

# Case: Publishing Company

Lenovo, Round 2

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## Problem statement narrative

Your client is Putter, a company that publishes romance novels that they sell to bookstores. Typically, Putter reimburses its customers at the end of the year for any unsold inventory. Now, one of Putter's customers, a retail bookstore, has come to it with an offer for a deal. In return for a 10% discount on wholesale prices, the bookstore will no longer send back any books at the end of the year. Should Putter do the deal?

## Overview for interviewer

This is primarily a calculations, margin case. Make the candidate explore the calculus in the case first and foremost; discussion of business and strategic alternatives can come later.

Case Type: Operations / Profitability  
Case Style: Command & Control

## Information to be provided upon request

Putter's clients have to sell at a price we dictate, no cheaper.

# Potential Issue Tree & Approach to Solving the Case

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## Key elements of analysis to solve the case

Math	Opportunities	Threats
Margin calculations	<ul style="list-style-type: none"><li>• Reduction in operational complexity</li><li>• Good will meeting customer/channel request</li><li>• Open up new business model – may lead to additional distribution channels?</li></ul>	<ul style="list-style-type: none"><li>• Cash Flow (with new model, get lesser cash flow upfront- problem in this economy)</li><li>• Market Share (assuming fewer units sold)</li><li>• May affect other clients' choices as well (ie first of many, not isolated case)</li><li>• Relationship with client (supply them with less, they view you as less important)</li></ul>
Possible follow-up and guidance to interviewer	Possible follow-up and guidance to interviewer	Possible follow-up and guidance to interviewer
<ul style="list-style-type: none"><li>• Don't forget salvage value</li><li>• Explore rationale for # of books ordered (directionally up, down or flat), more in next page</li></ul>		<ul style="list-style-type: none"><li>• When mentioning cash flow, have candidate do the calculations. Previously get \$100,000 upfront, now only get \$67,000.</li></ul>

## Question 1 – Good Deal?

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### Math Question

Does this make sense on a profit basis?

#### Overall approach, good shortcuts & solution

Don't forget salvage value.

Calculations:

Pre-change: profit =  $8,000 * (10-5) - 2000 * 5 = \$30,000$

Post-change: profit =  $7,500 * (9-5) = \$30,000$

Pre-change: cash-flow:  $10,000 * \$10 = \$100,000$  upfront

Post-change: cash-flow:  $7,500 * \$9 = \$67,500$  upfront

Pre-change: market share at 8,000 books

Post-change: market share at 7,500 books

**Solution:** The expected profit is the same, but initial cash flow is lower and market share is lower. There does not seem to be a direct financial incentive to take the deal.

#### Information to provide up front

- In 2008, Putter sold 10,000 books to this bookstore
- It costs Putter \$5 on average to make a single book
- Putter previously sold books to the bookstore at \$10
- Note to interviewer: MSRP not relevant

#### Provide information if asked

- Putter's Salvage Value for unsold books = 0
- Romance novel sales have been flat for a decade, expected to remain so in the coming years
- In 2008, the retail bookstore sent back 20% of its books
- Have interviewee explain how he/she will guess at a figure of how many books the bookstore will order, then give the projected number of 7500

## Sample Recommendation

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Recommendation	The deal does not seem attractive on a financial or strategic basis. The expected profitability is the same but cash flow and market share will decline. Such problems are complicated by the fact that others in the industry may follow the lead of the first bookstore. Recommendation is not to accept the deal.
Risks	By not accepting the request of your client, you risk alienating the bookstore if other publishers shift business models.
Next Steps	Consider the differences in “blockbuster” books vs. lower-volume books. Perhaps new business model (at different pricing) may make sense for some titles.