

ARTHUR ANDERSEN & Co, SC

**BUSINESS ETHICS  
PROGRAM**

Natural Cereals Case

Marketing

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## NATURAL CEREALS

### SITUATION I

Breakfast Foods, Inc. (BFI) is a national manufacturer of food products with three dry cereal divisions—children’s, family, and natural. BFI also sells frozen breakfast entrees such as waffles and pancakes.

BFI’s marketing department has just hired three assistant branch managers. One of these, Sally Thompson, received her MBA from a major Midwestern university. Before joining BFI, Sally spent two years with the marketing group of a large food manufacturer. Although her experience at the former firm was educational, Sally often felt frustrated by the lack of responsibility.

Moving to BFI was good for Sally. BFI is a decentralized, progressive company, and management believes in giving people significant responsibility as soon as possible. Sally learned early that BFI management is quick to reward success but does not tolerate those who do not accept responsibility and its ramifications.

#### *The Assignment*

Sally’s first major project is to improve market share in the adult cereal market through advertising and labeling strategies. Her charge is to suggest a new or modified marketing campaign for the Natural Cereals Division. Natural Cereals’ brands are Fiber Rich, Bran Breakfast Flakes, Natural Bran and Bran Bits. Sally is excited. This project allows her to work with two of the marketing department’s best professionals, Tom Miller and Joe Bradley.

Tom Miller, a group product manager for the Natural Cereals Division, is a twenty-year veteran of BFI and has greatly influenced company policy. Tom is well known throughout BFI as a fair, yet demanding, manager with a high degree of integrity. He transferred from the Family Cereals Division five years ago, having made his reputation as the product manager for Winkies, the number two brand in the company. Since Tom’s time is limited, he assigned Joe Bradley to informally supervise Sally on this project.

Joe, recently promoted to product manager, has been with BFI for four and one-half years, most of which were spent in the Family Cereals Division. His best-known campaign was for Sparkles, a children’s cereal. Joe joined forces with a well-known toy manufacturer to give away a miniature character toy with each box of Sparkles. The box also contained an order form so parents could purchase the remaining set of characters directly from the manufacturer. This campaign increased market share of Sparkles by 10 percent. Sally knows she can learn a lot from Joe. She also knows he is Tom’s friend and protege. Sally suspects Joe will one day take Tom’s position.

Another reason this is the perfect project for Sally is the fact that she is extremely health conscious. She believes too many cereals contain excessive amounts of sugar, which can encourage unhealthy eating habits in children and adults. An avid reader of health food literature, she has seen a number of scientific studies showing a correlation between high fiber and cancer reduction. For example, people who have a diet rich in fiber tend to have a significantly lower incidence of colon cancer.

Sally is well aware of the public’s fear of cancer and has faced the trauma of cancer herself. She had a lump removed from a breast only a year ago. Fortunately, it was benign. Her father was not

so lucky. Three years ago he succumbed to lung cancer. Sally believes cancer shortens lives and, given the agonizing deaths it causes, leaves severe emotional scars on surviving family members. She has such scars, as well as considerable anxiety about her own fate. She is committed to doing whatever she can in the war against cancer.

### *Competitive/Market Analysis*

After consulting Joe, Sally examines a file of articles compiled by her predecessor about competitors in the cereal industry. The articles point out that intense industry competition is due to strong brands and high levels of advertising. Competitors spend \$75,000,000 on advertising, two-thirds of which goes for television commercials. The good news is that adult ready-to-eat bran/fiber cereals grew twice as fast as the market, and sales increased over 20 percent last year.

In 1984, one competitor launched the first health claims advertising campaign for any food product-its high fiber bran cereal. The company included information from the National Cancer Institute (NCI) on its packages and its advertising copy, which it had worked out in advance with NCI. The claims linked a specific product with the prevention of a particular disease-cancer. Although the Food and Drug Administration (FDA), which has jurisdiction over health claims, was not completely happy with this ad campaign, they did not block the ads. The following statement appeared on the back of the company's cereal box:

The National Cancer Institute believes eating the right foods may reduce your risk of some kinds of cancer. Research evidence indicates high fiber foods are important to good health. High fiber foods, like bran cereal, are considered to be part of a healthy diet. Bran cereals are one of the best sources of fiber.

Also, this competitor's television ads made the following claim:

Cancer! It doesn't worry me as much since I learned that I can fight back by a healthy diet. The National Cancer Institute believes a high fiber, low-fat diet may reduce your risk of some kinds of cancer. High fiber is important to a healthy diet, just like training is important to an athlete. I run, bike and swim regularly. But that isn't enough. They say it's a matter of eating right too. My health is really important, so I made some changes, like eating foods high in fiber.

This campaign proved quite effective. Annual sales of the company's cereals grew from \$2,100,000 in 1983 to \$2,800,000 in 1985. Sally found a study in *Public Health Reports*<sup>1</sup> that examined the effect of this campaign on sales. The article showed that in the 24 weeks following the start of the health claim campaign, there was a sharp increase in sales of this competitor's high fiber cereal. Its share of the total cereal market rose from .99 to 1.46 percent, a relative increase of 47 percent. This competitor followed up its initial campaign with other campaigns that made health claims for its other high fiber cereals. Since 1984, the competitor has increased its advertising by one-third and introduced six new brands aimed at adults. These ads using the cancer preventative message were rather controversial. Certain people objected to the ads because they did not say what kinds of cancer they were referring to and how much of the cereal you had to eat. This statement by Dr. Timothy Johnson (medical director for a major television network) on a "Nightline" program raised several additional questions.

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<sup>1</sup> Levy, Alan S. and Stokes, Raymond C. "Effects of Health Promotion Advertising on Sales of Ready-To-Eat Cereals." *Public Health Reports*, July -August 1987, p. 398 - 403.

...when it comes specifically to diet and cancer connection, there is considerable uncertainty. I spent several months this past year looking very carefully at this hypothesis and talking literally to cancer experts all over the world, and found that opinion was divided and that the studies were inconsistent. Now, the language of the ... ad is really quite accurate. It says, 'Some studies suggest that it may ....' Problem is, there are other studies that suggest it may not. And the evidence is there for inconsistency. Now, you might say, so what? It's a diet that won't hurt, it may help, why not hedge our bets? And I really don't have any problem with that approach, but I do have two further concerns. One is that we may squander our scientific credibility in suggesting certainty where it does not exist, and then when we come to the public and really need to talk to them, they may not believe us. And I worry about what may happen on the fringes, not so much with the . . . ad but in health food stores or in other ways in which products and pills and books are promoted as a surefire answer to cancer with a particular diet program.<sup>2</sup>

Another competitor has also jumped on the fiber bandwagon by introducing four new high fiber products. It has promoted its brands with a health claim using a variation of the initial NCI message on the back panel of its bran cereal package. Although this strategy did not increase total sales, the company was able to hold its market share position.

In studying company and trade data, Sally finds that Breakfast Foods, Inc., has lost two percentage points since 1985 and that its overall cereal market share is currently 14 percent. This is far behind the 40 percent share of the market leader and somewhat lower than its main competitor, which holds 20 percent. The data confirms the company has been losing market share to competitors that make a connection between high fiber cereals and a possible reduction in the risk of getting certain kinds of cancer.

Prepared with these facts and figures, Sally schedules a meeting with Joe. She knows the approach she wants to take but decides it would be best to get Joe's advice before developing her preliminary ad campaign.

### *Preliminary Ad Campaign*

As Sally enters Joe's office, he holds up her analysis summary. "Good work, Sally! Your analysis makes the picture clear. We've got to move before our market share drops any lower, and a health-oriented campaign is the way to go." Joe leans back in his chair, clasps his hands behind his head and motions for Sally to have a seat.

Sally, pleased by Joe's support, replies, "I think the best approach is to follow our competitors' general strategy. People simply don't know enough about their health. Cancer isn't something to take lightly. People need to become more aware of..."

Footnotes

"You're right," Joe interrupts. "A hard-hitting health campaign is what we need. We've probably benefited from the bran-cancer connection indirectly. Making it official with a clear, powerful message should benefit us even more. What we don't want to do, though, is waste our efforts. Tom just sent this memo to us." Joe slides an open trade report across his desk.

Sally picks up the report and reads the part circled in red:

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<sup>2</sup> Transcript of *Nightline*, Show #1181. December 2, 1985, ABC News.

It costs just as much to run a lousy commercial as a good one. More than most products, cereal is “marketing sensitive”; that is, dollars spent on mediocre marketing simply fall into the void, while the same amount spent on a well-aimed pitch can dramatically increase sales.<sup>3</sup>

“This is what it’s all about, Sally. We have to come up with a blockbuster campaign for Natural Cereals. Otherwise, we’re going to lose our shirts. Let’s meet with Tom to get his input. I know he’ll support our approach 100 percent.”

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<sup>3</sup> Quoted in Pamela Sherrid, “Fighting Back at Breakfast.” *Forbes* October 7, 1985, p.127.

## NATURAL CEREALS

### SITUATION II

#### *The Meeting*

Fortunately, Sally and Joe were able to schedule a meeting with Tom for that afternoon. As they walk into Tom's office, Sally feels a little uneasy. She remembers Tom's comments over lunch last week. He had made it very clear he feels marketing and advertising must be truthful as well as persuasive. Sally wonders whether Tom will be concerned by the objections to the competitor's campaign she had read during her analysis.

"Well, this was quick work!" Tom says, "I'm glad to see you've come up with some ideas already. You got my note, I assume. This is going to be one tough campaign—we have to make it count."

"Yeah," says Joe, "Sally has worked around the clock on this. I think you will be pleased with what we've done." Joe smiles and turns to Sally.

Tentatively, Sally begins. "I've read a lot about bran cereals, and it looks like our major competitor has been quite successful. We can build on the health claims they've started. We really wouldn't be providing a new message, but it seems clear health claims will sell."

Tom leans back in his chair, closes his eyes and pauses. After what seems like an eternity to Sally, he says, "I don't know. That's an interesting approach, but it isn't the only one. I'm pretty hesitant about all this new emphasis on health claims. I'm not sure our competitors are presenting the whole picture."

Joe jumps in. "I agree, Tom. I spent a lot of time pondering this issue. But Sally convinced me. I think a carefully developed health campaign is the way to go."

"Well, Sally," says Tom, "I'm not saying no. You've obviously done your homework. But I want to make sure you consider the implications. You know the FDA has been looking into this matter and has issued a directive." Tom rummages through his file drawer, hands Sally a folder and continues, "Take it and read it. Then come back next Monday with several campaign options. You've put a lot of effort into this so far. Now let's just take some time to consider the alternatives."

#### *Campaign Options*

Sally goes to work immediately. From the information Tom gave her, she finds that in November 1987, the FDA proposed regulations allowing manufacturers to print messages on food labels about the health benefits of their products. Specifically, the FDA listed four criteria for evaluating health related claims and information on food labeling:

1. Information on the labeling must be truthful and not misleading to the consumer.
2. Information should be based on and be consistent with valid, reliable scientific evidence that is publicly available.
3. Available information regarding the relationship between nutrition and health shows that good nutrition is a function of total diet over time, not of specific foods.

4. The use of health-related information constitutes a nutritional claim that triggers the requirements of FDA's regulations regarding nutrition labeling.

The next morning, Sally makes a copy of the criteria and heads for Joe's office to get his thoughts. After reading over them Joe is silent. He shakes his head slightly and says, "I'm not sure these criteria will have any impact on our plans."

"Well," says Sally, "I think we might want to tone down our approach a little, don't you?"

"Not really." Joe smiles. "I did a little research myself last night and I learned the Federal Trade Commission, which regulates advertising, is pretty sympathetic to our competitors' ads. They believe the claim that some people might actually avoid cancer of the colon or rectum by eating their cereals is generally accurate. I think the FTC would allow advertising claims based on this labeling information."

"I don't know how seriously we should take the FDA's position, Joe. But, I do know we should stick with the health orientation. Let me think of some specific options and I'll get back to you."

"Okay, it's your show." "But," says Joe, "keep in mind we can't blow this campaign. It's got to have an impact."

Sally feels uneasy as she leaves Joe's office. She knows Joe is right. Her career is at stake. This is a highly visible campaign. Yet, she knows Tom is right too. She starts to think of ideas for her marketing campaign. The FDA proposal would allow her to coordinate packaging and advertising, and that would give consumers a consistent message.

### *Advertising and Packaging Options*

To determine the best approach, Sally plans to develop several advertising and packaging alternatives for the natural product line. She will take the alternatives to Joe to see what he thinks. She just received from the research department the cereal's side panel containing nutritional and ingredient information (See Appendix 1). Now she has to work on the marketing options.

Besides the ad linking high fiber cereals with cancer risk reduction she reviewed earlier, she found a recent ad for another product noting it was high in Vitamin B and provided an energy boost. As the first option, she thought of a possible hard-hitting strategy using the statement "Vitamin Enriched" on packaging and in advertising.

The report she recently received from BFI's research department indicated that Natural brands contained 13 essential vitamins and minerals. She would feel comfortable putting this on the package and in advertising. In closely investigating the side panel listing nutritional information, she finds that Natural Bran Cereal, by itself, contains no fat. She knows a large part of the market is conscious of the levels of fat in foods. This could be another good claim to make.

But there are problems. Sally knows that the vitamin content is similar in all bran cereals. She also knows from internal company documents that most Americans are not deficient in B vitamins, nor does the amount of B vitamins contained in the cereal give one instant energy.

The second option she thinks of focuses exclusively on the appeal of bran and fiber as possible preventatives to cancer. She learns from company records that the amount of bran in Natural Cereals has increased by 40 percent in the last two years. One label alternative is: "With 40

Percent More Bran.” Sally also knows this amount is equal to the most bran in any cereal. Therefore, another label or ad option is: “Containing the Highest Level of Fiber-Help prevent cancer by eating high fiber foods.” She could place these statements in large boldface print on the package label and use them in advertising. This would reiterate the competition’s strategy of linking cancer reduction with bran.

Another label she considers as part of this second option uses “natural” in the title for Bran Breakfast Flakes or Bran Bits. The slogan “Fiber for Health” is also a possible package label and advertising tag line. Although these two options would probably be most effective, the FDA criteria keep running through her mind. As a result, she develops a third option downplaying health claims.

Option Three would point out that her product is a high-fiber, low-fat natural food. The label and the ads would feature energetic, healthy, young people eating her breakfast cereals before an early morning tennis match. However, other traditional selling devices would be used, and the link to cancer reduction would not appear. From a marketing standpoint, she believes coupons on the back of the package might appeal to a broader market. She could also promote BFI’s new “Resealable Pack,” which allows the inside bag to be resealed for freshness. Other possibilities included discounts on a t-shirt and a cookbook featuring recipes using Natural’s cereals. All of this would add up to a broad-based marketing appeal without relying totally on fiber and health claims. She thinks Tom might like this approach.

Sally knows these ideas are somewhat sketchy, but she wants Joe’s input. She schedules a meeting for the following morning. She grabs a quick sandwich at the cafeteria and goes back to her desk to review her notes and reasoning for the meeting.

### *Evaluating the Options*

Joe listens quietly to Sally’s options. As she describes each, he jots down a few notes.

When she finishes, he simply says, “Combine Options One and Two.”

“But I’m not sure that’s the best way,” Sally begins “They are persuasive, but I think we should consider the implications.”

Joe shakes his head. “The implication is that you need to increase market share and increase it quickly. Option Three won’t do it. Options One and Two will. Everything we put on the package and the ads will be the truth. We could simply say Vitamin Enriched and Contains Vitamin B. We don’t need to say anything about Vitamin B and an energy boost. Plus, we know the FTC won’t object to cancer reduction claims.

There is nothing wrong with this approach. Besides, as you said yourself, we’re doing people a favor. It isn’t our responsibility to make people health experts. That’s not our job, but selling cereal is.”

Sally frowns, “What do you think Tom will say?”

“Look,” Joe responds, “I talked with Tom about this over dinner. He said, basically, what I decide goes. Even if he doesn’t agree totally, he won’t overrule me. Tom is an excellent manager but doesn’t have to concern himself with the details. The bottom line is that if we don’t go with a

hard-hitting campaign, we're going to lose our shirts. I've made my reputation around here, Sally. Now it's your turn. I want you to develop a full campaign combining Options One and Two."

Sally walks out of Joe's office. The project she wanted so badly isn't turning out the way she expected. She knows that technically Joe is supposed to just advise her, but could she realistically ignore his request? Besides, maybe he is right. What he said makes sense. Options One and Two are literally true. And is it her responsibility to make people health experts?

She sits down at her desk and begins to clear her mail. An envelope there from Tom contains a note and list of questions:

Sally /Joe:

Here are a list of questions I use to evaluate the legal and ethical impact of advertising I have done. Please look them over. We do not want any legal or pressure-group problems!

- Are your claims accurate?
- Do you have competent and reliable evidence to support your claims? It should be evidence that the scientific or medical community is willing to support.
- Have you disclosed important limitations or qualifications to the claims you have made about your product?
- Have you misrepresented or cited out of context the contents of a report or scientific study? Have you suggested there is a consensus of medical opinion on an issue when there is not?
- Have you suggested that a report is government sponsored when it is not?
- Is your advertising inconsistent with information on the label?
- Has FDA found the food ingredient in your product to be ineffective for your advertising purpose?<sup>4</sup>

Sally quickly scans the list. Exasperated, she phones Joe and blurts out. "Have you read the note from Tom?"

"Yes Sally, I did," sighs Joe. "I read it this morning, and my position is the same. We can answer yes to each question. Sally slowly replaces the receiver and thinks aloud, "Now what"?"

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<sup>4</sup> Dianne L. Taylor, "Health Related Food Advertising: 'The Time is Ripe for Change'." *Food Engineering*, December 1984, p. 21.

**Appendix 1  
Situation II**

**Each serving contains 10 grams of dietary fiber.**

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Nutrition Information Per Serving

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Serving Size: 1 OZ. (About 2/3 Cup) (28.35 g)  
Servings Per Package: 20

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	1 OZ (28.35g) Cereal	With 1/2 Cup (118 ml) Vitamin D Fortified Whole Milk
Calories	90	160
Protein	3 g	7 g
Carbohydrate	28 g	34 g
Fat 0 4 g	0	4 g
Sodium	230 mg	290 mg

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**Percentages of U.S. Recommended Daily Allowances (U.S. RDA)**

Protein	4%	10%
Vitamin A	25%	30%
Vitamin C	**	**
Thiamine	25%	30%
Riboflavin	25%	35%
Niacin	25%	25%
Calcium	**	15%
Iron	45%	45%
Vitamin D	10%	25%
Vitamin B6	25%	30%
Folic Acid	25%	25%
Vitamin B12	25%	30%
Phosphorus	15%	25%
Magnesium	15%	20%
Zinc	10%	15%
Copper	10%	10%

\*\* Contains less than 2% of the U.S. RDA of these nutrients

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**Ingredients:** Whole Wheat, Wheat Bran, Sugar, Natural Flavoring, Salt and Corn Syrup.  
**Vitamins and Minerals:** Iron, Vitamin A Palmitate, Niacinamide, Zinc Oxide (Source of Zinc), Vitamin B6, Riboflavin (Vitamin 82), Thiamine Mononitrate (Vitamin 81), Vitamin B12, Folic Acid and Vitamin D.

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**Carbohydrate Information**

	1 oz Cereal	With 1/2 Cup Whole Milk
Starch and Related Carbohydrates	13 g	13 g
Sucrose And Other Sugars	5 g	11 g
Dietary Fiber	10 g	10 g
Total Carbohydrate	28 g	34 g

## NATURAL CEREALS CASE

### Situation III

After two weeks of steady hard work, Sally developed a marketing strategy that included the best elements of options two and three. She limited the health message to the high fiber content in Natural's bran cereals. She did not imply that Natural's bran cereals had more bran than other competing bran cereals. She did indicate in a fairly cautious way that foods high in fiber had been linked in some studies to lower rates of some kinds of cancer. She also featured the new "Zip Pack" and included a coupon worth 35 cents toward the next purchase of a natural cereal product. Sally thought the marketing approach she suggested, and BFI adopted, combined an effective competitive strategy with a high level of business ethics. Package labels and advertisements were designed to avoid deception.

After three months BFI's market share increased three points. However, recent public criticism has prompted Tom to schedule a meeting with Sally and Joe to discuss Natural's campaign.

Before walking to Tom's office, Sally rereads the most recent magazine article about the Natural campaign. It says:

. . . Breakfast Foods, Inc. is the latest entry in the health claim craze. Advertisements for their bran cereal line exemplify how companies are jumping on the bandwagon to make often misleading or incomplete health claims. Even if a health claim is true, there are many details that can't be included in ads or on product labels due to space or time constraints. For example, nowhere on the Bran Breakfast Flakes label or in its ads does it say how much fiber people should eat nor what percentage of the recommended amount they would receive from eating a bowl of the cereal.

Also, advertisers forget to mention that general health, or susceptibility to a disease, is seldom a function of one foodstuff. A person's health is a function of one's total diet. Simply ingesting large amounts of one healthy food is not sufficient. An individual needs a completely well-balanced diet. If someone eats a high fiber cereal, but does everything else wrong nutritionally, that person may have a higher risk of cancer than someone who doesn't eat a high fiber cereal at all.

In the past year, health claims for foods have increased at a tremendous rate. Competitive pressures are forcing even reluctant advertisers to jump on the bandwagon. For example, a soup company ran the following ad:

Introducing fiber from the heartland. GRANDMA's has been making the finest bean soup in the county for years. Now GRANDMA's three-bean rich and savory soup is available to you and your family. Experts say GRANDMA's soup is high in fiber. The National Cancer Institute says that a diet high in fiber and low in fat may help reduce the risk of some forms of cancer. The folks around here never knew that GRANDMA's soup was so good for them, they just knew it was good...

The problem is that soup contains a high level of salt. Foods high in salt present a danger of their own. As a result, the National Cancer Institute asked the soup company to remove all references to the NCI from its advertisements. The institute objected to the ads because they contend the amount of sodium in the bean soup is excessive.

As a result of the vast increase in health claims, the FDA is receiving public comment on a set of regulations to govern health claims. The FDA has even suggested they may prepare a series of approved statements food manufacturers could use. These messages would avoid referring to specific product brands and would emphasize the important effects that a total dietary plan has on good health.

As Sally enters Tom's office, she notes the grim looks on his and Joe's faces. She sits in the chair beside Joe and waits for Tom to begin.

"Well, I guess I don't have to say this situation is disturbing. I thought our campaign was a good one. Looks like the press thinks otherwise," states Tom as he paces across his office.

"The campaign is a good one," Joe replies, "We've risen three percentage points so far. The press isn't being fair. None of the government or private nutrition experts can say how much fiber people should eat. How are we supposed to answer it?"

"I guess that's the *point!*" notes Tom.

"There are a few things we can do," Sally says. "One of our competitors is putting health tips for reducing the risk of some types of cancer on their package labels. They've also been including recommendations for what kind of food to eat, like eat fresh fruit. Maybe we should change our package information and put Natural Cereal within the context of a balanced diet."

"That's fine for the packages;" interjects Joe, "but you can't waste a 30-second commercial on health tips. We're not doing public service announcements." "Right," responds Sally. "But there are other things we could do. Since high fiber cereal is only one part of a good diet, we could use the labels on the box to make other recommendations for a healthy diet—things that have nothing directly to do with high fiber cereal. For example, we could urge people to add fresh fruit to the cereal. Or encourage the use of skim milk, since whole milk contains high levels of fat linked to heart disease. We could go even further and list other sources of fiber—fruits, vegetables, peanuts—and urge people to eat those foods, too."

Tom stops pacing and says, "So we could avoid the charge that we've got a conflict of interest trying to increase market share while selling better health. We could promote products we don't sell."

"Wait a minute," states Joe. "Let's think about this. Is this a proper role for a corporation? Are we supposed to educate the public? Couldn't we be digging ourselves in deeper? Next thing you know the press will be after us for not offering a complete course on nutrition."

"I don't know, Joe," says Tom. "That is a point, but we need to take some action."

Joe responds, "I'm not sure we need to. Sally's ads were smart, and it's not fair to compare them to competitors' ads. Those ads don't show the same ethical sensitivity as ours. Besides, market share is up!"

"Fair or not;" says Sally, "It happened. We need to counter the publicity somehow. Besides, what about the FDA's proposal to regulate health ads? Maybe we could come out in favor of the regulations and offer to assist them. We could use your reasoning, Joe. We don't feel our competitors are showing the necessary ethical sensitivity."

"Come on, Sally. Didn't you learn anything in MBA school? The last thing we want to deal with are the inefficiencies of a government agency. We'd lose control over health claim ads. How can you even think of supporting government regulation?"

Tom stands up quickly. “Look, this is obviously not something we’re going to solve today. Why don’t you both spend a few days thinking individually about this. Then get back to me and present separate proposals.”

Sally returns to her office to consider Tom’s request.