

Juul Møller Bokhandel A/S

Associate Professor Espen Andersen prepared this case as the basis for class discussion rather than to illustrate either effective or ineffective handling of an administrative situation. The contents are based on an actual situation, but certain names and events have been disguised.

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In April 1996, Dag Juul Møller, owner and president of Juul Møller Bokhandel A/S, an (in Norwegian terms) medium-sized bookstore company located in Oslo, Norway, was sitting in his home office contemplating a new challenge to the industry. He had just finished a telephone conversation with Dagfinn Nettland, a young Master of Management student at the Norwegian School of Management with a passion for computers. Dag had used him to help set up his home office.

Dagfinn had spent the Easter break surfing the Internet and writing his term paper for a course called GRA2329 *IT in Global Business* at the Norwegian School of Management. The term paper assignment was to take an existing company and analyze how this company could use the Internet as an information and sales channel for products and services. The students in GRA2329 had chosen a wide variety of businesses and organizations. Dagfinn had been a member of a group working with Norsk Rikstoto, the company administering nationwide equestrian sports gambling.

What interested Dag, however, was another aspect of the course: When GRA2329 was started, the required books had not been available in the bookstore, but had first started arriving several weeks into the course. Normally, in situation like this, the professor would have postponed the discussions over the delayed literature until later in the course. However, for GRA2329, things had been different. Several of the students had bought the course literature over the Internet, from a bookstore called Amazon.com, located in Seattle, Washington, USA. Some of the students had also tried Blackwell's, a bookstore web site in England, but had been less satisfied. Dagfinn found it impressive that these book shops could deliver American and English literature in as little as four days, at prices close to those of Juul Møller. One student had also tried to buy other products, such as Levi's jeans, over the Internet, but had been less successful. While he received the product, and the price was somewhat below what it would have cost to buy the jeans in Norway (he had to pay both customs and a sales tax), the increased complexity and time meant that it was better to just buy them in a regular store.

Dagfinn, who wanted to continue working with Juul Møller once he had passed his remaining exams, was a bit worried that the students would cease to buy their books from Juul Møller, and start only buying from the Internet.

Norli - a cautious pioneer

After talking to Dagfinn, Dag decided to call a colleague in another bookstore to discuss the matter with him. He poured another cup of coffee, opened his connection to the Internet, and located a telephone number in the Yellow Pages of Telenor, Norway's recently privatized national telecommunications

provider. Rolf Olsen in Norli, one of Norway's largest chains of bookstores, proved to be an amiable person who was willing to discuss his experiences with the Internet.

“We started about 18 months ago,” said Olsen, “when we were approached by Forlagsentralen, maybe you remember that initiative? They have set up an Internet service for book shops called Boknett. In the beginning, all we could do was set up static Web pages, presentations of the company and such, but in the Spring of 1996 they started offering a service where the customer could order books over the Internet, from the individual bookstore. Forlagsentralen is the biggest book distributor in Norway, they have all the large publishers except Cappelen, so it looked like a good option for us. We have a few pages on their server....”

“I remember that now,” said Dag. “We got some offers from a number of foreign publishers as well, Springer was one of them, about being on their home pages.”

“...which makes the whole process rather simple,” continued Olsen. “We don't have to do anything technical, we just upload the pages and, of course, we have to handle the page design and maintenance. The latter has been a bit sporadic. We started with a flourish, but since then only some parts of it have been maintained, particularly the computer books. There we have one guy from the computer book department who has taken ownership of the pages and keeps them current with comments and new books all the time.”

“How is it, do you get any customers out of that?” asked Dag.

“Well...kind of hard to say, because we haven't done any monitoring of it, but I think we get about 6-7 orders every day,” Olsen ventured. “Some of it is from Norwegians abroad, some within computer books. Not a lot, but we still think this has a future. We are actually about to hire a person in a 50% position to be responsible for the Web effort, evolving it into something more substantial. We have been very inspired by Akers Mic, that big music CD shop on the Oslo waterfront, who have done a great job and invested a lot of money in their Web site. They sell CDs and stereo equipment for millions of kroner per year...”

“What do you think about the rest of our industry?” Dag wondered.

“Well...,” Olsen thought, “except us, I suppose Bruns Libris up in Trondheim is the most active. They started cooperating with a local ISP, that is, an Internet service provider. We are the largest user of Forlagsentralen's services, but there are some other book shops who have started as well. Then there are some authors who have started communicating over the Net. Most of the action is in the US, of course, Amazon.com is a real competitor to the larger bookstores there, such as Borders and Barnes & Noble. Both are large chains with huge multi-story book shops, but they seem to feel competition enough to start their own initiatives on the Internet. I think the real action is going to be in university and school books. But how about you, what have you done so far?”

“Not much,” said Dag. “As you know, we have plenty of computer experience, but I have been busy lately. But I think I am choosing to view this as an opportunity rather than a threat. Anyway, thanks for filling me in!”

Background

Juul Møller Bokhandel had about 25 employees, and four locations: A large store at a busy pedestrian street in the center of Oslo, and three stores at the Norwegian School of Management (NSM), Norway's largest business school with 14,000 students. Of these three stores, one was at the main campus in Sandvika, one in the biggest branch campus in the center of Oslo, and a small store at a small branch campus outside Oslo. About 5 people worked in the store in Sandvika, although this number varied considerably with highs in the beginning of each semester.

The relationship between Juul Møller and NSM went back a long way. Dag's father had started supplying books to NSM in the late forties, when NSM had just started and was housed in a large villa in Oslo. Dag was a graduate of NSM himself, from the mid-sixties. He had not planned to become a bookseller, but started working in ANSA, an organization for Norwegian students abroad after graduation. However, in 1957 his father died suddenly, and Dag was the only one who could take over the running of the family-owned firm. The company had evolved with the NSM: As the school grew to become one of the largest business schools in Europe, Juul Møller had maintained a close relationship with both the school and the student union, and had become the largest dealer in business administration books in Norway. NSM and its students were Juul Møller's largest customer.

It hadn't always been like that: Juul Møller had had similar agreements with The Norwegian School of Banking, The Norwegian School of Marketing, og Oslo Business School, but during the first half of the nineties NSM had acquired these schools, and Juul Møller found itself dealing with one large school.

The business relationship was regulated by an agreement, called the bookseller agreement, which was negotiated roughly once every fifth year between Juul Møller, NSM, and the student union. The main feature of the agreement was that Juul Møller was awarded the right to have stores in NSM's locales as well as early access to the literature specifications for the school's courses. In return, Juul Møller paid a fixed rent for the store locations to the school, and a percentage of sales to the student union, making Juul Møller the union's largest single source of income.

This agreement was unique in Norway. At other schools and universities, the book shops were either run by the student unions as cooperatives (as was done at the University of Oslo) or the students bought their books in regular book shops, located off-campus. The last time the agreement was negotiated, the student union had tried to interest other booksellers in it. Several had been interested, but Juul Møller was the only bookseller willing to take the terms, and the only store with strong experience and competence in business and management literature.

Ironically, the most visible face of Juul Møller--the store in Sandvika--was something of a problem for the company. Even though Juul Møller made a profit on its total relationship with NSM, the store in

Sandvika was expensive because of a relatively high number of personnel, high rent, and relatively little sales outside course books. Another problem was that students often vented their frustrations on the staff, and finding people who had both the competence and the inclination to work in Sandvika could be difficult.

An important aspect of the relationship with NSM was the competence Juul Møller gained, both from being a large importer and distributor of foreign-language books, and from knowing what books were used for the various courses. Because of this competence, Juul Møller could advise both individuals and companies which wanted literature on various aspects of business and management. An important market was the ex-students of the school, many of whom kept Juul Møller as their primary source of business literature after graduation, frequenting the store in Oslo center.

Ordering books

The part of Juul Møller's business that demanded the most managerial attention was the ordering of books: The situation was complicated, and would lead to books not being available more often than Dag wanted.

The faculty at NSM specified books for each course, normally through the course catalogue, which was available a few months before the year started. For each course, there could be some books that were required, and some that were recommended as additional reading. Unfortunately for Juul Møller, many specifications came too late or were unreliable: Some faculty member might at the first course meeting that one or more of the books would not be important for the examination. Some faculty had been known to change the required literature, or switch a book from recommended to required status, without bothering to tell the bookstore.

Pricing the books was tricky--if the books were priced too high, very few would be sold. In some concentration courses, where a book could cost 800-900 kroner (\$115-130), sometimes only two books would be sold—"one for the library and one for some affluent student where daddy picks up the tab", according to one observer. However, given the size of its operations, Juul Møller was sometimes able to negotiate substantial discounts. One example was a textbook for a large basic statistics course, where Juul Møller's standard price would have been 490 kroner. After discussions with the professor, Dag had talked to the publisher directly and gotten the price down to 295 kroner. A large number of books were sold, Juul Møller was the largest seller of this particular book in Europe, and all parties were satisfied.

Except for grade school textbooks, neither publishers nor distributors would normally allow returns of unsold books. Grade school textbooks were normally a substantial source of revenue for Norwegian booksellers, but Juul Møller had stayed out of that market, concentrating on university level books.

The distribution chain

The distribution varied widely. Typical for foreign books was that orders within Europe were handled by distribution centers in England or, sometimes, on the continent. The large publishers had cooperative distribution agreements: For instance, books from Harvard Business School Press were distributed in Europe by McGraw-Hill. If Juul Møller wanted, say, 30 books from HBS Press the order would normally be sent by fax or electronic mail to McGraw-Hill's distribution center in Maidenhead in England.

If the book was out of stock, a message to that effect could take as long as two weeks to arrive, so if there was little time, it was normally a good idea to call ahead by telephone to check availability. The automated inventory of the distributors and publishers could be very imprecise: For instance, books were frequently flagged as "out of stock" if the inventory fell below 100. If Juul Møller only needed 30, a telephone call could fix the problem. These calls were done by a few of Juul Møller's employees, as well as Dag himself. After many years the company had forged relationships with a number of people at publishers and distributors, knew the suppliers' internal routines and whom to call to get precise answers and good service. Persistence was important – once, Dag had tried calling a publishing house, only getting voice mailbox answers. He then started dialing telephone numbers close to the one he had called, increasing the number by 10 every time. After one hour he got through to someone who could help him.

If the books were in stock, the order would normally be shipped by boat from England and would reach Juul Møller in eight days, somewhat depending on which day of the week the order was sent. The situation was frequently more complicated than that, though. If McGraw-Hill in Maidenhead (the English location of the global publisher) only had, say, two books in stock, the rest would have to be ordered from the publisher in the US. If McGraw-Hill could get the remaining books within the next 8-10 days, it was normally best to wait for the regular delivery from England. "Drop shipment", i.e., direct air freight from the US, was an option, but was costly, meaning that while Juul Møller could supply the books, it would be without profit (or, as had happened, at a loss.)

If the books had to be ordered directly from the publishers, the situation became more complicated. Delivery from McGraw-Hill could then be more than 6 weeks (with considerable variance), partly because the publisher would take some time and partly because, in order to minimize transportation cost, orders were consolidated in New York so that whole containers of books could be sent across the Atlantic. Juul Møller had long experience in judging the students' propensity to buy books and would choose how to order based on that. For instance, if there was a need for 300 copies of a book, and there were 100 in stock, Juul Møller would order the 100, order the rest from further up the chain, betting that the first 100 would suffice until the rest arrived.

If the publishers could not deliver, either because they were temporarily out of stock or because the book was out of print (a fact that did not always make it into the publishers' catalogues), things became more difficult. The first action was then to call other distributors or other book shops. As a last resort, Juul Møller could photocopy the book and sell the copy, after first getting permission from the publisher.

Occasionally, the distribution chains became very complicated. Once, Juul Møller had ordered some books from Prentice-Hall's distribution center in England. It turned out that the remaining copies of the

books were in a warehouse in Singapore, and after a lot of back and forth the books were sent to Norway. Ironically, the books were to be used for NSM's activities in Fudan in China. Since bureaucracy and transportation was complicated there, the professor ended up packing the books as personal luggage on his plane from Oslo.

Information Technology at Juul Møller

Of Juul Møller's 25 employees, two worked primarily with information technology, either with system maintenance or data capture. Most development and operations were done by an external company. The software used was regular office software, some industry-specific databases, and a proprietary inventory- and order system. The hardware was mainly Windows-based workstations. Both the company and Dag himself had Internet connections.

Juul Møller's computer background was rather idiosyncratic, thanks to Dag. In 1977, Dag had started investigating the use computers to help run the bookshop, but the existing, mini-computer based systems were too expensive. Instead, Dag had, with his friend Michael Wittwer, started experimenting with microcomputers, which at that time was little more than printboards and single parts. After much fiddling and programming in Dag's home, they had a simple, multi-user operating system, probably one of the world's first, for a Zilog 80 (Z80) processor. Then they built programs for use in the bookshop, starting with invoicing. Michael Wittmer would be the technician and programmer, and Dag was the user representative "had all the stupid questions". They even made some hardware themselves, such as the I/O-card. The system was a success, and Wittwer started a company called GC Data with Dag as one of the principal shareholders. GC Data was first located in the basement of Dag's house, and developed and sold industry solutions to other companies based on the first book shop system. One of the first customers was Norli, who bought their software in 1978.

During the 1980s, GC Data grew and got a number of customers for their transaction-oriented systems. Nixdorf, a large German-owned computer company, bought the software and enhanced it. When the Norwegian Post Office implemented new teller systems, they were supplied by Nixdorf with development assistance from GC. Another large customer was Kreditkassen, Norway's second largest bank. Eventually, GC Data had 12 employees and had outgrown Dag's basement. In the Fall of 1995 the company moved to new offices in the center of Oslo. Just before Christmas 1996, Dag sold all his shares in GC Data to Tieto, a Finish computer corporation with 3.400 employees. Michael Wittmer carried on as CEO. GC was changing their products towards network based software, and the products seemed to have a lot of promise: Their Intranet solution was nominated for the Rosing prize (a highly regarded quality award) in February 1997. Another product was Intershop, an electronic commerce software package.

The future

Dagfinn can relax, thought Dag. I have been thinking a lot on what to do with the Internet, but I want to do something substantial, not just another corporate brochure about who we are and what we offer. Most students are really like Dagfinn, they don't see the big picture. He was thinking of some articles

about the new bookseller agreement in INSIDE, the student newspaper. Some students seemed to think that Juul Møller made a profit of over 100 kroner per book, which was certainly not the case. Most students did not know about the close links between Juul Møller, NSM and the student union. Dag was even a "Høker", an honorary member of the student union.

On the other hand, thought Dag, it won't do to point at a long history of cooperation and service when the students can go outside the system and buy their books directly. But it is not in their interest to have Juul Møller disappear either. I have to look at this more systematically.....