

Business and management

Case study: LadyA

For use in May and November 2015

Instructions to candidates

- Case study booklet required for higher level paper 1 and standard level paper 1 business and management examinations.

LadyA

Her real name is María Inmaculada Alejandra González Carroccio, but everyone knows her as LadyA.

In 1973 her parents fled Cuba and moved to Florida, United States (US), where they were granted political asylum. The Carroccios had limited savings but were determined to succeed. 5 Mr Carroccio thought that working independently and operating as a sole trader would be the best way to achieve financial security. He wanted to set up his own business, a small shoe repair shop in their Spanish-speaking neighbourhood in Miami. As his cash-flow forecasts were weak, he got turned down several times for bank loans; however, he managed to obtain a small grant from a government agency that helped entrepreneurs. Mrs Carroccio also had 10 difficulties at first, because she did not speak much English. She attended classes organized by a local charity, a non-profit organization whose mission statement was “to help all adult immigrants learn English”. She eventually found a job in the cafeteria of a local school. Although the wage was low, she received training and some fringe payments such as health insurance. With the profits from Mr Carroccio’s shoe repair shop and Mrs Carroccio’s wage, the 15 family eventually maintained an economically stable household.

In 1978 Alejandra, their first child, was born. Mr and Mrs Carroccio wanted her to have a normal American life. Although at home they mainly spoke Spanish with each other, they wanted Alejandra to speak English with them. They encouraged her to sing in choral groups, at school and at church, and they paid for her after-school dance lessons. Alejandra was a beautiful girl. 20 At the age of 12, she started getting occasional jobs as a model for local fashion catalogues and magazines. Her parents put her earnings into a college fund, a special savings account that would pay for her to attend university later. The modelling eventually led to small acting roles in films when production companies recruited in Miami. Then, in 1994, a casting director needed a young Hispanic American woman who could sing and dance in one scene in the film *La Bella Rosa*. The film proved very successful. Although her part in the film was small, it led to many 25 new opportunities for Alejandra.

Soon afterwards, a music label offered Alejandra a contract to produce a CD album. Unfamiliar with negotiation, Alejandra needed an agent. She found Gloria Woolrich, a local Hispanic woman who worked with Spanish-speaking performers. Because Alejandra was not 18 years 30 old yet, her parents had to sign the contract on her behalf. Gloria thought that Alejandra should target the Spanish-speaking market in the US; she promoted her as “Lady Alejandra”, a name that emphasized her Hispanic origins with a touch of elegance. Her first CD album, *Presentación Lady Alejandra*, included one song that reached number one in the music charts in Florida. Even with only one top hit, she earned much income from the copyrights and 35 royalties* from the CD album. For the first time, Alejandra needed an accountant to help her prepare her final accounts, manage the money, and pay the appropriate taxes.

Like most immigrant parents, Mr and Mrs Carroccio strongly emphasized education. When they first arrived in the US, they struggled to satisfy even basic needs such as food and shelter; only by working long hours did they achieve economic security. They believed that if Alejandra went 40 to university, she would have a better life. Although they celebrated her success with the CD album, they did not want music to distract her from her studies. Only with reluctance did her parents agree to a second CD album, *Viva Lady Alejandra*, which proved even more successful than the first one.

* royalties: payments made to the performer of the music and the songwriter by a third party, such as a radio or television station, each time the performer’s music is played in the public domain

45 In April of her final year at high school, Alejandra told her parents that she did not want to go to university: she wanted instead to move to Los Angeles in order to build a career as a musician. She wanted to be a star. Her parents were very disappointed. However, because she was now 18 they could not stop her. Alejandra left her previous agent, Gloria Woolrich, for a new one in Los Angeles: Ruth Liebermann. Ruth had successfully turned young stars into media sensations. She would help Alejandra with everything: buying an apartment in the most fashionable neighbourhood, recruiting household employees, getting agencies to establish concert tours, producing more CD albums, and, more importantly, promoting her.

55 Ruth explained to Alejandra that unless the product life cycle of music stars is carefully managed, it is often short. Alejandra needed a brand identity. Her revenue streams would be based on that brand. She would also develop strategies to extend the life of the product, which was Alejandra herself. Alejandra had an identity partly based upon her youthful and innocent look, her powerful voice and her Hispanic heritage. Ruth said that now that Alejandra was an adult, she needed to dress more like a young woman and less like a child. Nervous about this transition, Alejandra agreed to a more glamorous image. She began going to a famous hairdresser and style expert, Gavin Pratt. Soon, she had another revenue stream: appearing on the cover of high-profile fashion magazines.

65 Ruth also argued that Alejandra needed to be “less ethnic”. The US was rapidly changing demographically. The percentage of the American population that was Hispanic was small, but it was rapidly growing, thus expanding the Spanish-speaking American market. However, this demographic shift was creating a negative political reaction in the US. Focus groups showed that some English-speakers did not like the name “Lady Alejandra”. Ruth recommended a new name: just “*LadyA*” as one word, pronounced “lay-dee-ay”, with equally strong emphasis on the first and last syllables. It worked. By the year 2000, *LadyA* was one of the most successful musicians in the US. Popular with English-speakers, especially teenage girls and young women, she also appealed to many Hispanics. Even though all her songs were now in English and were popular in the mainstream music charts, Spanish-speaking Americans were still fans. They saw *LadyA* as a shining success story of a Hispanic American.

75 As *LadyA* grew more popular, both her revenue and expenses increased. By 2001, she was earning millions of dollars a year from CD album sales, concerts, magazine covers, and music videos. She employed a full-time accountant to help manage her revenue and all the many expenses of her new life. For her work, she employed a band, a group of dancers, and a variety of musical and video technicians. She asked Gavin to join her full time in order to plan all aspects of her clothing, make-up, and hairstyle. For her concerts she also had an events manager who arranged bookings of venues and hotels, and who hired a company specializing in logistics, who transported equipment and set up the stage at each concert location. These were her core employees. Temporary employees were needed at each venue to help set up the venue and stage. She had many peripheral employees for her increasingly extravagant personal life: two personal assistants, two housekeepers, one chef, one personal trainer, one driver, and one chief bodyguard, who supervised six bodyguards. She was very inconsistent in her style of leadership with her employees. Sometimes she was very direct, giving detailed instructions and getting angry if they were not followed exactly. At other times, she adopted a more laissez-faire leadership style. The employees never knew what to expect. Communication was poor. Although working for a superstar had exciting moments, the employees frequently complained behind her back, mockingly calling her “*la princesa*”.

90 Alejandra originally operated as a sole trader. However, as the business grew it became clear that she needed the protection of limited liability and so she changed the business to a private limited company, *LadyA Management Limited (LAM)*. Alejandra herself owned 98% of the shares in *LAM*. Her parents and Ruth Liebermann owned the remaining 2%.

95 Technology was changing the music industry. In 2000, online file sharing software became widely available. Though the file sharing of copyrighted material was usually illegal, many people did it anyway, especially young people. The sales of CD albums began to fall. This trend continued with the emergence of other new technologies such as MP3 players and smartphones. Another important technological change was video hosting websites, which effectively ended the direct profitability of music videos. Before video hosting websites, musicians received royalties for videos that appeared on television. Now, artists such as *LadyA* 100 had to produce their own videos and upload them to video hosting websites. These productions were expensive, but did not generate any direct revenue.

The definition of a successful musician was also changing. With falling sales revenue from music (a problem made worse by the economic downturn that began in 2008), artists had to transform themselves into “media personalities” and find ways to generate revenue from these 105 branded identities, just as Ruth had predicted. In 2009, *LadyA* started appearing in many above the line and below the line promotions of various types of products. *LadyA* was always very careful about which products she endorsed. Each one had to strengthen her brand identity as a beautiful, mainstream American, yet one with Hispanic passion and intensity. She also began communicating with her fans through various social networking websites.

110 In 2010, *LadyA* started offering her own product line of perfume and cosmetics, promoted under the name *LadyA*. Primary and secondary market research had showed that perfume and cosmetics would best connect with *LadyA*’s established brand and help her reach her main target market: teenage girls and young women. The production of *LadyA* perfume and cosmetics was outsourced, to an established manufacturer in Malaysia, where costs were 115 much lower. Quality control could, however, be a problem. The Malaysian manufacturer would produce *LadyA* perfume and cosmetics using batch production which would enable a variety of products to be made; *LadyA* would have to pay 60% of the costs in advance. The wholesaling and distribution was also outsourced, to a company in Minnesota. By 2011, *LadyA* perfume and cosmetics were sold in a nation-wide chain of department stores in the US.

120 At the same time, Alejandra decided to reorganize the business. She continued to manage all of her household employees personally. She appointed a Managing Director, and a Human Resources Manager to assist in workforce planning and manage the rest of the business. She delegated some business functions, but kept a very close interest in all decisions through her meetings with the Managing Director. One benefit of this reorganization was that, with clear 125 roles, systems and procedures in place, Alejandra’s employees complained less.

On a personal level, 2012 was a big year for Alejandra. She married Rafaele Eco, an Italian investment banker, and they purchased a large mansion in Hollywood, requiring an even greater number of peripheral employees. Over the next few years, *LadyA* was at the peak of her media power, wealth, and fame. She was more mature and business-oriented than when she was 130 in her twenties. Her leadership style had matured as well. She became more consistent and paternalistic.

Now she began to think about the next phase of her career and her life. She was approaching her late thirties. In the US, many female musicians and film stars struggle to remain popular in their forties: modelling jobs are harder to get; girls and younger women typically prefer younger musicians and stars; and the idea of selling youthfulness becomes more difficult as women grow older. *LadyA* hired business consultants, *Kersey & Joyce (K&J)*, who specialized in the strategic direction of brands, to help her consider her options. *K&J* identified three strategic options in their report to *LadyA*.

Option 1: Move into South American markets, which generally accept older female musicians and film stars. Ever since Lady Alejandra became *LadyA*, she had focused on the English-speaking market in the US. Though she had some fans in Spanish-speaking markets, she had never made them a priority. For those markets, *LadyA* would start using the name Lady Alejandra again, conduct a major concert tour in South America, and try to repeat her North American career, building an increasingly powerful name through music downloads (such as MP3s), concerts, films, product endorsements, magazine covers, and also perfume and cosmetics.

Option 2: Develop more products under the *LadyA* brand and develop a global market. A possibility is a clothing range. Other possible products include accessories such as *LadyA* shoes, *LadyA* handbags, and *LadyA* lingerie. These products could be distributed in the US through the same department stores selling her perfume and cosmetics. Other distribution channels would be required for the international market, with e-commerce offering many opportunities. Family branding would be maintained.

Option 3: Re-brand herself. With this strategy, *LadyA* would actually lower her media profile for three years. During that time, she would associate herself with a charitable cause, to tackle issues such as malnutrition in developing countries, homelessness in big cities, or international trafficking of children. She would use her wealth to set up various non-profit organizations to support the charitable cause, and utilize various techniques for marketing non-profit organizations. She would then appear on American television talk shows and do magazine interviews, building a new brand identity based on the image of a strong, mature, determined and compassionate woman. This would allow for new revenue streams to be sought based on this new brand.

Additional terms not in the guide

Brand identity
Core employees
Limited liability
Paternalistic
Peripheral employees
Revenue streams

Companies, products, or individuals named in this case study are fictitious and any similarities with actual entities are purely coincidental.
