Team 8

Ethics Team Case: Espresso

Alka Kohli * Amy Junguzza * Chris Lopez * Jeff Harakal * Karen Gehers

A world-renowned confectionary company founded the Espresso system of premium coffee in 1986. The three products of the system are the Espresso Club, Espresso machines and Espresso capsules. The brand and system are based on an image of exclusivity and delivering the perfect cup of coffee for the ultimate coffee experience each time. As part of the exclusivity of the brand and the Espresso business model, the capsules are not sold in retail stores, which may delay a customer's purchasing decision or turn them to a competitor whose coffee blends are available in stores. To overcome this obstacle, Espresso has developed a demonstration program where potential customers can sample the coffee to generate interest in the product and the club.

The demonstrators receive supplies such as coffee, sugar, stirrers, cups and brochures from Espresso each month. The supplies are based on store volume and are requested by the regional sales manager as needed. The supplies are to be used for demonstration purposes only and other uses could be considered stealing and could jeopardize a continued relationship with Espresso.

The Regional sales manager is beginning to notice some ethical issues with the demonstrators and their use of the demonstration supplies. Some customers are hesitant to make a purchase because they would have to wait two days before getting a supply of coffee. To close these sales, some store associates and managers are giving away sleeves of coffee as an incentive to close the deal. A customer may come to the store at the last minute looking for capsules for a dinner party or event and cannot wait the two days to receive the capsules if they order them. Some stores are giving these customers Espresso capsules to keep them happy and coming back to their store instead of going elsewhere. The final issue is that demonstrators and store associates are treating the capsules as their own personal supply and using them whenever they take a coffee break.

The regional sales manager is faced with the ethical decision of reporting the store associates and managers for their use of the coffee capsules or allowing them to continue. Espresso's primary goal, driven by their sales force, is to maintain customer satisfaction, generate more Espresso club members, and drive sales of the Espresso machines. The regional sales manager is concerned that reporting the sample use will have a greater negative impact on the relationship with the demonstrators and thus affect future sales of the machines and capsules. The opposing concern is for the rights of Espresso and their property. In this paper, we will address several alternatives that are available to the regional sales manager. Each alternative decision will be discussed based on ethical theories. We will then provide a recommendation for the regional sales manager.

The store associates and managers are clearly violating Espresso company policy by providing unapproved samples to customers and treating the coffee as their personal supply so the first option would be to report them to headquarters. Morality is a necessary condition for the very existence of society; without this, there is chaos (J. McCall, 2013). Moral theory works to counteract self-interest and has a system of rules with a focus on conditioning behavior. Rewards encourage behaviors while punishments discourage behaviors. The alternative to report the sales associates to the Espresso headquarters mirrors a more civilized society's policing system. Rules and regulations monitor behaviors and when violations occur, authoritative figures step in to provide justice. In this case, the violations involve a derivative right; specifically, the common right of ownership of property (DesJardins, J. & McCall, J., 2005).

The decision not to tell Espresso headquarters how their samples are being utilized would be like turning a blind eye. The concept from Kant that argues a duty, such as notifying Espresso, is easily possible and therefore, it can be required (DesJardins, J. & McCall, J., 2005). Since the regional sales manager can bring awareness to the misuse of the samples. By not doing so is the same as allowing store associates to misuse samples. The store associates can will loyalty to Espresso by using the coffee samples as directed. This implies that they have the ability to exercise self-control and not enjoy the coffee themselves on breaks or give it away carelessly to customers who did not manage their coffee ordering well as a means to justify the ends of making a customer happy (DesJardins, J. & McCall, J., 2005). The Rights Theory of morality would also support the interest of the person. In this case, potentially the personal ethics of the regional sales manager who has a free will that would allow the regional sales manager to promote the reporting of the practice of the store associates and manager as a clear violation of company policy (DesJardins, J. & McCall, J., 2005).

Another option would be to allow the store associates and managers to continue their current practice of use and distribution of the capsules. This could be justified under the philosophy of the “means justify the ends”. The objective is to sell Espresso machines and capsules and increase the number of club members, as well as to have happy employees.

Additionally, Utilitarian Moral Theory suggests that we should "look beyond our own happiness and to the happiness of all who will be affected by the planned action" (therefore making it a consequentialist theory) (DesJardins, J. & McCall, J., 2005). It also asserts that we "estimate the number of interests affected and the intensity of those interests" (DesJardins, J. & McCall, J., 2005). As such, the alternative supports allowing the store associates and managers to continue their practice. The incentive for the sales manager to not address the problem with the store associates would be in efforts to keep an amicable relationship. The reasoning here would be that a good relationship would yield trust and encourage a shared motivation to please the customers. The regional sales manager could reason that the end result of satisfied customers and associates is the intent of the samples. Building brand equity is accomplished with this practice although it does not occur as intended by Espresso headquarters. In this Utilitarian reasoning, the "end justifies the means" (DesJardins, J. & McCall, J., 2005). Everyone is happy with the end result– the customers, since they get the free samples and don't have to wait; the store associates and managers since they get free coffee for breaks and also maintain high customer satisfaction and have high Espresso machine sales; and finally the Espresso company as a result of an increased customer base and higher Espresso machine sales, resulting in higher revenues. The Utilitarian Theory only measures the aggregate consequences. As long as we are able to create a net increase in happiness through the summed satisfaction based on stakeholders' needs, it is acceptable (DesJardins, J. & McCall, J., 2005).

The third option would be for the sales manager to allow the store associates and managers to continue to provide free samples to customers but with some adjustments to the system. Sales associates are ignoring Espresso's right to choose how the company would like to use its coffee samples. Espresso gives these samples away freely with the agreement between Espresso and the distributors (in this case the retail stores) that these samples are to be given to customers. Although they do not get an immediate monetary exchange, this practice is expected to support increased coffee sales in the near future. In exchange for free samples, Espresso is getting consumer loyalty. When these samples are not given to consumers, but rather used up by the store employees, Espresso is not benefiting from consumer loyalty. Allowing Espresso's headquarters to be aware of the misuse of samples, gives the company control of the solution and the opportunity to adapt their policy to address their needs. A structure could be devised to incentivize the demonstrators and sales associates to gain samples through sales by basing the number of samples they may receive on the volume of their sales. As part of this new system, top-selling retailers could be additionally rewarded with samples to enjoy during their breaks. This would help reinforce the concept that the samples are meant for consumers and not for the employees' personal use. This structure could also include accountability so that when samples are given to the store, there is a process whereby samples given to customers are logged so there is better accounting of inventory.

The reward system in this alternative also aligns with an advanced society's policing system. For every positive behavior measured by sales outcome, Espresso can reward the sales team by allowing them to use samples in a celebratory fashion. Indirectly, sales associates are becoming aware that coffee samples are not to be taken for personal use on a regular basis. When the sales associates take the samples without permission they are doing harm to Espresso's profits.

Before making a final decision regarding the best alternative, the team also went back and reviewed Espresso's Code of Business conduct so as to ensure that any decision offered would be in line with the company's own policies as well as philosophy. What we found is that the Code of Business Conduct clearly outlines that employees should be guided by the following basic principles: Avoid any conduct that could damage or risk Nestle or its reputation; Act legally and honestly; and put the company's interests ahead of personal or other interests. In fact, the actual Code as written, highlights the following:

- We insist on honesty and we respect the Company's assets and property
- We condemn any form of bribery and corruption
- We compete and do business based only on quality and competence
- We take responsibility for ensuring that we all act with integrity in all situations

It is therefore both with the discussion of what is the most ethical alternative as well as company's own Code of Business Conduct that we reached the decision outlined below.

The Morally Superior Alternative

The analysis of all three likely decision alternatives led to the morally superior alternative picked by the team and this was to recommend that the regional sales manager report the store associates and managers to Espresso headquarters as they are clearly violating company policy both by providing unapproved sampling to customers and treating the coffee as their personal supply. The samples are the assets owned by Espresso who have the right to know how the samples are being utilized. Being ethical is very different and separate from being strategic or managing well. In this case, the shareholder is interested in the profits generated by the sale of Espresso coffee products. The stakeholders, or employees of Espresso, further their interest in Espresso by doing well in sales. They have careers and other personal obligations relying on the fact that Espresso is and will remain a profitable company. The regional sales manager must look beyond her district's sales figures and think about what is best for his/her career path as well as the well being of the stakeholders. On the one hand, keeping the sales associates happy with a steady free supply of coffee samples would most likely grant positive reviews of the manager's performance. A positive performance review would likely help the regional sales manager advance in his/her career. The regional sales manager could even reason that positive impressions of him/her can project on to Espresso; really benefiting the company overall. However, this is really not an altruistic reasoning as the sales manager is clearly ignoring the fact that Espresso headquarters intended the samples to be used on potential customers and not to be used to further his/her career.

However, the team felt compelled to offer some additional advice to the regional sales manager when reporting the activity of the sales associates and the managers to Espresso headquarters. The team thought that this was likely not an isolated event in the regional sales manager's territory and probably was also occurring in other territories. Since the regional sales manager was reporting a problem that was likely widespread, it was felt that she could also take the opportunity to suggest some solutions to the company. This would provide the chance to not only report a challenge that Espresso was facing, but to offer some viable resolutions to the predicament faced by the company.

The Espresso Company should consider implementation of a new sample tracking system through Espresso headquarters. The demonstrators would exchange free samples for information such as what samples the customer was given and what capsules they would be interested in to further their knowledge of Espresso. A record keeping system would help preserve retailer honesty and prevent the temptation of stealing. The records would be a black and white system of rules, norms, and principles controlling the sales associate's behavior in order to promote fair business practices and fair sample distribution to only potential Espresso customers. Furthermore, the record tracking would be a method of creating a standardized ethical standard. In the forefront of every sales associates mind when filling out the record would be Espresso's intended use of the coffee samples. Those associates who use Utilitarian reasoning that they are using a few coffee samples on their break but selling many more and therefore~~,~~ are not stealing, are faced with the reality of counting inventory and falling short when all samples are not accounted for as being given to potential Espresso customers. Espresso headquarters, which has the ultimate control, would have improved awareness of the use of their assets. Informed decisions regarding their samples would take in to account what is most beneficial to the company and customers. The tracking system would indeed allow readily available samples that would help promote overall sales and subsequently, all parties would reap a benefit. This information could also be used for marketing purposes.

A secondary discussion that the regional sales manager could have with Espresso is that, should they find that they are taking on unnecessary costs with decreased benefits, they should consider changing their distribution system. Espresso should consider adapting to the American market needs and sell coffee and supplies through retailers. That adaptation would ultimately benefit the customers, and in turn the shareholder and stakeholder, through easy availability of capsules thereby removing the obstacles that have led to the current unethical practices being observed by the regional sales manager and Espresso with cost savings. Espresso's concerns regarding the freshness of their coffee capsules, one of the reasons behind their current distribution methods, could be controlled with other approaches such as the introduction of expiration dates for capsules and utilizing the recommended tracking system to analyze sales of particular flavors in specific territories based on customer preferences. Exclusivity could also still be maintained by choosing "preferred" retailers. The team felt that this would not violate an implied contract with customers nor would it ultimately produce less revenue, as it would still retain the exclusivity of the Espresso brand.

This case provided an interesting challenge in that there are various ethical solutions that the team could have embraced based on the theories reviewed. Ultimately, the team made the recommendation based on morality being a necessary condition for the very existence of our society, both in business and personal decisions, as well as the supporting documentation we found in the company's own Code of Business Conduct.

Citations:

DesJardins, J. & McCall, J. (2005). Contemporary Issues in Business Ethics (5^{th} ed.) pp. 46, 79-83, 243-250. Balmont, CA: Wadsworth.

McCall, J. (2013). Ethics I [PowerPoint slides]. Retrieved from http://blackboard9.sju.edu