data began to be processed by download to computers, this “gravy” declined in
importance. Exhibit 2 shows details of time recorder, auxiliary businesses and the declining level of intercom rental operating margins over most of the 1990s.

**DOUBLING THE BET: 100% of ZEIT AND A FIVE-BULLET STRATEGIC PLAN.**

On the cool rainy evening of August 12, 1998 George sat in his favorite restaurant, Pedemonte, on Avenida de Mayo awaiting the arrival of Richard Brown, the eldest son of his brother Jerome. Over the past two years, Jerome, in declining health, had gradually withdrawn from the day-to-day management of Zeit, leaving George

(The remainder of this case along with Instructors’ Notes is available on request. For a copy please send your e-mail address to: paul.s.marshall@widener.edu)