

Academy for Business & Technology

"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 been 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