

Strategic Dilemmas on the Czech Newspaper Kiosk Market

Your client is a newspaper retail chain operator in the Czech Republic. The Company is a dominant player on the market, which has been continuously decreasing for a decade. Your task is to suggest some strategic actions, which can increase the profit of the Company in the next few years. Please note, this time the CEO will not accept any further decrease of HQ costs, she wants to increase the revenues instead. This task is really challenging because the management has already tried several actions aiming profit increase without avail. What kind of strategy do you suggest based on the available data?

The Company offers many products (Product Category)¹ in its approx. 150 stores (Store name). Certainly, the newspapers are the most significant products among them. Additionally, the store chain realises considerable amount of revenue from gambling as well. All stores provide scratch cards, but some shops are lottery points of sales as well (Lottery POS), where one can bet on sport events and buy lottery.

To offset the decreasing newspaper demand, the Company offers fee collection services where customers can pay their utility bills. Albeit, this product type witnessed a solid growth in the last one and a half years, the management do not expect any further growth. PUDO (pick up-drop off) is also a new idea: the Company joined a network of webshop delivery points. If a customer picks a package up (or drops it off) at a certain store, the Company gets commission for the service. Food and tobacco products are cash cows as they modestly grow (or rather stagnate).

Newspaper. For several years the main source of the competitive advantage of the Company was its wide product range containing almost all newspapers and magazines available in the Czech Republic unlike the narrow product lines of the supermarkets and discount retailers. Anyhow, the demand for newspapers is continuously decreasing and there is no sign of any change in trends. According to the Company's research, most of its customers still come to buy newspapers or magazines, thus, the management does not really want to decrease the newspaper product range. However, to be honest, there are a few titles, which nobody buys, consequently they generate only losses (because the leftovers are sent back to the logistic centre). On the other hand, the Company might lose its unique character if it decreases the product range.

Gambling. The Czech national monopoly for gambling, Sazka is not open to increase the number of lottery POSs in the country. Therefore, the Company must value the current POSs; it cannot expect to get more. In those stores, which currently have lottery POS, the sport bets are significantly increases and even the lottery to some extent. According to the observation of the local salesforce, some customers spend hours with gambling in the stores. Not surprisingly, as stated by the regional sales managers, the stores having lottery POSs and the non-lottery stores differ significantly.

PUDO. E-commerce is booming in the Czech Republic and it shows no sign of changing. On the other hand, the Company receives rather limited amount of commission for PUDO services. It may be the main reason why not every manager favours PUDO in the network. According to the regional sales leaders, it takes much time of the staff to handle the packages, consequently, sometimes people must wait in line for a while, which might frighten potential customers. Moreover, customers who pick a package up seldom buy anything because in their mind they have already paid for something (viz. for their webshop package itself). However, as the Company realises small amount of profit from PUDO itself, it needs to increase cross-sale. To make things worse, during November and December when

¹ The appendix of the case study is a dataset having several variables, the names of which you find in brackets.

the e-commerce turnover peaks, some stores receive so much packages that customers can barely reach the newspapers on the shelves.

Food and tobacco. It is the only product category, that does not increase significantly, even though, the Company is satisfied with its performance. Due to strict regulations, the Company cannot implement any actions to increase tobacco sales. While it has already started some actions to boost food sales, therefore, it is not in the focus of the current analysis.

Cross-sale. As it was described before, the management believes that the Company could further increase its cross-sales. Unfortunately, due to technical and administrative reasons, the Company does not have a single database about the shopping cart data, because some transactions are recorded by different cash registers (e.g. lottery, newspaper and cash collection have three different cash registers). Therefore, we do not know the current cross-sale performance.

Stores. The Company does not see much chance to open any new stores soon, moreover, it might have to close some of them. The stores are located in city main streets, shopping malls, classic markets, and hypermarkets (*Location*). The company rents them from the local governments of the cities and real estate operators, while the hypermarket stores are rent from two dominant retail players: Kaufland and Albert. As these retailers realise significant profit from premise rental, thus, they would not easily accept the closure of the newspaper kiosks.

Local salespeople. It is difficult to measure how important the role of a salesperson is during newspaper sales. The stores are in frequented locations with high purchasing power and large number of inhabitants etc. These variables are available thanks to the Czech Statistical Office (ČSÚ). Both the data and the observations emphasise that Prague's market and the countryside have different dynamics, thus, even the regional managers handle them differently. Certainly, rivals influence the turnover of the stores, the newspaper income of which are regularly estimated by the Company's salespeople (*0_50m_atl*). For instance, if there is a newspaper kiosk in front of the entrance of an Albert the customers might buy a newspaper inside of the supermarket instead. However, the above-mentioned database contains only the newspaper turnover, nothing else. Even the internal store factors matter e.g. the size of the store (*Floor area*) or the number of shelves (*Newspaper shelves, Non-Newspaper shelves*) etc.

To answer the following questions, you must use the attached dataset.

1. Estimate the potential of the stores. What are the most important influencing factors in terms of turnover? Suggest some new measures that can be useful for further analysis of store performance.
2. Based on these analyses, which stores can be considered as underperformers? Which one should the Company close?
3. How do the main product categories interact? Where do you see any cross-sale potential?
4. Define actions for profit increase.
5. Next Tuesday you will present your results to the Steering Committee including (1) the Chief Financial Officer who is rather sceptical about statistical analyses because he accepts only those reports, which are created by his team; (2) three regional sales manager who do not have statistical background and prefer intuition; and (3) the CEO who has worked at the Company for 25 years and tried to implement a lot of profit increasing actions with miscellaneous results. But tonight, you will have a preliminary presentation to the Chief Marketing Officer. Provide a plan how you would convince the Steering Committee about that your results are valid.