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"I've been working for ABT since… I don't know. Go ask the owners, they are the ones who hired me in the first place. They know what I have done for the company. They truly appreciate the work I've done …"

Paul Soleil, Academic Materials manager at the Academy for Business & Technology (ABT), thought back on those words one afternoon in January 2019. They had been spoken by Thomas Raymond, ABT's content distributor for Valencia, Castellón, Alicante and Murcia (see Exhibit 1 for a map of the region). Soleil had to decide whether or not to cancel Raymond's distribution contract and give it to another distributor in the area. The decision would affect various people, and Soleil wanted to analyze all the alternatives and their possible consequences. He would have to bear in mind the friendship between Raymond and the owners of ABT, as well as consider how that might influence his decision.

ABT

ABT was a family-owned institution and publishing group founded in 1985. Its principal activity was offering academic material. Located in Barcelona, the company employed 82 people. In 2018 it had sales of €24.7 million, with a profit before tax of €1.9 million (see Exhibit 2 for the sales growth). No family members had worked in the organization on a day-to-day basis since 2010.

ABT had two divisions: Custom and Academic Materials. The Custom Materials Division focused on developing and adapting content to the needs of large corporate clients. In the last few years, the Custom Division had started to add value by increasingly adapting to its customers' needs, introducing new methods in terms of content delivery, as well as embracing a more holistic view of the learning journey and what was needed to accommodate that.

This process had led to a sharp increase in margins and volumes, thanks to moderate investments in developing new types of academic material and in marketing. In 2018, 58% of Custom's sales came from outside Spain. That percentage was expected to increase in the following years.

Academic Material

The Academic Material Division was responsible for development of content including business cases, books which often included supporting material for professors, and simulations. These were launched and published under its own brand name, although it also had agreements to distribute content from other institutions. It distributed its content through 23 distributors. These distributors acted as ABT representatives with prospective clients, who were typically universities, business schools, and Executive Education institutions, and were helping them to choose the content most appropriate for their students.

While students in universities were typically undergrads and had limited or no work experience, students in business schools and in executive education had were successful entrepreneurs or had extensive international working experience in corporations.

Academic Materials had undergone a tremendous evolution in the preceding years. Technological advances had permitted the development of material that was more hands-on and better tailored to the needs of students. Given the wide diversity of students served, the need for support could vary heavily across clients. For example, universities that had predominantly undergraduate students required limited support in terms of material selection, while schools serving students with significant work experience required significant support in terms of selecting their material, updating their content, as well as following and identifying new pedagogical trends.

In recent years, the Academic Material Division had experienced spectacular growth. Sales had jumped from €3.97 million in 2015 to €7.63 million in 2018, of which €250,000 corresponded to universities and schools outside Spain. The division was expected to continue growing over the next few years, particularly with international clients.

The contracts ABT had with its distributors usually granted the distributors exclusive representation for a particular region and category of academic material, and required them to act as sole distributors in that region and category. In other words, in the specified region and category, ABT could only sell its academic material through the assigned distributor, and the distributor could only promote and sell academic material from ABT. ABT offered its distributors larger regions than most of its competitors, and its product line was broad enough to cover most needs of universities and schools.

The Academic Material Division had three types of competitors. First, it competed with U.S. based, globally renowned institutions, such as Harvard Business School, Stanford Graduate School of Business, and Wharton Business School, which developed their own content and programs, publishing them under their own name. Although these institutions granted exclusivity to their distributors, the contracts were not strongly enforced and competition among distributors in the same region was not uncommon. This problem was aggravated by the fact that the regions they were allowing their distributors to control were not very large. Distributors, on the other hand, were attracted by the name of prestigious institutions and the stability that well-known institutions could offer. The main obstacle in competing with these prestigious institutions was that the best distributors were already taken; smaller players such as ABT could not choose who they would work with. ABT also sold a significant part of its content, cases, and simulations through these institutions.

Secondly, ABT competed with massive open online course (MOOCs) providers such as edX and Coursera that offered content from a wide range of institutions. To keep cost at bay, these providers automated the distribution of their content or outsourced it to centralized teams working from India. These platforms competed on price, but their distribution teams were typically ill-equipped to advise universities and schools on the specifics of the academic material offered, as well as on the specifics of how materials could be combined to complement one another,

Finally, ABT competed with other local and European institutions that developed their own academic material. These institutions could only differentiate themselves through the quality of their material, the brand name of the institution, and their service levels.

Prior to 2015 the programs offered by the Academic Material Division had been distributed through agents, who received a commission on sales, but did not offer advice on academic material such as which content was more appropriate for a particular course, how to combine different types of academic material such as cases and simulations, or on syllabus development more broadly. These agents, who were free to decide which potential universities and schools to target, had modest warehousing facilities to store books, cases, as well as equipment required for simulations and workshops such as laptops, and kept small stocks. In 2015 they served more than 80 universities and schools in Spain.

Up until then, ABT's offerings range had been quite limited (only 3 topics: strategy, accounting, and marketing) and narrow (only books). Its brand was underdeveloped, and potential clients perceived its content as generic. Consequently, ABT was being forced to compete on a mere price basis with other institutions and publishers of lower quality and cost. Gross margins in 2015 were less than 20%.

Under these circumstances, ABT's management had decided to revamp the Academic Material Division with a strategy based on three lines of action. First, in line with its strategy to become a leading provider in content for lifelong learning, it had created offerings that could not only increase its client base, but also accompany alumni of the schools and universities served throughout their careers and ever-changing needs.

As a result, by 2019 ABT had over 70 topics in its catalog, and had started to offer business cases and simulations, which were more complex and demanding than books as they required real-world examples and strong development teams but yielded higher margins. Second, ABT had worked hard on its brand, attracting well-renowned faculty as well as faculty that had extensive experience teaching at the Executive Education level to offer new material of even higher quality, and by increasing its promotional budget.

Agents had also been gradually replaced by distributors. Distributors were larger than agents and were typically more knowledgeable on the needs of different universities and schools as well as their student subpopulations. Thanks to this strategy, the Academic Material Division had improved its margins to an average of 30%.

Finally, ABT had started relying a bit more on insights generated through machine learning. Soleil had recently hired an recent graduate with a computer science background, Marc Mejor, to help them generate and capture value from their various efforts. As part of his engagement with the company, Mejor had developed three AI models to classify visitors of ABT's website as *purchasers* and *non-purchasers*, in order to convert some of the non-purchasers by providing them discount coupons before they leave the website. As the vast majority of the website's 10,000 monthly visitors were registered, Mejor drew his training data from ABT's internal data that included demographic and purchase information, and had developed three predictive models.

The first model had classified 4,520 individuals as *purchasers* (4,020 correctly so) and 55,480 as *non-purchasers* (53,780 correctly so) in a validation dataset used with 60,000 unique visitors. The second model developed was using different variables to predict the likelihood of someone being a *purchaser* compared to the first model. Its precision was 80% and its recall was 68%. *The third model, had* 5% higher precision, and 8% higher recall on the training data when compared to the second model using the training data, but had 3% lower precision and 4% lower recall on the validation data when compared to the second model. Based on past data from one of their competitors that had deployed a similar AI system, ABT had calculated that the cost of misclassifying a *purchaser was* €250, while the cost of misclassifying a non-*purchaser was* €75. Soleil and Mejor were trying to decide which model made more sense for them to deploy on their website to drive its sales.

Thomas Raymond

Thomas Raymond was born in Valencia in 1963. He did not go to the university but started working at the age of 16 in an institution that was offering on-site training to large corporations. He went in as a supporting employee, but his ability to get along with people quickly led him into the sales area. The institution went bankrupt in 1985, and Raymond became an agent for ABT. He brought along his customer base, which, though not large, was stable and reliable. Raymond had lived in Castellón since then.

Relations between Raymond and the owners of ABT were very good and when the latter visited Castellón, they were often received by Raymond and spent some time with him.

Raymond was also on good terms with Soleil's predecessor as Academic Materials manager, Carlos Fuentes, who in 2013 had persuaded Raymond to shift from being an agent to being a distributor. This meant that ABT would sell to Raymond, who in turn would sell to universities and schools. Raymond purchased a 400 m2 warehouse for €120,000, financed out of his personal savings and a €100,000 mortgage with monthly payments of €1,150 over 14 years. The distribution contract was signed between ABT and EDUTOSA, a company fully owned by Raymond. In 2019 EDUTOSA had one employee, Manuel Martin, 25, who handled orders, managed the physical distribution, and took care of accounts receivable. Martin had joined EDUTOSA in 2016 on a temporary contract. His salary was €1,000 per month, plus two extra payments over the year of €1,000 each, with social security payments of 34% on top of that amount. EDUTOSA's offices, located in a central area of Castellón, had a rent of €1,500 per month. General expenses, including telephone, heat, and electricity, were around €500 per month.

EDUTOSA basically sold books to universities, which was the preferred and dominant teaching material used by professors in the area. Annual sales had been €466,400, €672,500, €747,600 and €671,400 in 2015, 2016, 2017 and 2018, respectively. Although approximately 94% of the material sold by EDUTOSA came from ABT, it also sold a limited range of non-competing products from other publishers such as novels and children's books. EDUTOSA had exclusive rights in Valencia, Castellón, Alicante and Murcia for books, business cases, and simulations.

As stated above, the distributor's job was to handle all aspects of the sale, from physical delivery to collections. At the peak of some seasons, Raymond had redirected some orders to ABT, which then took on the responsibility for shipping and support. Raymond had used this practice at one time or another with at least 80% of his clients.

When Soleil was promoted to Academic Materials manager in November 2015, he was one of the few who defended Raymond's position, whose performance at the time was highly unsatisfactory. Encouraged by this support Raymond hired Martin early in 2016, and sales grew again to meet ABT's expectations.

Raymond also owned a small dog-training business, which, though not very profitable, covered costs and helped him to maintain the social status that relations with university employees and professors required. Raymond had two children, Anna, 21, and José, 19, both of whom were studying at the university. His wife had been sick for a long time and required constant medical attention. Raymond had a mortgage on his house, for which he paid a monthly payment of €1,000. Soleil knew that if he cancelled Raymond's contract, it would be difficult for Raymond to find a job outside the book sector.

Paul Soleil

Soleil had joined ABT in November 2014 at age 25, after completing his MBA. He held a PhD in business administration but, after a summer internship during his studies, had discovered that he enjoyed working more on the corporate side of institutions.

Soleil began his career at ABT as assistant to the general manager and quickly became involved in the revamp of the Academic Materials Division. The plan required significant changes to the division's culture and organization chart, such as the replacement of the sales manager. After an unsuccessful external search, Soleil was promoted to sales manager in November 2015, with the specific mandate to implement the Academic Materials Division's turnaround. Soleil would report directly to **Josep Cifuentes**, general manager of **ABT**, with whom he had a positive but formal working relationship. Cifuentes authorized Soleil to take whatever actions he deemed necessary to bring sales from the Academic Materials Division up to €5 million before the year 2019.

Soleil's relationship with the owners of ABT (two brothers, each of whom held 50% of its shares) was good but distant. Mario Gaultier, the eldest, was the president of ABT, and Louis Gaultier was not directly involved with the company. The latter had been general manager of ABT when Raymond joined the company in 2005.

In his four years at ABT, Soleil had not yet seen any of his decisions questioned by the president. In 2017, a distributor in Salamanca had contacted the president to resolve a dispute over the amount of his indemnity after the cancellation of his contract. The distributor felt that he deserved more than Soleil was willing to pay. On that occasion, the president had backed Soleil against the distributor. Soleil wondered if things would be different in the case of Raymond, since there was real friendship between them.

In December 2018, Soleil received a visit from the general manager of OWL.

The OWL Proposal

OWL was a family-owned business founded in 2012. It was the largest distributor of academic materials in the area of Levante, and one of the five largest in Spain, with sales of €13 million in 2018. OWL served the markets of Valencia, Castellón and Alicante. It did not serve Murcia or Albacete, and Soleil thought that expansion to those markets was just a question of time. The manager of the company was Cesar Gamboa, 36, who held an MBA degree from a prestigious business school. Nine of the 25 employees of OWL were sales representatives (see Exhibit 5 for sales and gross margins).

The books, cases and simulations used in business schools provided higher margins than those provided to engineering schools and colleges of arts. For this reason, OWL had first penetrated the business school market, even though it offered significantly lower volumes. OWL's sales in 2017 were 54% to business schools, 26% in engineering schools and the rest divided among other schools and colleges. OWL did not offer any other products outside these markets. The company's existing contracts for business and engineering schools gave it exclusivity in Valencia, Castellón and Alicante. These contracts were with a large, leading publishing group.

In December 2018, Gamboa visited Soleil in Barcelona. He asked Soleil for the distribution of ABT's line of books, business cases, and simulations, that targeted not only business schools, but also engineering and art schools for the areas of Valencia, Castellón, Alicante, Albacete and Murcia. It was understood that OWL would cancel its present contract with the existing publishing group to become ABT's exclusive distributor. Soleil replied that the area of Albacete could not be transferred since he was happy with the current distributor, but he would consider cancelling Raymond's contract for Valencia, Castellón, Alicante, and Murcia.

OWL requested prices that were on average 2% lower than those being offered to Raymond.

OWL committed itself to reach sales of €1.3 million in the first year. While Soleil liked this point, OWL would not consent to putting it into writing in a contract. OWL wanted a prompt answer because the sales season for academic material in business and engineering schools would begin in March for the subsequent academic year.

Raymond's Distribution Contract

The contract, signed in August 2013, specified the products and areas assigned to **EDUTOSA** on an exclusive basis. Soleil felt that if ABT cancelled EDUTOSA's contract, he would have to allow for the possibility of legal suits on one or several of the following grounds:

1. Indemnity for goodwill: indemnity would be payable in all cases of cancellation unless the cancellation was justified on any of the grounds stated in the contract, none of which applied in the existing situation. The amount would be decided by a judge and would probably correspond to one year's profits, measured as the average margin over the last five years. On some occasions judges had used gross margin, while on others they had used after-tax profit.

2. Indemnity for damages: damages would be payable if Raymond was not given the six months' notice stipulated in the contract. In that case, the normal indemnity would be equivalent to six months' margin. As before, depending on the judge, the margin might be calculated using gross margin or net profit after taxes.

3. Indemnity for punitive damages: this indemnity would be payable if EDUTOSA were forced to close as a result of the cancellation of the contract and it incurred costs associated with its closure. These costs typically included compensation to personnel, charges for early cancellation of credit lines or rental contracts, etc. In the past, an indemnity for punitive damages had only been imposed when goodwill had been calculated on the basis of net profit rather than gross margin.

ABT's lawyers, a prestigious partnership in Madrid, assured Soleil that the probability of Raymond suing for punitive damages was low. They also felt that the appropriate basis for calculating indemnities would be net profit after taxes and not gross margin.

The Decision

Soleil also checked the accounts receivable from EDUTOSA and found that the outstanding debt was €235,000. This figure would probably reach a maximum in March, and would probably then decrease to a minimum in August (see Exhibit 6 for the average level of ABT's accounts receivable with EDUTOSA during 2018). One of Soleil's concerns was that if he cancelled Raymond's contract, he might not be able to collect the outstanding receivables.

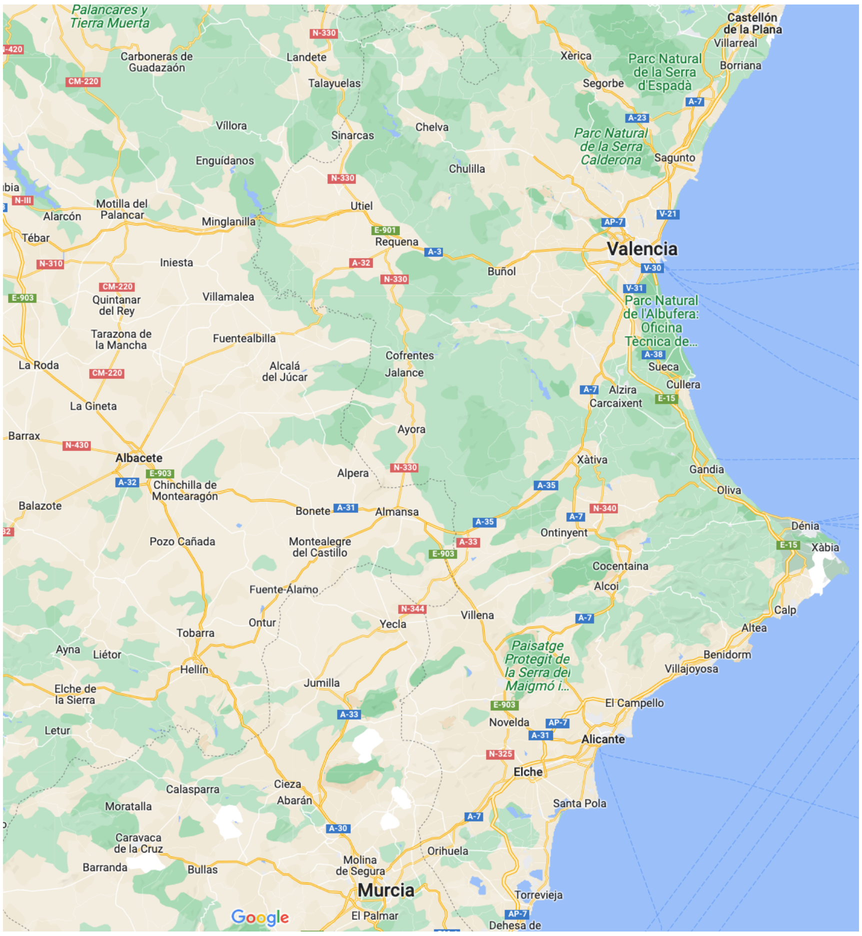
Soleil also knew that, in this line of business, personal contacts were very important, and he feared that Raymond might take some of ABT's customers with him if he decided to distribute a competitors' material. He was also concerned about the institution's image, which could be damaged if Raymond decided to sue ABT.

Another worry was whether OWL would actually be able to achieve sales of €1.3 million, given its lack of experience, and whether it would be able to finance the growth internally. In addition, he was not sure whether OWL would still be interested in the deal if Albacete was not included in it.

Finally, Soleil was very aware that if he decided to cancel Raymond's contract, he would have to prepare a convincing argument for the owners, Mario and Louis Gaultier.

Exhibit 1

Map of the Area of Levante



Source: Google Maps.

Exhibit 2

Sales of ABT (thousands of €)

	Custom Material		Academic Material	
Year	National	Export	National	Export
2015	5,495	7,300	3,970	-
2016	6,515	7,890	5,025	-
2017	6,670	9,125	7,165	50
2018	7,125	9,935	7,375	250

Source: Information provided by the company.

Exhibit 3

Sales of ABT to EDUTOSA (thousands of €)

Sales of ABT to EDUTOSA				
	2015	2016	2017	2018
Books	347	486	538	526
Business Cases		35	18	3
Simulations	12	20	50	20
Total	359	541	606	549

Source: Information provided by the company.

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Exhibit 4

Market for Academic Materials in Levante and Spain (thousands of €)

Total Market Area of Levante	2015	2016	2017	2018
Journal Articles	4,344	2,122	2,893	2,824
Workshop Content	2,662	3,667	4,114	4,045
Books	7,950	10,521	10,455	12,171
Business Cases	13,964	22,939	23,999	26,469
Simulations	12,178	17,766	21,705	22,282
Serious Games	2,084	2,386	2,741	3,188
Others	823	2,485	3,132	3,039
Total	44,005	61,886	69,039	74,019
Total Market of Spain	397,403	469,413	506,604	534,559

Source: Information provided by the company.

Exhibit 5

Sales and Gross Margin of OWL (thousands of €)

Year	Sales	Gross margin
2015	6,910	27.70%
2016	8,780	24.30%
2017	10,930	23.70%
2018	13,000	24.40%

Source: Information provided by the company.

Exhibit 6

Average Level of Accounts Receivable with EDUTOSA (thousands of €)

Month	Average
January	200
February	240
March	260
April	240
May	220
June	200
July	180
August	140
September	150
October	180
November	260
December	220
Average	210

Source: Information provided by the company.