
Ojo del Jaguar S.A. (OdJ)

GUATEMALA CITY, GUATEMALA

CASES A AND B

Case Description

Ojo del Jaguar (OdJ), a wood products manufacturer, needs additional financing to expand its production volume of rubberwood products. Operating until now as a job shop serving growing local markets and some U.S. customers, the firm is contemplating exporting standardized products (kitchen and bathroom cabinet doors) manufactured from rubberwood at an upgraded plant. Required financing might be available from a private American investment group or the Banco Centroamericano de Integración Económico (BCIE).

The case tells the story from the perspective of both the management of OdJ and the potential American investors. The main conceptual issues addressed in the case are:

- How does an exporting company operating in an unstable, unpredictable, and underdeveloped environment present itself to a sophisticated American investor?
- For exporting countries in the developing world, what are the options for significant financing and the trade-offs between direct foreign investment and assistance from multilateral development banks?
- How does an American investor evaluate a somewhat speculative investment in the developing world? What type of information is crucial to making an informed evaluation?

In addition to these conceptual themes, the case touches on a variety of more specific themes such as:

- Political instability and lack of basic infrastructure in Guatemala.
- The Guatemalan business environment, which differs greatly from the U.S. (much higher interest rates, real estate purchases generally made with cash, the importance of governmental development banks and development projects, etc.).
- The difficulty of managing the operation of a plant in Guatemala and simultaneously staying on top of marketing trends in the U.S.
- The formal and financial orientation of the American investors versus the more relationship-based, flexible, and less rigorous financial perspective of the Guatemalan management.
- Lack of standardized financial and cost tracking on the part of the Guatemalan firm.
- The myriad manufacturing and operational variables involved in a new venture producing a somewhat untested product in a developing country environment.
- How to present and how to evaluate a business plan or a pitch for investment.

The case touches upon these themes by describing the decisions confronting Edgardo Vanberger, co-founder

and part-owner of Odj. Specifically, he must decide whether to:

- Pursue venture capital in the United States or apply for a long-term, low-interest loan from a Central American development bank.
- Continue to produce using a 60–40 mix of traditional hardwoods and rubberwood or to shift most of his production over to the riskier raw material, rubberwood.
- Pursue the export market aggressively or focus more on the much smaller but significantly more profitable domestic market.

The case also explores these themes by describing the challenges confronting Craig Erickson, an investment analyst at a U.S. venture capital firm. Specifically, he must:

- Make sense of the somewhat sketchy production and financial information provided to him by Odj and decide how much to trust or distrust these numbers.
- Make a judgement call on the macroeconomic and political future of Guatemala— i.e., Will the currency gain against the dollar or hold steady? Will Guatemala be included in the free trade policies being negotiated in the hemisphere? Will the political situation remain stable enough not to interfere with the export of Odj's products?

Recommended Courses for the Case

This case is best suited for International Business and Business Strategy courses. While the situation requires students to draw upon knowledge from Finance, Marketing, Operations, Accounting, and Negotiations, the focus in the case is on integrating and synthesizing a wide array of information and arriving at an accurate evaluation of Odj and its possibilities.

Teaching Purpose and Objectives

After working through and discussing this case, students should better understand:

- The day-to-day working environment of a manager in an exporting firm in Guatemala and the developing world.

- The business environment in Guatemala and the developing world.
- How to present a company to a U.S. investor, given a severe lack of qualified manpower to produce a professional-quality business plan or prospectus.
- Some of the difficulties in trying to value a company that operates in a very different business environment.

Discussion Questions: Case A

1. How should Ojo del Jaguar proceed? In other words, what would you advise in tomorrow's meeting at Odj?

2. How should Edgardo present Odj to Craig Erickson?

3. What important questions were not asked by the Houghton partners?

4. What should Craig Erickson say and ask on Friday and Saturday while visiting Ojo del Jaguar? What information is missing that would be crucial to making an accurate valuation of the company?

5. What are Odj's advantages? The company's disadvantages?

6. What are the advantages and disadvantages of Guatemala as a 'business environment'?

7. How would you rewrite and reorganize Odj's business plan to make it more effective and more persuasive?

8. What would you do if you were the Odj management: continue to pursue private investment, or focus your attention on the BCIE loan? Would you gear your future production towards rubberwood, or traditional hardwoods? Would you concentrate on the Guatemalan and Central American market, or would you instead try to increase exports to the United States and Europe? Justify these decisions.

Discussion Questions: Case B

1. What are the assumptions that underlie Odj's optimistic financial projections? Do you believe these projections? If you disagree with these numbers, how would you make them more realistic?

2. If you were Houghton Financial, would you invest in Odj? Would you continue the relationship? Why or why not?

3. What important issues have not been discussed between the two parties?