CINTAS® READY FOR THE WORKDAY™

# Towson University College of Business and Economics
# Fall 2016 Case Competition

## Introduction

Cintas Corporation helps more than 900,000 businesses of all types and sizes get **Ready™** to open their doors with confidence every day by providing a wide range of products and services that enhance our customers' image and help keep their facilities and employees clean, safe and looking their best. With products and services including uniforms, floor care, restroom supplies, first aid and safety products, fire extinguishers and testing, and safety and compliance training, Cintas helps customers get **Ready for the Workday™.** Headquartered in Cincinnati, Cintas is a publicly held company traded over the Nasdaq Global Select Market under the symbol CTAS and is a component of the Standard & Poor's 500 Index.

## Cintas Baltimore

Cintas' Baltimore location is one of Cintas' most successful locations and it is experiencing near all-time highs in both growth and net income. In recent years, Cintas Baltimore has experienced eight percent annual revenue growth and a 20 percent growth in net income. It is the winner of 6 consecutive Outstanding Achievement Awards, which is the highest honor a Cintas location can achieve, and it consistently ranks in the top 10 percent of Cintas locations in terms of its financial performance.

Cintas Baltimore serves regional uniform and floor mat rental customers and offers a direct sale catalog which advertises additional products for purchase. With close to 200 employees (called 'partners'), the location in Baltimore handles uniforms, floor mats, restroom supplies, and floor cleaning for approximately 5,000 customers in the Baltimore metropolitan area.

In light of its success, Baltimore Cintas is well positioned to pursue continued improvements and growth. It is currently investing resources toward updating its inventories and uniforms, renovations, new trucks, and improved technologies (including an on-going conversion to SAP software). Though it is provided support from corporate headquarters, Cintas Baltimore has autonomy regarding its local business initiatives and it has flexibility to modify the foci of existing employee's work. Cintas Baltimore has developed a 'Management Trainee' program through which it has great flexibility to attract new talent to the company and pursue strategic initiatives.

**Regional Growth Opportunity in the Catalog Line of Business**

Cintas Baltimore views its catalog line of business as an important area for future growth. Although the catalog division has been around since the 1990s, only twelve percent of Cintas Baltimore's existing customers utilize Cintas Baltimore's catalog services. However, the impact of these relatively limited catalog sales is substantial considering that catalog sales account for one million dollars of Cintas Baltimore's total annual sales.

The catalog line of business offers customers items such as hats, safety shoes, jackets, and polo shirts that can be customized with company logos. The catalog also offers brands ranging from Under Armour to Nike. Cintas has a 100% satisfaction guarantee on all orders. If customers are not happy, Cintas will make it right or refund customers' money. The link to the online catalog is available here: *Spring Sourcebook.* Additionally, Cintas has a promotional products line that is available at this website: *www.cintaspromoproducts.com*.

Cintas Baltimore's Service Sales Representatives ('SSRs') work directly with customers to promote the catalog and establish customer loyalty across Cintas' different lines of business. In an effort to incentivize SSRs to establish long-lasting comprehensive relationships with customers that include catalog sales, SSRs directly receive a commission percent from their catalog sales.

The attached excel spreadsheet includes two tabs of industry-level data regarding Cintas Baltimore's catalog sales. One tab lists 'all customers,' and the other tab lists 'all customers who bought direct sales.' Note that some columns are the same on both tabs and that industry codes are included.

Rely on the attached spreadsheet to review the list of customers that purchase from the catalog and identify industries/opportunities for growth in the catalog line of business. Employ the tools of strategic management to evaluate the strategic fit of Cintas' catalog line of business and its related growth potentials and resource constraints. Based on this analysis, and relying on a budget of $15,000 per year, propose a 3-year strategic plan to increase catalog sales in the industries with low catalog sales. Be aware that any promotional materials created by Cintas Baltimore must adhere to the brand standards that are provided in the attached 'Cintas Brand Template' document.

**Evaluation Criteria**

**(1)** ***External and Internal Analyses & Recommendations (30%):*** Provide an external and internal analysis of Cintas Baltimore's catalog line of business. Evaluate areas of alignment/misalignment (strategic fit) between the catalog line of business and the organization's overall corporate strategy. Based on these analyses, provide a comprehensive strategy for the catalog line of business that spans three years. This should include milestones that you hope to accomplish over that time period.

(2) ***Tactics (30%):*** Identify specific tactics you will use to accomplish your strategy. What will you do to accomplish your milestones?

(3) ***Threat of Imitation (10%):*** Explain why competitors in this line of business will find it costly to imitate this strategy.

(4) ***Resource Requirements (10%):*** Specify the resources that are needed to support your strategy. These should be feasible. Be mindful of the resources your strategy will require (capital expenditure, staffing requirements, etc.). Total budgeted resources across the three-year period cannot exceed ***$45,000 ($15,000 per year).***

**Company Background**

***Cintas Corporation's Fiscal 2016 Fourth Quarter & Full Year Results***

Revenue for the fourth quarter of fiscal year 2016 was $1.27 billion, an increase of 11.3% over the prior year period. Organic growth, which adjusts for the impacts of acquisitions, foreign currency exchange rate fluctuations and workday differences, was 6.7%. Operating income for the fourth quarter of fiscal year 2016 of $202.9 million increased 14.2% from the prior year period. Operating income margin improved to 16.0% from 15.6% of revenue in last year's fourth quarter.

Net income from continuing operations for the fourth quarter of fiscal 2016 was $118.0 million compared to $100.6 million in the prior year period, and earnings per diluted share (EPS) from continuing operations for the fourth quarter of fiscal 2016 were $1.08 compared to $0.86 for last year's fourth quarter. Fourth quarter of fiscal 2016 net income and EPS from continuing operations increased 17.3% and 25.6%, respectively, compared to the prior year period. Net income from continuing operations as a percent of revenue improved to 9.3% from 8.8% in last fiscal year's fourth quarter.

Scott D. Farmer, Cintas' Chief Executive Officer, stated, "This year we initiated our first national branding campaign and introduced our new tagline, **Ready for the Workday™**. This new tagline communicates the value we provide our customers by addressing their business needs with our broad range of products and services. Our fourth quarter results are a reflection of the success of our employees, whom we call partners, in being **READY™** for our customers. I'd like to thank our partners for delivering industry-leading growth rates and operating income margins and a significant increase in EPS."

For the fiscal year ended May 31, 2016, revenue was $4.90 billion, an increase of 9.6% over the prior fiscal year. Organic growth was 6.7%. Operating income for fiscal year 2016 of $781.7 million increased 12.3% from the prior fiscal year. Operating income margin improved to 15.9% from 15.6% of revenue last fiscal year. Net income from continuing operations was $456.9 million compared to $410.5 million in the prior year period, and EPS from continuing operations for fiscal 2016 were $4.09 compared to $3.46 for last fiscal year. Excluding a non-recurring gain in the first quarter of fiscal 2015 of $13.6 million or EPS of $0.11, fiscal 2016 net income and EPS from continuing operations increased 15.1% and 22.1%, respectively, compared to the prior year period. Net income from continuing operations as a percent of revenue improved to 9.3% from 8.9% last fiscal year, excluding the prior year non-recurring gain.

"I am proud to report that we achieved record revenue and EPS in fiscal year 2016," added Mr. Farmer. "We have increased EPS by double-digits in six consecutive years. Our balance sheet and cash flow remain very strong. In addition, I am pleased with our continued ability to deploy cash to many priorities. In fiscal 2016, those priorities included capex and strategic investments like our SAP project and new branding campaign; acquisitions in our Uniform Rental and Facility Services, First Aid and Fire businesses; a 23.5% increase in the regular dividend; and the repurchase of shares under our buyback program at an aggregate cost of $759.2 million."

Mr. Farmer concluded, “We expect fiscal 2017 revenue to be in the range of $5.150 billion to $5.225 billion and fiscal 2017 EPS from continuing operations to be in the range of $4.35 to $4.45. This guidance does not include any potential deterioration in the U.S. economy or share buybacks. It does include our expectations for our continued SAP system implementation and the impact of one less workday in fiscal 2017 compared to fiscal 2016.”

The table below provides a comparison of fiscal 2016 revenue and EPS from continuing operations to our fiscal 2017 guidance.

| | Fiscal 2016 | Fiscal 2017 Low End of Range | Growth vs. Fiscal 2016 | Fiscal 2017 High End of Range | Growth vs. Fiscal 2016 |
|---|---|---|---|---|---|
| Revenue (dollar amounts in millions) | $4,905.5 | $5,150.0 | 5.0% | $5,225.0 | 6.5% |
| EPS from continuing operations | $4.09 | $4.35 | 6.4% | $4.45 | 8.8% |