

Live Case: FIDELITY INVESTMENTS

Provided on behalf of the University of North Texas



Business Policy 4940 || Team Reef (Group 2)

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EXECUTIVE SUMMARY

Within our strategic proposal for Fidelity Investments, we will look at the current status of the firm and its environment in order to provide explanation into its gaps within its corporate social responsibility approach. Fidelity Investments is widely known as a national private firm supplying mutual funds, 401K and retirement plans, and financial consulting amongst other services. However,

Fidelity also takes great pride into funding cutting edge technological advancement. In order for Fidelity to remain competitive, we as representatives of the University of North Texas, will build upon this ideal which we will prove as mutually beneficial between the relationship of the investor and the company.

Our goal is to create a simple yet effective partnership to aid in the public teachings of Fidelity's innovations, and to provide the opportunity to increase soft relationships. Through these efforts, we hope that this may be able to be implemented beyond the Westlake campus and created nationwide, promoting our strategy via social media, word of mouth, and through education and business avenues of communication. Our financials near the second half of this written proposal will ensure its viability.

If Fidelity wishes to move forward, an example contract of understanding is provided at the end of this document for this partnership.

Part 1A- Analyzing the Environment

Industry Analysis: The brokerage industry is a billion dollar industry. Fidelity and its competitors have each generated over \$20 billion. In the brokerage industry, there are two types of firms; a wirehouse and an independent broker dealer. There are 5 major online brokerage companies in the U.S., but in total there are about 3,869 possible firms to choose from. These include Scottrade, Charles Schwab, Fidelity, E-Trade, and TD Ameritrade (Ross 2015). These companies are ranked top five by customers and assets. Mergers and Acquisitions were a big part of 2016 in this industry because of the introduction of a new rule by the Department of Labor, the Fiduciary Rule, but it is looking to become more relaxed with the new presidency taking over (Johnston 2017). Luckily, in comparison to other competitors Fidelity is doing well. As of recently, Fidelity is “the largest keeper of 401(k) retirement plans and the largest supplier of 403(b) plans for nonprofit organizations” (Ross 2015). Fidelity also offers the service for mutual funds and advisory services so they have access to millions of other customers that their competitors do not.

PEST Analysis:

POLITICAL: Based on the politics of mutual funds and investments, policy changes such as Trump’s tax reform may have an impact on income and tax-advantaged accounts. According to MarketWatch, the plan may present budget pressures for many entitlement programs, and also decrease income taxes for the 0.1% of the U.S. population earning more than \$3.7 million average, from 39.6% to 33%. Changes such as this could influence retirement and 401k plans. Also relevant in recent news is Trump’s executive order to remove Obama’s Clean Power Plan, thus pulling financial incentives for solar energy and wind farms, which could influence investors and firms focused on promoting environmental sustainability within their portfolios.

ECONOMIC: Fidelity focuses on being a involved in the community in order to be seen as a valued corporate citizen, with the goal of “investing in the communities where we work and live.” Many investors in the industry experience a loss of trust in financial advisors. According to CNBC in an article from 2015, the Federal Reserve counted 13.8% of households in the United States owning stock in 2013, as compared to 15.1% back in 2010, indicating a loss. The majority of those living in the United States do not invest in mutual funds or stocks to low household income (\$52,000), and hold a distrust toward financial advisors.

SOCIAL: Since the 2008 financial crisis, Millennials and families alike are wary and questioning the stakes of investing, according to CNN Money, where 93% of this consumer market are less confident, less knowledgeable about investing, and show distrust. However, account ownership is prevalent at higher income levels, based FINRA Investor Education Foundation, with the most accounts holding prevalence towards Baby Boomers and the Silent Generation. Furthermore, the peak income for men usually occurs in their early to mid fifties, followed closely by retirement (MarketWatch, 2015).

TECHNOLOGICAL: Job automation is strategy that is now being developed in order to save costs and ensure accuracy by regulatory authorities. Most competing firms are pursuing the idea of “robo-advisors” to help with everyday tasks that can help manage financial risks and boost productivity in employees, as reported by Forbes (Culp, 2016). As people utilize more of a mobile online platform to invest their money, it is more likely that will be dealing with a robo-advisor instead of a human in the near future.

Porter’s Five Forces:

Bargaining Power of Buyers (high): Firms need money to manage and it is easy for customers to pull their money out and go with other firms. Investors may choose where to invest their money and which financial advisors to use. Having a good reputation of being trustworthy and also making high returns is important to keep clients in this industry.

Bargaining Power of Suppliers (low): In the case of the financial services/brokerage industry, the supplier can mostly be viewed as the buyer. The majority of the cash assets that firms like Fidelity are putting in their mutual funds come from buyers. Also, the money that financial advisors are getting paid with are fees from advising their clients. Brokerage and financial services firms may view clients as their main supplier. Public companies that supply bonds and other investment instruments that Fidelity invests in may also be viewed as suppliers. Overall, bargaining power of suppliers is low, but bargaining power of buyers is high.

Threat of New Entrants (low): It is not too difficult to start up an investment fund, but it is hard to take the place of well established funds that are already on their feet. Entering this industry while investors already have many funds to choose from (i.e. all the Wall Street banks, Fidelity and its competitors) would be tough.

Threat of Substitutes (moderate): With technology being more prominent as of recent years, alternative ways of investing such as Robin Hood and other applications make investing easier, quicker and cheaper than using companies like Fidelity. Also, as mentioned above, there are more ways to be advised other than financial advisors now, with the emergence of Robo-Advisors. However, Fidelity has its own robo-advisor called Fidelity Go, so it does not have too much to worry about there. Overall, threat of substitutes would be moderate. No cheap online application can fully take the place of a real, large brokerage firm. People with large net worth will not be placing their money in little startup apps.

Competitive Rivalry (high): Clients may easily move their money from one fund to another, pull their funds out, etc. It is important for the company to keep a high level of integrity in its work so as to not lose client loyalty and trust. It is also important to try to earn high returns on investments so that clients will not pull their money out and place it elsewhere. For this reason there are often fees to pull out money, which is something no one really likes when choosing where to place their investments. Competitive rivalry remains high in this industry.

- **Ten top forces that influence the brokerage and financial services industry, ranked high to low**: Bargaining power of buyers and ability of clients to move their money elsewhere, client trust in advisors and in company brand as a whole, company returns on clients' investments, competition from other investment funds and financial advisory firms, threat of substitute apps and investment methods, threat of alternative advisory methods such as robo-advisors, tax effects and political atmosphere, millennial ignorance about investing and fewer millennials investing (lack of confidence), economic state (people not having enough money to invest), and job automation.
- **Top three forces in broad and competitive environment**: The top three forces that shape the environment (derived from above) are bargaining power of buyers, threat of substitute investment methods and economic state (i.e. people having money to invest and being willing to invest). This calls for a high level focus on corporate social responsibility. CSR is very important, especially in this industry to maintain a level of trust with clients and investors. People are and will continue to be very careful where they put their money. Contributing to social causes can help build and maintain trust with people. This will be the main focus from here on out with the selected proposal for Fidelity. Seeing as buyers (investors) have such a high bargaining power, it is important to maintain trust and integrity in everything the company does. This not only applies to the efforts to keep customers happy, but also employees. It is important for employees to act with utmost integrity when managing money, and happy employees that are involved in the community will be more likely to act with integrity and put care into the work they are doing.

Drivers of Change:

Similar to most financial services firms, Fidelity relies on mainframe technologies. People with mainframe skills are nearing retirement with few individuals available to replace them. According to a Compuware survey, 75% of today's distributed application developers have little understanding of mainframe technologies. Fidelity has stated that they are a tech company that does financial services; this provides an opportunity to recruit young talent to fill the roles of the soon to be retiring mainframe engineers. Fidelity's LEAP program offers that chance to educate and retain people straight out of college.

Another technology that could be influential for the industry and Fidelity alike includes substitute apps that allow consumers to invest and manage their money with the touch of a button. This is something that can take away business from the financial services market and give it to the app developers. This driver of change assumes that some customers do not value the face-to-face style that other financial service firms offer. The customers that would be more likely to use these apps are those that value their time more than interaction, which makes this driver of change slightly less applicable to Fidelity, seeing as they seek customers who are there for a great, trustworthy experience. Overall, this driver of change is still a threat though, because it does offer the same services and ultimately users of the app are making a conscious choice not to choose other financial service companies.

Something that is quickly coming to the forefront of importance to the industry is the fact that many millennials either do not know how to invest or are not looking to invest because they are weary of the market. This leaves a large number of people in the U.S. that could be potential customers out of the market. Financial service firms will have to do something to pull in this audience before it's too late, as soon the other generations which are not hesitant to invest will whittle down to much smaller numbers that cannot sustain the market.

Key Survival Factors:

One key survival factor for the financial services industry include improvements to technology. Updates and the most recent and fastest software will keep top leaders in the industry competitive as the market for stocks and securities changes on a day-to-day basis.

Another key survival factor is market awareness of a consumer's preferences and segmentation for user variance: depending on the type of investments a customer has, it's up to each firm to decide to maintain continuous reach on an item, or to push a diversified portfolio in other industries that may be gaining traction.

The final key survival factor is sustaining high standards for customer service. Many individuals willing to go forward in investing in the financial services industry for mutual funds (such as Fidelity) are focused on retirement savings and 401k plans. It is up to the employees of the firm to communicate the needs and wants and work with each individual consistently to create a long term relationship. If this is not maintained, the consumer could eventually pull his savings, which in terms of the Baby Boomer generation, could lead to an average loss of \$136,200 per capita (pre-retirement amount saved, The Motley Fool, 2016).

Conclusions and Recommendations:

In conclusion, Fidelity's main problems stem from the bargaining power of buyers, threat of substitute investment methods and the U.S.'s economic state. Fidelity must also push the agenda of keeping the "personal touch" when it comes to interactions with its investors. The face-to-face

communication and personalization of the experience will set Fidelity apart from new technologies that are emerging such as apps that help consumers invest. This also ties into the push for Fidelity to be more involved in corporate social responsibility (CSR). It not only shows that Fidelity is a top company to invest with, but that they care about the community and those around them which will help build the trust necessary to help them remain a leader in this industry. Through CSR, the company will not only be able to raise awareness about Fidelity, but it will produce “word of mouth” and their reputation will continue to be positive. Trust can also help capture the weary millennial mindset when it comes to investing. In the next few years, during the new presidency the economy will most likely fluctuate and it is important that investors trust and understand the help and products that Fidelity can provide.

Part 1-B: ASSESS THE CURRENT STATUS OF THE FIRM

Current Mission: to “*Enable our clients to achieve lifelong financial independence and peace of mind.*”

Current Vision: to “*Distinguish ourselves as the most trusted partner in providing lifelong financial solutions to customers.*”

Current Strategy:

Hard Goals: to “*Make financial expertise broadly accessible and effective in helping people live the lives they want.*”

- Create technological support to inform investors on updated markets.

Financial Advising || Fidelity Institutional: Focused on helping businesses thrive, Fidelity’s expertise has aided over 8 million investors so far, holding \$2.2 Trillion in assets thus far. They further aid to offer “clearing, custody, investment products, and brokerage/trading services.” (Fidelity, 2017)

Soft Goals:

- Focus to become the best-in-class customer service firm in the industry.
- Maintain consistent in-depth and detailed training to employees.

Innovation || Fidelity Labs: Fidelity also holds a primary focus on emerging technology. As of 2016, Fidelity holds 100 patents, including a mobile smartwatch that tracks investments. The latest yearly reports show that 70% of Fidelity’s corporate real estate is LEED certified, signifying their internal positioning for sustainability (carbon footprint reduction of 20%); they have also reduced Greenhouse Gas Emissions by 21% since 2007, and reduced paper suppression by 58% through technologies such as e-delivery.

Fidelity Charitable: Fidelity holds a focus towards philanthropy, as \$3.5 billion was donated to charity in 2016, and \$25 billion since its foundation. The company also holds a growing 200,000 charity base, with 100,000 donors. To promote their charities, they’ve created a program called a donor-advised fund, where an investor could donate in order to receive a tax deduction on investment preferences. The minimum donation to qualify for this promotion is \$5,000.

Product Focus: Broad - The main purpose of Fidelity is to provide financial services to those who are looking for innovate prosperity. Product focuses range from emerging technologies to aid Fidelity’s internal company, to creating investment opportunities for their clientele in everything, from mature stocks and securities to alternative fuels for environmental awareness.

Market Focus: Broad - Although the majority of investors are focused within the Baby Boomer and the Silent Generation (holding a correlation to peak incomes), Fidelity holds four segments of consumers: individual investors, employers, independent financial advisors, and institutions, regardless of income and demographic. Most of the market focus is held in highly metropolitan areas with 190 investor centers across the United States (Fidelity, 2016).

Value Proposition: GIVE - Guidance; Investment Products; Value; Exceptional Service

Assess Firm Performance:

Financial Performance:

Financial Position: Fidelity has been able to maintain a prominent position in the financial services industry as a privately held company. Due to the company not being publicly traded, it can be difficult to ascertain Fidelity's financial position and structure. After a difficult financial performance 2015 caused by the company's focus on staffing and technology, they are already seeing the benefits of their decision as their 2016 Assets Under Administration increased by 3.7% to \$5.43 trillion. However, Assets Under Management slipped by -.06%. The strong AUA performance indicates that the dip in AUM was due to the market than Fidelity's performance.

Profitability: Fidelity has good financial performance. It is one of the top three leading brokerage firms with 2016 revenues of \$15.9 billion. Fidelity's revenue grew 10% from 2013-2014, 7% 2014-2015 and 0% 2015-2016 (from the most updated information that was available). Operating income grew 31% from 2013-'14, -6% from '14-'15 and 9% from 2015-'16. Fidelity has shown an ability to grow revenues steadily as well as operating income. Despite the -6% growth from '14-'15, it is obvious that there was a plan in place seeing as Operating Income was back up 9% the next year.

Market Performance: As mentioned, Fidelity is one of the top three leading brokerage firms. In 2015, Fidelity no longer dominated the market with Vanguard taking 27% share of the market. However, it still has a good chunk of the market depending on how you look at it. Fidelity competes with firms in different NAICS codes. Some competitors include Charles Schwab, TD Ameritrade and also all of the big banks (JP Morgan, Goldman, etc.)

Organizational Health: According to the live case, Fidelity employs 45,000 people at their various locations across the U.S. and Canada. They have a commitment to diversity and inclusion which includes diversity among their suppliers. The benefits they offer are extensive, to include tuition assistance, adoption expense assistance, standard benefits, etc. We are unable to find an actual turnover rate to assess organizational health that way due to Fidelity being a private company, but Fidelity has been named one of the best places to work in financial services multiple times in consecutive years. On glassdoor they have 3.9 out of 5 stars. 81% of the reviews would recommend them to a friend (out of over 4000 employee and former employee reviews.) Fidelity has mentioned their commitment to providing their employees a good work-life balance and takes many steps to do that with their extensive facilities and programs. All of these factors indicate that Fidelity is doing well in the organizational health department.

Overall Performance Review:

From a financial standpoint, Fidelity is performing very well. They are a market leader and their revenue has grown exponentially over the past few years. As for market performance, Fidelity offers multiple services for their consumers. They don't only focus on one specific business market, but they actually focus on everyday consumers and businesses such as non profits. From an organizational health perspective, Fidelity has over 45,000 employees and multiple campuses across the 50 states. They believe in "making their employees happy", so that they can in turn make the customers happy, which is reflected in all of the services they provide to their full time employees. It seems that Fidelity is in the top left quadrant of the performance matrix because of all of these factors mentioned. They are growing in revenue and are a stable, worldwide company.

Assess Capabilities:

Customer Capabilities -

Management Preferences: Upper management knows keeping customer perception high is how Fidelity improves its brand image. Even if similar financial services can provide the same return on investments, Fidelity can do the same but with greater customer service satisfaction since they know that customer perception is what keeps the business ahead of others in the competitive environment. The Fidelity advantage are the benefits that customers are guaranteed when investing in Fidelity. These benefits such as planning and advice, straightforward pricing, and their use of investing tools are what Fidelity uses to stay ahead of the competition in terms of initial customer benefits. Their ability to service

customers in a variety of ways such as over the phone or online is another part of their excellent customer service strategy.

Resources: Fidelity is a leader in providing customer service, with over 180 office across the country, Fidelity can provides customers spontaneous and reliable services. Fidelity's employees are the backbone in ensuring customer satisfaction so they are trained in many areas to meet standards. Fidelity's training programs ensure that their employees are kept to up to date with technology so that they can provide the skills to service their investors. Emoney Advisor is another resource which was acquired by Fidelity. Emoney is a leading suite in providing tools and technology while also strengthening customer relations. This is just another small part in Fidelity's vision of enhancing the customer experience.

One other thing that Fidelity does which could be considered a resource is helping out their communities with community service and volunteering efforts led by their employees. They have put extensive hours into making sure their employees stay involved. That gives Fidelity a certain image in their customers' minds about how great Fidelity is and how much they care. This, in turn, can be used as a resource of loyalty and long-term consumer satisfaction.

Organizing Processes: Providing excellent customer service begins with the employees who work with the investors of Fidelity. Fidelity supports a variety of employee resource groups from LGBT to Veterans. The ERG's allow Fidelity to support a diverse workforce which lets them enhance understanding in their market environment and the community in general. Fidelity also provides its customers guidelines to get started with investing with them from basic investing to life events such as having a child or acquiring inheritance. The guidance process that Fidelity provides its customers for getting started is an important step in gaining the initial trust of potential investors

Innovation Capabilities -

Management Preferences: Fidelity pursues multiple avenues of emerging technologies. This is tied into how they can better serve their customers. Fidelity Labs is the think tank that is dedicated to that purpose. With management holding 100 patents, Fidelity has shown that no technology is off the table when it comes to creating and maintaining a competitive advantage. One of the big projects to be developed is Fidelity's Stock City app for the oculus rift. Stock City is able to physically show users in an virtual reality environment the ability to see certain stocks and how they are performing in the market based on visual cues of night and day or height of the building to show how that certain stock is doing.

Resources: Fidelity Labs is the arm of fidelity that is dedicated to research and development. This enables Fidelity to learn more about customers through the use of data analytics. Research is also used to help internal procedures with the development and deployment of robo-advisors and business logic that supports them.

Fidelity's LEAP program is an onboarding program for new hires out of college. The purpose is for new hires to experience the right skills and mentorship they need to be successful in their new careers. This program has multiple tracks offering different specialties such as software engineering, data engineering, and systems engineering as well as project management. This program allows for Fidelity to create a young and talented workforce that is ready to handle their careers successfully.

Organizing Processes: Fidelity has deployed AGILE methodology throughout their corporate structure. This stresses a workable prototype throughout development. This allows for several teams located across the globe to effectively and efficiently complete tasks, while also monitoring progress across the multiple stages of development.

Operations Capabilities-

Management Preferences: Fidelity Investments has developed a strategy for their customers called Freedom Funds, where a unified portfolio is created to manage the metric of risk between ultra conservative securities and higher risk equities, regardless of age. This behavioral solution to investing brought about The Glide Path, a wave axis developed to maximize wealth accumulation while keeping risk low. The idea behind the Glide Path is to push aggressive funds upon the inception of the investments, and defer later to conservative securities, instead of choosing one over the other. In 2006, this capability was signed into law through the Pension Protection Act as a retirement savings structure

(Fidelity, 2016). The assessment of risk and security have been developed as a standard into their three portfolio strategies: conservative, balanced, and growth.

Resources: The resources behind this capability are developed via bonds and securities, many of the shares provided by companies such as Ultragenyx Pharmaceutical, Aclaris Therapeutics, and Blueprint Medicines. All of these corporations fall under the umbrella of Fidelity's innovate investments, as they focus on the continuous developing treatment and technologies of rare diseases. Thus, whether an investor decides to take a conservative, balanced, or growth strategy of Fidelity, there is a probable chance the investments held by Fidelity will come from these corporations.

Organizing Processes: Through the implementation of this program, as well as their internal core values of customer-employee satisfaction and innovation, they've added the idea of "energy conservation", as quoted by Ren Cheng, founder of Freedom Funds. This updated chart growth, though primarily for the short-term, has created long term relationships and investments for their four consumer segments. Each Freedom Fund application holds a forecast date, with target allocations all the way up to measurables until 2062. The combination of specifications, soft goals, and innovation have help to set the organization processes apart from other firms, as this privately held company holds true to their focus of "The Green Line" to community investment (Fidelity, 2017).

Top Capabilities of the Firm: One of the top capabilities of Fidelity would be their ability to keep up to date with current operating technology. Fidelity innovates technology within their company by experimenting with emerging software to keep a competitive advantage over their competition. Another top capability that Fidelity excels in would be their customer service sector. Fidelity keeps its brand image as a leading financial service through its customer perception of being seen as an irreplaceable service for their investors. One other major capability that Fidelity has is the ability to commit to high levels of volunteerism and giving back to communities. This can be very useful in the long run for customer commitment and the Fidelity image.

Conclusions & Recommendations:

Using the top three capabilities, this company can go far in developing its goals and strategies. The firm is up to date in operating technology. They work to innovate and move forward with technology so as not to get behind. The firm has used its unique customer experience to create a competitive advantage. They can use their human capital and willingness to serve their communities to satisfy current customers and future customers alike. All three of these capabilities align well with the firm's key success factors.

PART 2A. STRATEGIC GAP ANALYSIS AND MAJOR ISSUES **ORGANIZATION AND ANALYSIS**

A. Alignment Between Environment and Strategy

Where there is a good fit between environmental demands and firm strategy:

As technology is constantly improving, Fidelity is doing extremely well in keeping up with current technology trends and making improvements. Financial services rely heavily on the software and processes that it uses in its daily operations. Fidelity is a strong leader in acquiring and managing the newest technology that in turn is used to enhance the operational experience for its customers and employees. A competitive advantage is formed over Fidelity's competition and is good fit between the environment of emerging technology and Fidelity's strategy of staying up to date with current technology.

Where there is a misfit between environment and firm strategy:

A misfit held between the current environment and the firm's strategy lies within Fidelity's current disadvantage of providing technological mobility for customers and internal business (Fidelity Westlake, 2017), and their strategy to become not only a leading provider in this industry, but also their goal to become the best in-class customer service firm. Based on secondary research, approximately 64%

of the United States uses a smartphone, and of this percentage approximately 57% conduct online mobile banking (Pew Research Center, 2015). However, as one of their primary visions is to focus on *Community*, they've struggled to maintain touch with a large client base of over 24 million, and furthermore within their company with an employee count of over 6,000. Using an application called Ribbit for their social media and internal communications, they've established it for development as an ERG, yet it's unavailable mobily, which may deeply impact B2B and B2C efficiency and communications with \$2M worth in assets at hand client-based, along with their 72% focus in 2016 holding primarily in financial education and understanding (Fidelity Q&A Westlake, 2017).

Potential future misfits between environment and firm strategy:

A potential future misfit between Fidelity's environment and the firm strategy is that they are not exactly marketing themselves towards younger generations and the website appears slightly dated. Most of the advertisements on their website are about retirement savings, 401(k) plans, or stocks. Millennials are slowly entering the workforce and they are "experiencing a blindspot when it comes to investing". (Eisenberg 2016) and only about 44% of this generation believe they will invest long term (Eisenberg 2016). If Fidelity wants to capture new customers they will need to reach out and position their company to overcome this challenge.

B. Alignment Between Strategy and Organizational Capabilities

Where there is a good fit between strategy and organizational capabilities:

Something the firm is doing very well is utilizing its human resources team to create a great workforce full of human capital. The employees Fidelity has are a resource that helps them to create their competitive advantage, which is individualized, consistent customer service from start to finish of the experience. This is also what helps them reach out to the communities they chose to serve. Without the people Fidelity has acquired, they wouldn't have the resources to make such a big impact. Their human capital and the way they utilize it is a capability that is well-aligned with their strategy, working to their competitive advantage.

Where there is a misfit between strategy and organizational capabilities:

Fidelity has communicated that they would be interested in capturing the younger audience's attention when they're doing volunteer events, particularly with middle school-aged youth. They're having trouble getting the participation they'd like. They've also expressed an interest in teaching classes to the community that include not only financial concepts, but also coding and more technological concepts (Q&A Session with Fidelity, 2017) Both of these suggestions would go hand-in-hand with their strategy of a broad market appeal, as well as their underlying goals of serving more communities in a better way. This goes along with their capability of community service efforts as well. These are things Fidelity is doing, but not at the level they'd like to be at. The lack of reach to young audiences and lack of a broader technological subject in their community classes are misfits.

Potential future misfits between strategy and organizational capabilities:

As the years go on, people in the baby boomer generation that hold key positions will retire. A good portion of those retirees will be employees that work with legacy software such as COBOL mainframe programming. During the 70's and 80's COBOL programmers were easy to find, but that is no longer the case. As technology evolved, so did the people to accommodate other business needs. This will eventually led to a shortage of COBOL programmers. The demand for COBOL programmers will continue to be high in the coming years, while the supply of those programmers will be low. COBOL programming is necessary for the many functions that all financial services companies like Fidelity require for their everyday operations. The COBOL programming language for mainframes is used for

large data storage and processing of batch jobs. Large companies keep most of their financial records stored in a mainframe. Most use of COBOL today is for maintenance of these records. Without it, Fidelity would be lacking a major technical survival factor.

C. Strategic Gaps Summarized

Top 3 Gaps of the Firm

The top three gaps from the above that Fidelity should work to fill are as follows. First, Fidelity could have more volunteer opportunities that appeal to all of their different employees in their respective areas that are readily available regardless of the employee's role. Making volunteer opportunities that are more local and easily accessible will help with volunteer turnout. Currently, distance is an obstacle for employees to turnout to the events. Also, there is no paid time off policy, so having some type of volunteer work that does not require as much time may be helpful. Another thing Fidelity would like to work on is providing financial literacy training and workshops to families. Fidelity struggles with connecting to the beneficiary. The school outreach programs have been much more successful in this light as they provide an opportunity for continual outreach and check-ins.

Another top gap is that Fidelity could be better at providing technological capabilities to employees and customers. Currently it does not have mobile communication, and their internal social media tool, Ribbit, does not have mobile capabilities. In this day and age it is important to be able to communicate mobility and remain up to date technologically. These gaps can be summed up in that they all represent a need to further fill a "corporate social responsibility" role. Fidelity is performing wonderfully currently, however it could improve upon its volunteer efforts. When these things are corrected, it will experience better employee and customer engagement and lower employee turnover, saving Fidelity expenses in the long run. Overall, Fidelity should strive for a proposal that fills the corporate social responsibility gap. This proposal should be one that implements technological capabilities in some way, is quick and easy to use, is cost effective, easy to access, does not take too much time and is possibly implementable on a large scale, beyond DFW. It should be technology driven, engage both the employees and the client base, and leverage skills based volunteering through the use of human capital.

We estimate that the financial impact of the gaps mentioned above will impact the firm's top line growth. This would reduce future revenue growth from 5.42% (based on the prior three-year average) to 4.42%. As a result, the firm's bottom line will grow at a slower rate with a five year profit margin growth of only 80 basis points.

Conclusions

- **Overall Strategic Fit:**

Fidelity Investments is in a stable position, as it holds approximately 26.5% of the target-date fund market share (Wealth Management, 2015) and focuses on its operational trend of innovative technology, which is currently growing at a doubling rate per year according to Moore's Law (predictions show technology 32x more advanced within a five year forecast. The Emerging Future LLC., 2012). However, developments could be seen to improve and focus on more instrumentative communications technologies based on their current gaps, which is financially viable considering assets under management (as of 2015) perform near \$2.05 trillion (Reuters, 2016). Overall, Fidelity's hard goals are seemingly more developed than its soft goals in terms of strategic fit.

- **Most significant issues facing the firm:**

The most significant issues facing the firm are the lack of technology that supports communication between all of the Fidelity employees, the lack of volunteer opportunities available and organized by Fidelity, and the future decline of employees that obtain mainframe technology knowledge. The communication between employees and with customers seems to be subpar since there are no mobile forms of communication. (There are also no mobile forms for employees on their internal site as stated above). Fidelity has stated they are ideally after more volunteer opportunities for employees and more CSR projects. Currently, the average number of volunteer hours is very low and can easily rise with more community involvement. Lastly, Fidelity will be losing knowledgeable employees when older generations retire in the next few years. The information that these employees have is vital to mainframe technology.

- **Future performance of the firm projected: see below - Chart 2**

PART 2B. SELECTING A NEW STRATEGY

- **Identify one strategic proposal to close gap that was identified above:** *One strategic proposal involves the closing of the organizational capabilities of Fidelity Investments, in terms of their educational and technological connection towards their customers. At the moment based on information given*
- **Identify appropriate changes in current capabilities to successfully implement strategic proposal:** *The process involves developing a partnership with a well-known and established company well in touch with the idea of building systematic thinking and creative problem solving skills, ranging in terms of introductory coding, to promoting scholarship opportunities to a wide variety of the investment community, no matter demographic or income status. Volunteer opportunities would be built at Fidelity's Westlake campus for on-going yearly camps for children and teenagers ranging in ages 9-18 to develop these skills, and all the while parents of these students would more developed in the understanding of financial knowledge and the benefits of investing for the future. The CSR proposal, provided more in-depth below in 3-A, involves a joint partnership with **LEGO Education**.*
 - ***Proposal for implementation actions: promotion & advertising: this CSR proposal, although targeted to Fidelity's Westlake campus, must be promoted via social media and through Fidelity clientele, as the current social reach for Fidelity (through platforms such as Facebook and Twitter) reaches well over 410,000 people, and over 67 million accounts nationally. Online advertising may also prove to be less expensive than print, reducing the total expenses necessary for this proposal to take action.***

Conclusion and Recommendations: Based on our findings, a strategic proposal to satisfy upcoming years needs to involve heavy promotion of the technological innovation Fidelity Investments thrives in. LEGO Education may be a viable solution to enhance the relationship between customer and employee as the Millennial age range varies from those now seeking middle-management jobs and savings to pay student loans, to those younger that may be seeking scholarships and savings in order to attend higher education. Furthermore, besides Gen Xer's, this generation depends heavily on the newest, upcoming, and exponentially growing technologies in order to provide day to day solutions, efficiency, and enjoyment. A partnership with LEGO Education may be able to teach those seeking these solutions the promises of coding and analytical thinking while providing entertainment, which will be described below in part three.

3A: ORGANIZATIONAL CAPABILITY CHANGES & IMPLEMENTATION

- **CSR project 1 proposal: Lego Education / Mindstorms.**
 - **Actionability:** The first proposal involves the implementation of LEGO Robotics and EV3 programming, in order to close innovation and technological gaps currently at hand with Fidelity Investments. Described at the 2017 Westlake Q&A, one of the goals for this company along the lines of corporate social responsibility, is not only to keep in touch with their customers on a more personal level, but also introduce the education of coding towards the upcoming generations so they may be better prepared and make sound investment decisions if it involves technology. As the target age demographic for LEGO is child to youth age, Fidelity can promote this event to its already loyal clientele and through its social media platforms, as well as providing exclusivity (only Fidelity Investors may join and enroll their students). The program would be prepared as follows:
 - Children ages 7-12 would be able to take part in this event. This event would hold two different programs to choose from: *As We Do*, primarily targeted to younger ages who may be first time users of LEGO robotics, will develop introductory skills in robotic sensory and motor construction. The second would be EV3, also known throughout its development as LEGO Mindstorms, usually developed for more skilled users of LEGO robotics, would enhance their development of introductory programming, coding, and data operations through LEGO's software of this product. *NOTE: Although LEGO Mindstorms is marketed to children ages 10+, so long as proof of previous robotic knowledge and certification through prior programs is available, consideration for age exemption may be made.*
 - A Dallas-Fort Worth metro third-party will be at hand to train students at the event. A company called Engineering for Kids will provide on-hand training as well as the products and software necessary for learning. The program will consist of 40 students maximum, with 4 trainers on hand (10:1 ratio), lasting approximately three hours each day (15 minute break in-between) for five consecutive days (M-F) at Fidelity's Westlake campus. Concerning cost of each trainer will be roughly \$300 total (\$20/HR), for an added total of \$1200. The program for customers would cost \$200 for a maximum revenue total of \$8,000 for one session. *(third party usually charges \$200, industry cost may range from \$125-\$900, thus Fidelity stays competitive due to the availability of multitudes of camps remaining offered year round, instead of one).*
 - **The entire point of this camp is not necessarily for direct profitable purposes**, but instead to generate buzz about Fidelity's campus and its employee (*employees will have the opportunity to volunteer*) to customer brand relationship to bring in new clients, and further promote Fidelity Investments as a close-knit family company against competitors. Social media advertising would be targeted towards the education, technological, and family ideals behind LEGO robotics. Ideally, the annual \$24,000 Fidelity sees could go toward the upgrade of this

program over forecasted years, ranging from the physicalities of it to other educational purposes such as tech scholarships.

- According to a report by Sustainable Brands, in terms of corporate social responsibility, approximately 80% of customers would tell friends and family about a company's CSR efforts. With this calculation combined with Gallup's expected average of nine friends per person (conservatively disregarding close family), the amount of additional clientele from this service program may become 864 newfound customers annually from this campus alone from word of mouth promotion, without projecting growth rate. Taking this into account, another average from the same article (Sustainable Brands) states that 30% use social media to learn and understand efforts brought forward by companies. As of 2015, Fidelity holds 67.3 million customer accounts.
 - NATIONAL IMPLEMENTATION: Breaking down the numbers, 81% of the United States population holds a social media account. In terms of awareness, Fidelity could reach a maximum population of 16.15 million (Facebook Ads, Instagram sponsored, etc.) via social media. In terms of direct reach (followers), this could reach a maximum of 65,190 Fidelity Investment followers (43,050 for Facebook annual, 22,140 for Twitter; 70% of Facebook users are active daily, 36% for Twitter, Pew Research Center 2014), not projecting growth nationally. The national projected amount of new accounts arising from this CSR project would be **\$469,368** from social media followers and word of mouth alone annual.
- Concerning soft goals for clients: beyond the scope of technological education, another founding part of Fidelity Investments is to provide sound and secure decisions in order to create long lasting relationships and long term equity. According to secondary research, child development experts have stated multiple benefits of camp. In a statement, Bruce Muchnick (a licensed psychologist) reported "...at camp a unique setting is created, a **community** is constructed that allows participants to get in touch with a sense of life that is larger than one's self. The camp community seeks to satisfy children's basic need for connectedness, affiliation, belonging, acceptance, safety, and feelings of acceptance and appreciation." Furthermore in another article for iDTech, 70% of parents have reported that their child gained a growing self-confidence, while 96% of children report making new friends and connections during their time at camps. *In terms of volunteerism from Fidelity employees, it will be the responsibility of these employees to make clients and those related feel welcome to a newfound community as part of this corporate social responsibility during LEGO Mindstorms.*

- **CSR project 2 proposal:**
 - This proposal is about forming a strategic partnership with TangoTab, an organization started by Andre Angel that helps to solve the issue of food insecurity in the US by offering a deal similar to Toms, the shoe company. Every meal a person buys while checked in to TangoTab (which is an app) will be supplemented by the organization with a meal donation to those in need. TangoTab also does large-scale food preparing and packaging volunteer events. Fidelity could partner with this organization for regular volunteer events held in Fidelity's facilities, making volunteering easier on Fidelity and their employees. This closes the gap Fidelity discussed in relation to travel and timing being an issue with volunteer event turnout.
 - Describe, in general, the changes to the current capabilities that need to be made so that the firm can successfully implement its new strategy - This proposal would not change Fidelity's current capabilities, only build on them. The TangoTab volunteer events would add a new dimension to Fidelity's volunteer portfolio. The TangoTab partnership as a whole and the attention it would bring to the app, getting more customers to download it, would add to the positive image of Fidelity in its customers and potential customers' minds.
 - Identify (at least broadly) the impact that all these changes would have on both the revenues and expenses of the company. While this proposal would not bring in a direct stream of revenue, it also would not cause any great expenses. Fidelity could fund the supplies for the food they're preparing for the homeless/food insecure people, plus there would be advertising costs to kick off this partnership. Otherwise, this is a very budget-friendly idea.

Change Decision

- CSR proposal 1 will be the better project because it will enable the required change capabilities listed in 2b and it meets Fidelity's definition of an appropriate CSR project.
- **Which departments will be significantly impacted (and how will these departments be impacted) by The proposed changes to the firm's customer capability?**

HR will be a crucial part of implementing the proposal and will help enhance Fidelity's customer capabilities by making the LEGO experience a fun one for their customers' kids and making the camps as easy as possible for the customer. They will ensure the experience is worthwhile and executed efficiently. The employees will be the forward facing leaders of all events. They must be passionate about why they're helping. HR will also assist in the signing of release forms for the children to participate in the events.
- **Which departments will be significantly impacted (and how will these departments be impacted) by the proposed changes to the firm's innovation capability?**

Fidelity's marketing department will be affected by the changes to Fidelity's innovation capabilities. The CSR proposal presented will recreate Fidelity's community brand in a new light. The marketing department will be responsible for introducing the Lego camps and helping the community understand what exactly the events are. They will be responsible for advertising and spreading news about this new event. It is recommended that the marketing department introduces this new proposal via social media to have the most outreach. Marketing will be affected the most due to how they will need to advertise for the camps and help create a stronger

bond for Fidelity within the community. Operations will be affected as well because the young adults signed up for the camps will also need to be placed in a specific room on Fidelity’s campus for the camps. Fidelity has the opportunity to affect a younger audience by creating and fostering a fun IT learning environment for children. As most employees in all departments work a technical role, they will also know some helpful or useful knowledge about technology in general. This also means that not one specific business unit, but many can be greatly impacted and involved in this project. This knowledge can be passed on to the younger audience that could benefit from that knowledge.

- **Which departments will be significantly impacted (and how will these departments be impacted) by the proposed changes to the firm’s operational capability?**

Operationally, this proposal is not challenging for Fidelity. The only thing Fidelity will need to do is accommodate for the space the events will take up, which should not be more than one large-sized room (which fits forty people.) Nothing else will be affected since the event is ran primarily by LEGO.

- **Cost the project and estimate its contribution to revenue stream:**

Project Cost:

Fidelity will bring in a third party to train the kids with the kits. There will be 4 trainers per session, (10:1 child to trainer ratio), costing \$20/hr. The trainers will be there 3 hrs/day for 5 days costing a total of \$1200 per session for third party costs. In addition, Fidelity will provide a small snack to the children costing approximately \$30/day totaling \$150 per session. Promotion and advertising is estimated to cost around \$5,000 for reaching out to schools, writing emails and through social media. Miscellaneous costs at \$150/day total \$750 per session. In addition, Fidelity will donate 10 training kits to children at \$800/kit totaling \$8,000. Total costs per session will be \$15,100 which adds up to \$45,300 per year, conservatively.

Projected Costs

<u>Costs</u>	<u>Explanation</u>	<u>Cost Per Course</u>	<u>Annual Cost</u>
<u>Trainers</u>	<u>\$300 per trainer * 4 trainers</u>	<u>\$1,200</u>	<u>\$3,600</u>
<u>Supplies/Snacks</u>	<u>\$30 per day</u>	<u>150</u>	<u>\$450</u>
<u>Promotion/Advertising</u>	<u>Flat Budget</u>	<u>5000</u>	<u>\$15,000</u>
<u>Miscellaneous Costs</u>	<u>\$150 per day</u>	<u>750</u>	<u>\$2,250</u>
<u>Prizes/Kits</u>	<u>10 kits * 800 per kit</u>	<u>8000</u>	<u>\$24,000</u>
<u>Total</u>		<u>\$15,100</u>	<u>\$45,300</u>

Projected Revenue Stream:

Fidelity will charge \$200 per attendee of the summer camp. With 40 children attending per session, revenues are expected to total \$8,000 per session. If about 80% of the attendees tell friends and family about the CSR efforts, (120 attendees per year, * 80%) and they tell about 9 of their friends and family about the project, an estimated 864 people could be potential new customers as result of the CSR project. If about 5% of these people become new customers and bring in a conservative estimate of \$500 revenue per person, the annual Social- Return on Investment would be \$21,600.

Projected Revenue

<u>Revenues</u>	<u>Explanation</u>	<u>Rev Per Course</u>	<u>Annual Rev</u>
<u>Admission</u>	<u>\$200 per student *40 students</u>	<u>\$8,000</u>	<u>\$24,000</u>
<u>Additional Business/Social ROI</u>	<u>5% of market reached * \$500</u>	<u>\$7,200</u>	<u>\$21,600</u>
<u>Total</u>		<u>\$15,200</u>	<u>\$45,600</u>

- **What will it cost to make these departmental changes?**

As noted previously, we do not expect incremental costs to any individual departments. Due to the nature of the CSR project, the costs will only be allocated directly to the project.

Projected Costs

<u>Costs</u>	<u>Explanation</u>	<u>Cost Per Course</u>	<u>Annual Cost</u>
<u>Trainers</u>	<u>\$300 per trainer * 4 trainers</u>	<u>\$1,200</u>	<u>\$3,600</u>
<u>Supplies/Snacks</u>	<u>\$30 per day</u>	<u>150</u>	<u>\$450</u>
<u>Promotion/Advertising</u>	<u>Flat Budget</u>	<u>5000</u>	<u>\$15,000</u>
<u>Miscellaneous Costs</u>	<u>\$150 per day</u>	<u>750</u>	<u>\$2,250</u>
<u>Prizes/Kits</u>	<u>10 kits * 800 per kit</u>	<u>8000</u>	<u>\$24,000</u>

Total \$15,100 \$45,300

- **Impact on firm performance? Will any of the changes increase or decrease existing operating costs?**

The CSR project will also have no impact to the firm’s performance. There will be no direct impact to the existing operation or operating costs. All of the work involved with the project will be outside of normal operations.

- **What, if any, impact will each of the changes have on the company’s revenues?**

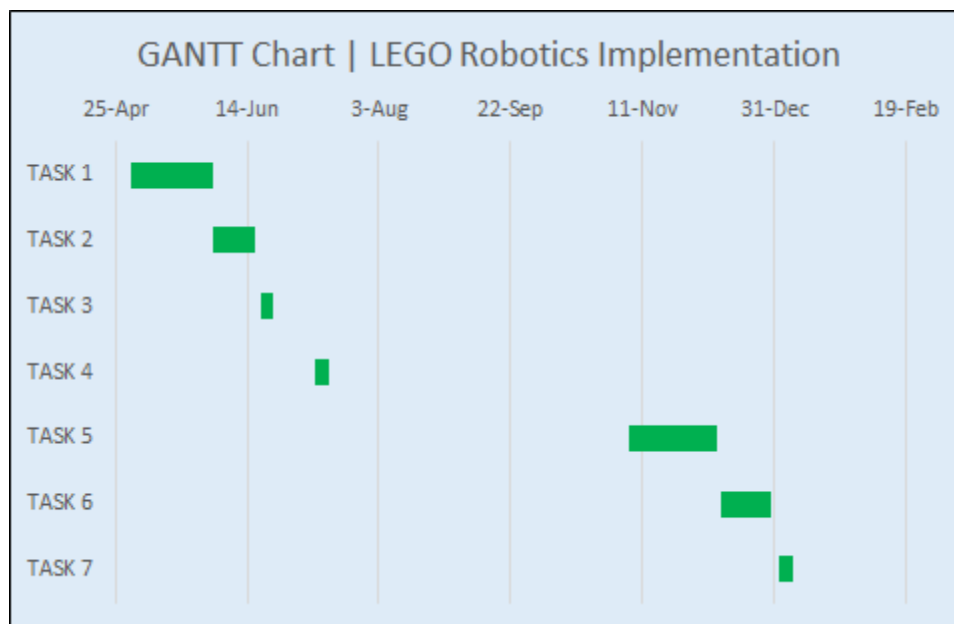
As noted above, we project that the CRS will bring an annual Social- Return on Investment of \$21,600. This is a result of an increased market reach.

Projected Revenue

<u>Revenues</u>	<u>Explanation</u>	<u>Rev Per Course</u>	<u>Annual Rev</u>
<u>Admission</u>	<u>\$200 per student *40 students</u>	<u>\$8,000</u>	<u>\$24,000</u>
<u>Additional Business/Social ROI</u>	<u>5% of market reached * \$500</u>	<u>\$7,200</u>	<u>\$21,600</u>
<u>Total</u>		<u>\$15,200</u>	<u>\$45,600</u>

TIMELINE (GANTT CHART)

- May 1st | May 31st: Westlake Campus Advertising (show Example Email Ad to Board) via social media and email list. (Find out how many Fidelity investors exist within the DFW Metroplex).
- June 1st | June 16th: Open Registration
- June 19th | June 23rd: Fidelity / LEGO Mindstorm Camp Classes!
- July 10th | July 14th: Fidelity / LEGO Mindstorm Camp Classes! (Summer Session 2)
- November 6th | December 8th: Westlake Campus Advertising (show Example Email Ad to Board) via social media and email list.
- December 11th | December 29th: Open Winter Registration
- January 2nd | January 6th 2018 (T-Sat): Fidelity / LEGO Mindstorm Camp Classes



SBI 3B: CONFIRM FINANCIAL VIABILITY

- Complete financial viability analysis for CSR project

1. Prepare 5 year Pro- Forma Financial Statements

5-Year Income Statement -Pro Forma

(\$ in millions)	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>2021</u>
<u>Revenue</u> ¹	<u>\$15,900</u>	<u>\$16,762</u>	<u>\$17,670</u>	<u>\$18,628</u>	<u>\$19,638</u>	<u>\$20,702</u>
<u>Operating Expense</u> ²	<u>\$12,400</u>	<u>\$12,922</u>	<u>\$13,466</u>	<u>\$14,033</u>	<u>\$14,624</u>	<u>\$15,239</u>
<u>Operating Income</u> ³	<u>\$3,500</u>	<u>\$3,840</u>	<u>\$4,204</u>	<u>\$4,595</u>	<u>\$5,014</u>	<u>\$5,463</u>
<u>Profit Margin</u> ⁴	<u>22.0%</u>	<u>22.9%</u>	<u>23.8%</u>	<u>24.7%</u>	<u>25.5%</u>	<u>26.4%</u>

Footnotes:

1 - Revenue increase for the five years is calculated at prior three-year average increase of 5.42%.

2 - Operating expense increase for five years is calculated at prior three-year average increase of 4.21%.

3 - Operating Income = Revenue - Operating Expense.

4 - Profit Margin = Operating Income / Revenue

Based on the prior three year average, revenue is estimated to increase by 5.42% annually. This number is lower than would usually be desired due to the firm's poor performance in 2015. This is a conservative figure. Likewise, operating expense is increasing based on the prior three year average at 4.21%. This pro forma is not including any strategic gaps.

5-Year Income Statement -Pro Forma With Strategic Gaps

<u>(\$ in millions)</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>2021</u>
<u>Revenue</u> ¹	<u>\$15,900</u>	<u>\$16,603</u>	<u>\$17,337</u>	<u>\$18,103</u>	<u>\$18,903</u>	<u>\$19,739</u>
<u>Operating Expense</u> ²	<u>\$12,400</u>	<u>\$12,922</u>	<u>\$13,466</u>	<u>\$14,033</u>	<u>\$14,624</u>	<u>\$15,239</u>
<u>Operating Income</u> ³	<u>\$3,500</u>	<u>\$3,681</u>	<u>\$3,871</u>	<u>\$4,070</u>	<u>\$4,279</u>	<u>\$4,499</u>
<u>Profit Margin</u> ⁴	<u>22.0%</u>	<u>22.2%</u>	<u>22.3%</u>	<u>22.5%</u>	<u>22.6%</u>	<u>22.8%</u>

Footnotes:

1 - Revenue increase for the five years is calculated at prior three-year average increase of 5.42%. With no strategy change, revenue increase would stay relatively stagnant as seen in 2016. Revenue growth reduced from 5.42% to 4.42%

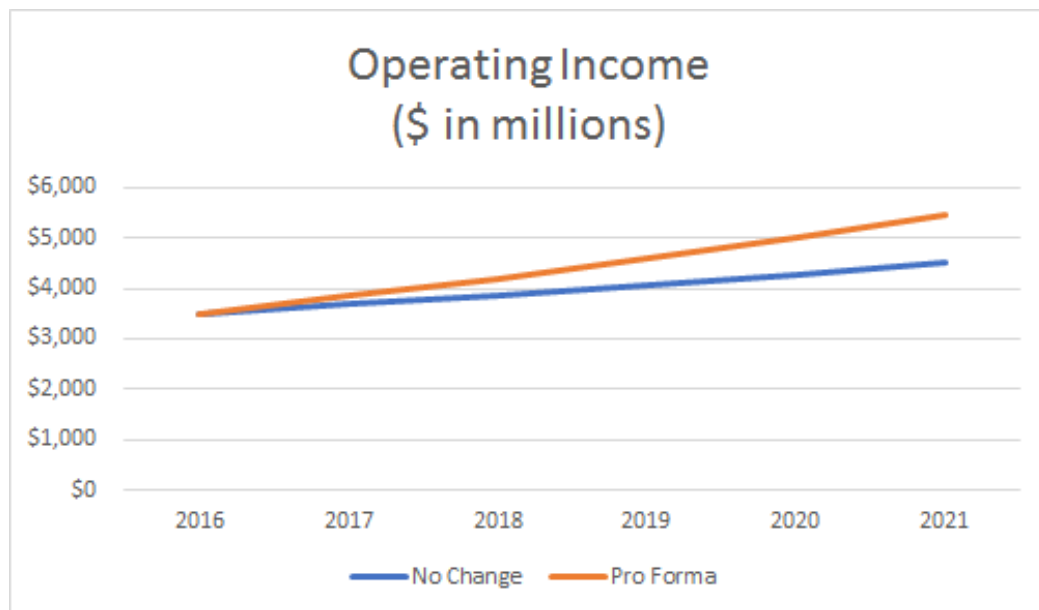
2 - Operating expense increase for five years is calculated at prior three-year average increase of 4.21%.

3 - Operating Income = Revenue - Operating Expense.

4 - Profit Margin = Operating Income / Revenue

For the pro forma including strategic gaps, the projected revenue is increasing by 4.42% as opposed to 5.42%. This 1% annual reduction in growth is a result of the strategic gaps mentioned

above. Consequently, we see a 5 year reduction in profit margin from \$5.463 billion to \$4.499 billion. This would be a total loss of \$964mm.



5-Year Income Statement -Pro Forma (CSR Project Only)

	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>2021</u>
<u>Revenue</u> ¹	<u>\$45,600</u>	<u>\$48,072</u>	<u>\$50,196</u>	<u>\$52,415</u>	<u>\$54,732</u>	<u>\$57,151</u>
<u>Operating Expense</u> ²	<u>\$45,300</u>	<u>\$47,755</u>	<u>\$49,766</u>	<u>\$51,861</u>	<u>\$54,044</u>	<u>\$56,320</u>
<u>Operating Income</u> ³	<u>\$300</u>	<u>\$316</u>	<u>\$431</u>	<u>\$554</u>	<u>\$687</u>	<u>\$831</u>
<u>Profit Margin</u> ⁴	<u>0.7%</u>	<u>0.7%</u>	<u>0.9%</u>	<u>1.1%</u>	<u>1.3%</u>	<u>1.5%</u>

Footnotes

1 - Revenue is based on admission fees + expected new customers as a result of CSR project. Revenue increase for the five years is calculated at prior three-year average increase of 5.42%.

2 - Operating expense increase for five years is calculated at prior three-year average increase of 5.42%

3 - Operating Income = Revenue - Operating Expense.

4 - Profit Margin = Operating Income / Revenue

The Pro Forma above is exclusively for the CSR project. This project will only affect the DFW Business Unit. Assuming the same growth(5.42%) in revenue and expenses (4.21%) as the original pro forma, we see a steady but small growth in operating income. The income statement reflects the purpose of this project; a low-risk CSR project that will cover its own costs and provide a large upside. Revenue includes the admission fees and all new business as a result of the CSR project.

Balance Sheet Proforma for CSR Project

	12/31/2016	12/31/2017	12/31/2018	12/31/2019	12/31/2020	12/31/2021
ASSETS						
Cash ¹	\$24,000	\$25,601	\$27,605	\$30,148	\$33,382	\$37,480
New Investments ²	\$21,600	\$22,771	\$24,005	\$25,306	\$26,678	\$28,123
TOTAL ASSETS	\$45,600	\$48,372	\$50,813	\$53,462	\$56,333	\$59,439
TOTAL LIABILITIES³						
Retained Earnings ⁴	\$300	\$616	\$1,047	\$1,601	\$2,288	\$3,120
TOTAL SHAREHOLDERS' EQUITY	\$300	\$616	\$1,047	\$1,601	\$2,288	\$3,120
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY⁵	\$45,600	\$48,372	\$50,813	\$53,462	\$56,333	\$59,439

Footnotes

1 - Includes cash from CSR + Retained earnings from prior year

2 - New investments as a result of CSR project

3 - Cost of project

4 - All cash from CSR project will go into retained earnings

The balance sheet is solely for the CSR project. Total assets includes cash from admission fees along with new investments as a result of the project. Liabilities includes all costs associated with the project. All profits will be reinvested into retained earnings.

2. Determine how the company is going to pay for the proposed changes

The project will have relatively small incremental costs and will not require external funding. Fidelity can pay for it using existing revenues and will make more money off of the project than it will spend.

3. Confirm financial viability of the SBI process proposed

The process is financially viable. Due to the small financial investment, there is little to no risk. Each course is expected to pay for itself with the upside of increasing the customer base each time. Even if the project fails at bringing in new customers, it will still be successful at educating the youth and will not be financially harmful to Fidelity as it will pay for itself. In addition, it can be implemented on a small scale and tested out at Westlake before consideration on a larger scale.

NPV ANALYSIS

	<u>CF0</u>	<u>CF1</u>	<u>CF2</u>	<u>CF3</u>	<u>CF4</u>	<u>CF5</u>
Inc	\$ 45,600	\$ 48,072	\$ 50,196	\$ 52,415	\$ 54,732	\$ 57,151
Exp	\$ 45,300	\$ 47,755	\$ 49,766	\$ 51,861	\$ 54,044	\$ 56,320
Profit	\$ 300	\$ 317	\$ 430	\$ 554	\$ 688	\$ 831
NPV	\$ 2,824					

Without detailed information on Fidelity’s borrowing costs and financials, it was difficult to estimate a weighted average cost of capital for the company. Weighted average cost of capital cannot be generalized for any particular industry, but there is a prevailing trend in the financial services and brokerage industries for a low WACC. Borrowing costs for the Financial Services industry averages around 2.43% and for the Brokerage industry around 4.14% according to industry research and information published as of January 2017 by Aswath Damodaran at Stern

Team Assignment 2 - Live Case

School of Business NYU. As Fidelity can be categorized into either of these two sectors, an average of these two percentages can be used to estimate a rough discount rate. Using 3.285 percent, the Net Present Value comes out to be \$2,824 over five years. Since the NPV is positive, Fidelity should invest in the proposal.

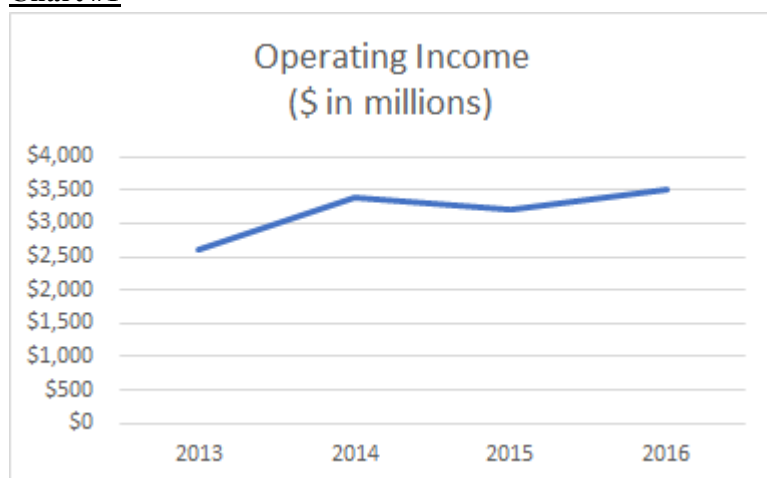
TABLE OF FIGURES

Income Statement #1

Fidelity Annual Income Statement

<u>(\$ in millions)</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>
<u>Revenue</u>	<u>\$13,600</u>	<u>\$14,900</u>	<u>\$15,900</u>	<u>\$15,900</u>
<u>Operating Expense</u>	<u>\$11,000</u>	<u>\$11,500</u>	<u>\$12,700</u>	<u>\$12,400</u>
<u>Operating Income</u>	<u>\$2,600</u>	<u>\$3,400</u>	<u>\$3,200</u>	<u>\$3,500</u>
<u>Profit Margin</u>	<u>19.1%</u>	<u>22.8%</u>	<u>20.1%</u>	<u>22.0%</u>

Chart #1



Income Statement #2

5-Year Income Statement -Pro Forma

<u>(\$ in millions)</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>2021</u>
<u>Revenue¹</u>	<u>\$15,900</u>	<u>\$16,762</u>	<u>\$17,670</u>	<u>\$18,628</u>	<u>\$19,638</u>	<u>\$20,702</u>
<u>Operating Expense²</u>	<u>\$12,400</u>	<u>\$12,922</u>	<u>\$13,466</u>	<u>\$14,033</u>	<u>\$14,624</u>	<u>\$15,239</u>
<u>Operating Income³</u>	<u>\$3,500</u>	<u>\$3,840</u>	<u>\$4,204</u>	<u>\$4,595</u>	<u>\$5,014</u>	<u>\$5,463</u>
<u>Profit Margin⁴</u>	<u>22.0%</u>	<u>22.9%</u>	<u>23.8%</u>	<u>24.7%</u>	<u>25.5%</u>	<u>26.4%</u>

1 - Revenue increase for the five years is calculated at prior three-year average increase of 5.42%.

2 - Operating expense increase for five years is calculated at prior three-year average increase of 4.21%.

3 - Operating Income = Revenue - Operating Expense.

4 - Profit Margin = Operating Income / Revenue

Income Statement #3

5-Year Income Statement -Pro Forma With Strategic Gaps

<u>(\$ in millions)</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>2021</u>
<u>Revenue¹</u>	<u>\$15,900</u>	<u>\$16,603</u>	<u>\$17,337</u>	<u>\$18,103</u>	<u>\$18,903</u>	<u>\$19,739</u>
<u>Operating Expense²</u>	<u>\$12,400</u>	<u>\$12,922</u>	<u>\$13,466</u>	<u>\$14,033</u>	<u>\$14,624</u>	<u>\$15,239</u>
<u>Operating Income³</u>	<u>\$3,500</u>	<u>\$3,681</u>	<u>\$3,871</u>	<u>\$4,070</u>	<u>\$4,279</u>	<u>\$4,499</u>
<u>Profit Margin⁴</u>	<u>22.0%</u>	<u>22.2%</u>	<u>22.3%</u>	<u>22.5%</u>	<u>22.6%</u>	<u>22.8%</u>

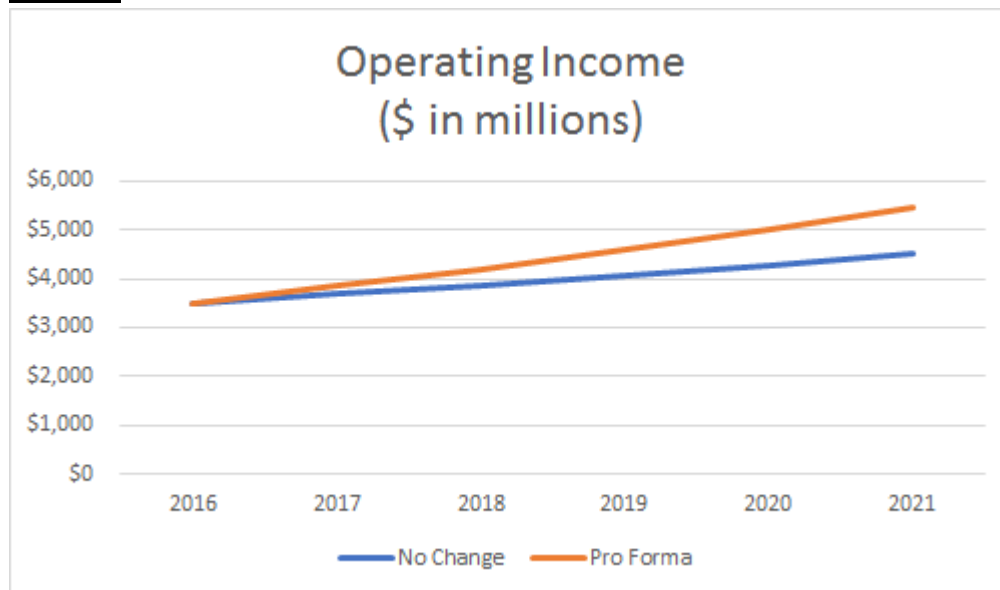
1 - Revenue increase for the five years is calculated at prior three-year average increase of 5.42%. With no strategy change, revenue increase would stay relatively stagnant as seen in 2016. Revenue growth reduced from 5.42% to 4.42%

2 - Operating expense increase for five years is calculated at prior three-year average increase of 4.21%.

3 - Operating Income = Revenue - Operating Expense.

4 - Profit Margin = Operating Income / Revenue

Chart #2



5-Year Income Statement -Pro Forma (CSR Project)

	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>2021</u>
<u>Revenue</u> ¹	<u>\$45,600</u>	<u>\$48,072</u>	<u>\$50,196</u>	<u>\$52,415</u>	<u>\$54,732</u>	<u>\$57,151</u>
<u>Operating Expense</u> ²	<u>\$45,300</u>	<u>\$47,755</u>	<u>\$49,766</u>	<u>\$51,861</u>	<u>\$54,044</u>	<u>\$56,320</u>
<u>Operating Income</u> ³	<u>\$300</u>	<u>\$316</u>	<u>\$431</u>	<u>\$554</u>	<u>\$687</u>	<u>\$831</u>
<u>Profit Margin</u> ⁴	<u>0.7%</u>	<u>0.7%</u>	<u>0.9%</u>	<u>1.1%</u>	<u>1.3%</u>	<u>1.5%</u>

1 - Revenue is based on admission fees + expected new customers as a result of CSR project. Revenue increase for the five years is calculated at prior three-year average increase of 5.42%.

2 - Operating expense increase for five years is calculated at prior three-year average increase of 5.42%

3 - Operating Income = Revenue - Operating Expense.

4 - Profit Margin = Operating Income / Revenue

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MEMORANDUM OF UNDERSTANDING
Between
Fidelity Investments
and
Engineering for Kids (LEGO Robotics)

This Memorandum of Understanding (MOU) sets for the terms and understanding between Fidelity Investments - Westlake and Engineering for Kids as partners for building corporate social responsibility through technological education via the LEGO Mindstorms / EV3 Program.

Background

Fidelity Investments and Engineering for Kids agree to a partnership lasting one year. During this partnership, Engineering for Kids will agree to provide services and items necessary to complete on-hand teaching of LEGO Robotics to prospective and/or current indirect clientele (youth) of Fidelity Investments. In return, Engineering for Kids will become the official partner of Fidelity Investments in the Dallas Metro area during the one year duration, providing mutual growth of services. The Dallas Metro area is defined by Engineering for Kids as Highland Park, Cities of Mesquite, Sunnyvale, Murphy, Wylie, Lucas, Fairview, Princeton, Melissa, Anna, Celina, Prosper, Denton, Argyle, Crossroads, and Corinth.

Purpose

The partnership will be created for the mutual benefit of Fidelity Investments and Engineering for Kids. Both companies will benefit through gained brand awareness of technological education and innovation to the Dallas Metro public. Fidelity Investments will create week (five days) long three (3) hour camps at their campus, three times within the calendar year (June, July, January), and use the profitability from these camps to ensure payment of Engineering for Kids, while also creating other technological education sponsorships, scholarships, and awards for these students. Promotion of this partnership will be created through social media pages, word of mouth advertising by in-person educational school districts, and listed permissible emailing of clientele, all by both parties.

Reporting

Fidelity Investments and Engineering for Kids officials will have one meeting bi-monthly throughout the duration of the agreement. After the one year trial agreement, officials will need to meet to discuss the possibilities of continuing the partnership.

Funding

Funding will be allocated initially by Fidelity. As each event reaches near conclusion, funds towards Engineering for Kids will be distributable at their usual standard rate. Other funds remaining will be used toward the benefit of prospective and current clientele (scholarships, etc.). Fidelity has full usage rights to use the Engineering for Kids brand name in order to promote this partnership.

Duration

This MOU is at-will and may be modified by mutual consent of authorized officials from Fidelity Investments and Engineering for Kids. This MOU shall become effective upon signature by the authorized officials from Engineering for Kids and will remain in effect until modified or terminated by any one of the partners by mutual consent. In absence of mutual agreement by the authorized officials from Fidelity Investments and Engineering for Kids, this MOU shall end by May 1st 2018.

Contact Information

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