

## Does a small company have a chance of surviving today?

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### *Abstract*

*'My book' is a small bookstore in the centre of Kraków (Poland) whose owners are the Nowak family across three generations. Karolina, the current owner is struggling with numerous problems, in particular with declining income, competition from a chain bookstore in the near vicinity and online bookstores. The company's income has been systematically decreasing for several months for various reasons, but above all from the growing role of competition. Another problem is the threat of losing financial liquidity. Karolina can count on family support, but she is the one who has to face the problems and take the key decisions regarding the future of the company.*

### **Students build a competition strategy for a small company struggling on the market**

**KEYWORDS:** Maintaining financial liquidity – Building the company's competition strategy –  
Competition between traditional small family businesses and large ones as well as online

The use of case studies offers, especially in business studies, the possibility for students to deal independently with complex, economic questions and problems, so that networked thinking and problem solving are promoted.

The present case study can be assigned to the **Case Problem Method**<sup>1</sup>, which in this case has the following characteristics:

- The problems are roughly mentioned and the necessary information is given.
- The students identify possible causes, further partial problems and interdependencies. They independently develop varied solutions and make a decision.

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<sup>1</sup> inspired by Kaiser 1983, p. 23

# TEACHING NOTE

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## 1. Intended audience

### 1.1 Student group

This case study is intended for university students (Bachelor and Master degree), especially for those with specialisations in the field of business management, entrepreneurship and innovation. It can be the basis for classes for instance in the field of management, but also during diploma seminars and other courses aimed at practicing strategy-building skills and making strategic decisions (and the processes of reaching those decisions).

### 1.2 Required previous knowledge

The target groups have only basic knowledge about building a competition strategy, but they understand the need to maintain financial liquidity in a company and how to achieve it, and how to manage a small company in modern market conditions. It would be useful for students to know the basic types of enterprise strategy and to deepen their knowledge of Porter's generic strategies.



## 2. Case background

The book market in Poland (and elsewhere) in the world has changed significantly in the last three decades. Currently, online bookstores dominate the market, as they have the opportunity to make cheaper wholesale purchases, and this means that the prices of goods sold are lower. Online bookstores are also becoming increasingly important, as they are attracting more and more customers, especially among people under 40 years of age. This is why small bookstores are disappearing in Kraków and beyond.

A problem for the book market is also lower readership which brings losses to both publishers and booksellers.

Running a family business that has a tradition and place on a local market is a typical situation found in every country. Today's competition is not only from other local small companies, but also from large corporations and internet companies.

The situation of a small enterprise, a bookstore, is the case study here. The situation described concerns two main problems: issues of financial liquidity and the necessity to build the company's competition strategy. These are typical challenges for small businesses that compete with large enterprises and internet companies.

The main character is a young woman who has inherited the company from her parents. The students' role is to first assess the company's market situation, and then consider what decisions should be made.

Taking into account the fact that students may find themselves in a similar situation while managing a family company or establishing their own business in any industry, this group case study will be helpful for them in considering how they would behave as the owner of this company. In addition, they will find that it is not easy to make a final decision that will affect not only the economic side of the business, but also family tradition.

### 3. Didactic instructions

#### 3.1. Learning goals

##### 3.1.1. General learning goal

Students learn how to build a competition strategy for a small company that is struggling with financial problems.

##### 3.1.2. Specific learning goals

###### Content competencies:

Students

- select theories, models and approaches for building competitive advantage and identify choices for this small company
- identify different perspectives and determine the effects of new strategies
- analyse the relationship between resources, abilities, competitive advantage and profitability, taking into account the influences of individual factors on each other in various configurations
- analyse the influence of the market and the development of the book industry for a new competition strategy
- design a suitable competition strategy, based for instance on Porter's competitive strategy, taking into account the market situation and that of the company

###### Social competences:

Social competencies are not the special focus of learning in this case study. The learning success is therefore not explicitly identified and measured. Nevertheless, cooperation in groups implicitly enhances team competence, including conflict resolution.

###### Self-competences:

Self-competences are not the special focus of learning in this case study. The learning success is therefore not explicitly identified and measured. Nevertheless, it can be assumed that, for example, time management, self-learning competence or the assessment of one's own performance are also implicitly promoted.

## 4. Organisation

### 4.1. Procedure and time

The following sequence is suggested for the case study, but, of course, it can also be adapted structurally or temporally depending on your preferences.

Time schedule for the case study:

<i>Time</i>	<i>Phase</i>	<i>Classroom activity</i>
0,25h	<b>1. Confrontation:</b> groups address the case study	The class is divided into groups of four. Group members individually or jointly familiarize themselves with the contents of the case study. Members individually and then collectively point out any problems.
1,5h	<b>2. Information:</b> groups survey the material provided and identify further sources they need	Students discuss the information in their groups and choose what is needed to solve the problems. If needed, further information is searched for.
0,5h	<b>3. Exploration:</b> each group discusses alternative solutions	Students in groups discuss how the problems can be solved, creating a list of solutions.
3h	<b>4. Resolution:</b> each group makes its decision	As a result of discussions, groups decide what solutions they will select Each group produces a presentation of their solutions and the reasoning behind them, as well as their sources.
1,5h	<b>5. Disputation:</b> each group defends its decision <sup>2</sup>	Each group defends its solutions in a plenary forum.

Time schedule for final presentation and discussion:

<i>Minutes</i>	<i>Classroom activity</i>
0-60	Each group presents prepared solutions, especially taking into account what decisions should be made and at which stage, especially highlighting the consequences they will have
60-75	Students discuss together the rationality and possibility of implementing the solutions presented by each group
75-80	Students decide which solution is the most appropriate
80-90	Finally, the lecturer should summarize pointing out what the students have learned during these classes

<sup>2</sup> inspired and translated from Kaiser 1983, p. 26

## 5. Teaching tips

### 5.1. Use in a university context

- Recommended group size: up to 4 students
- Resources: lecture or seminar room, ideally with group tables and information or research facilities such as access to the internet
- Accompanying material: as a lecturer, you decide which material you want to give, when you want to add to it or to what extent you want to differentiate internally
- Adaptation to learning group: this case study is designed for Europe-wide use. However, you can adapt or modify it for your learning group and their business environment or professional orientation, previous knowledge and competences.
- Karolina's notes on the company's income and expenses are incorporated into the case study. They may be extracted and given to the students for calculating purposes.
- The information about the room 'under the roof' is mainly given to show that there is space to do business if needed for the competition strategy. Of course, the furnishings have to be sold first and can be used for marketing.

### 5.2. Role of the lecturer

As a lecturer, you merely take on the role of a learning advisor and moderator when working with the case study. The students should work on the case independently in groups, acquire the necessary knowledge, identify problems and find solutions by themselves. You do not give tasks, instructions or directions. Only if a group of students does not progress and the learning process is prevented, you can act as a learning guide and help through impulses or clarify difficulties in understanding.

### 5.3. References

This case study deliberately does not include any solution conditions or possible outcomes, as from a didactic point of view, openness to solutions is an important criterion for the quality of the learning process. For you as a lecturer, however, it may be necessary to know the underlying concepts, therefore we would like to provide at least some suggestions from the literature:

- Jennings, D. F., & Lumpkin, J. R. (1992). Insights between environmental scanning activities and Porter's generic strategies: An empirical analysis. *Journal of Management*, 18(4), 791-803.
- Kim, E., Nam, D. I., & Stimpert, J. L. (2004). Testing the applicability of Porter's generic strategies in the digital age: A study of Korean cyber malls. *Journal of Business Strategies*, 21(1), 19.

- Murray, A. I. (1988). A contingency view of Porter's "generic strategies". *Academy of management review*, 13(3), 390-400.
- Porter, M. E. (1985). *Competitive Advantage*. Ch. 1, pp 11-15. The Free Press. New York.
- Porter, M. E. (2007). Porter's generic strategies. Retrieved June, 14, 2009.

#### 5.4. Questions for reflection

A case study is for students to discover problems themselves, control the learning process and develop their own solutions. Tasks or questions within the case study therefore are unnecessary. These reflective questions should only be asked if the discussion stops or remains too superficial. They only serve to give new impetus in the final discussion at the end or to open up other perspectives. Ideally, students should consider and discuss these questions and interdependencies/considerations themselves.

- What is the advantage of a small family company (bookstore) over others?
- Which solution has the best chance of success and why?
- How to formulate the competition strategy (for example according to Porter)?
- What are the risks associated with different approaches?
- What are both short-term and long-term solutions?

*Further case studies of this kind, a manual for your own development of didactically high-quality case studies, as well as an Online-Planning-Guide for the digital use of case studies in cooperation with other universities and a partner-tool for contacting interested institutions, can be found at <https://www.e3cases.uni-koeln.de/en/>.*

## CASE

### Does a small company have a chance of surviving today?

#### *Industry background*

The book market in Poland and elsewhere in the world has undergone significant changes in the last three decades. It has been influenced by globalisation; the digitisation of publishing and publishing excerpts only in a digital version which entails other costs; the emergence of large global companies who have taken over a significant part of the book sales market (e.g. Apple, Google, Alibaba, Amazon); consolidations and the creation of bookstore groups that represent strength and competition on the market. Another problem is the decrease in customer interest in books, and the consequent decrease in their number, has caused a gradual deterioration in the financial situation of smaller bookstores.

Analyses show that between 2016 and 2020 the entire book market in Poland shrank by 8-10%. In 2015 it was worth, according to the 'Polish Book Chamber', about PLN 2.32 billion, over 6% down on 2014. It is expected that revenues from sales of fiction will decrease the most, while items for professionals will sell well. In addition, there are also reports on e-book revenues, which have been increasing steadily since 2017. This segment's revenue grew by more than 13% in 2020 alone and this trend is expected to continue in the future.

Item	2010	2011	2012	2013	2014	2015	2016
Revenue from book sales at publishers' selling prices (PLN million)	2 940	2 710	2 670	2 680	2 480	2 320	2 370
Growth (per cent)	3%	-8%	-1.5%	0.4%	-7.5%	-6.5%	1.3%
Revenue (million euros)	735	658	639	640	582	580	592.5

Developments on the book market in Poland

([http://cejsh.icm.edu.pl/cejsh/element/bwmeta1.element.des\\_klight-bb3f79cb-2c7e-4bb1-9b78-2524b52fe007](http://cejsh.icm.edu.pl/cejsh/element/bwmeta1.element.des_klight-bb3f79cb-2c7e-4bb1-9b78-2524b52fe007))

There are many factors that indicate that the Polish book market has significant growth potential. Currently, there is a relatively low level of readership, but significant financial outlays are being made from the state budget to develop reading and support the publishing sector. At the same time, many internal market factors limit this growth potential. The most important are the excessive use of the sale price for the end user as a basic tool of promotion and marketing; uneven sales margins for bookstores and sales wars between individual distribution channels (traditional bookstores, online bookstores, wholesale prices, market sales, book clubs); as well as the low profitability in the retail trade.



In the current market, online bookstores dominate since they have the possibility of making cheaper wholesale purchases so that prices are lower than for other sellers. Online bookstores, which are gaining more and more customers particularly among those under 40, are also becoming increasingly important. As a result small bookstores are disappearing from the market.

### *The bookstore "My book"*

'My book' was founded in 1949 and has been in the possession of the Nowak family across three generations. For the last month this bookstore in the centre of Kraków has been managed by Karolina Nowak, the daughter of the current owners, Alicja and Krzysztof Nowak. Her grandparents came to Kraków after the Second World War and put all their assets into the bookstore.

After checking current income and expenses, Karolina found that the situation required immediate action, as the company is in danger of losing financial liquidity. At the beginning, the Nowak family had covered losses from savings collected over the years. Unfortunately, that wasn't enough. After taking a loan, the financial situation improved for a time, but now it has worsened. It turned out that monthly instalments of 1,650€ had to be repaid which increased the fixed costs even more. Therefore, Karolina's activities must be thought out and planned so as not to expose the bookstore to further losses if the financial situation is not improved.

Karolina feels an emotional connection to tradition and the family's expectations are placed on her. She knows that she does not have much time to get the company back into profit because financial resources are dwindling. So - she has to come up with something.

The company is recognizable on the local market and for many years had a stable position since it offered professional advice and a varied range, it followed global trends both in terms of new titles and the use of new technologies such as book readers, audiobooks and e-books at reasonable prices. The company was able to increase the revenue from these technologies to over 3,000€ per month.

Karolina knows the customer profile of the book shop pretty well: the majority of Polish customers (approx. 70%) are 50 or older and generate approx. 40% of the profits from book sales from a wide range of books. In contrast, 20% of these customers (mostly under 50) order specialist books which are difficult to order online. Since the profit margin is higher here, they generate about 50% of sales' profit. The bookstore is located in an old brick building right in the heart of the old town but hidden in a side street. The building is classically designed and therefore attracts the attention of many tourists and this ensures a constant flow of customers which makes up 10% of the customer profile along with 10% of the profits.

The rent of 4.665€ is average for Kraków and 80% of the gross floor area is used by Karolina's bookstore on two sales floors. There's a spiral staircase from the second floor to a large room under the roof which

is used for storing new books but is mainly occupied by valuable antique furnishings that were used before being replaced by more modern furnishings during the last renovation. At that time, a friend of Karolina's father, who deals with antique furnishings, made a bid of 32,000€ for all of them but Karolina's father declined the offer. The other 20% of the gross floor area belongs to David. Karolina often talks to David who is the owner of the Italian Restaurant right next to her shop in the same building. David is only two years older than Karolina. The restaurant on the ground floor and an Italian espresso bar on the second floor are performing very well, however it is rather small. However, David is satisfied with the income from his restaurant and the bar. He once told Karolina that his monthly profit was 2,200€ on average.

However, in recent years the competition has changed because in the neighbourhood, a bookstore chain has opened a branch becoming direct competition. Furthermore, significant online bookstores have gained importance so many customers have started to use their services while shopping behaviour, especially of younger customers, is increasingly shifting to the recently opened shopping "Kraków-Center". At present there are two business premises available which could be considered: a similarly large sales area of 200 m<sup>2</sup> for 10,000€ monthly rent or one half as large with 100 m<sup>2</sup> for 5,000€.

Through the years, the family business became a place of work first for the founders and in time their children and grandchildren. For 15 years the owners have had eight employees on their payroll with on average monthly costs of 2,300€ per employee. The employees have worked for many years, are loyal to the company and work on a full-time basis. They are experienced and bring solid technical and advisory competences. During her studies, however, Karolina met many journalism students who were looking for student jobs in the book and publishing industry. They would bring creative, fresh ideas with them, and they would be cheaper. Another urgent matter is the need to employ one or two more people to help particularly in shelving. Since the current owners withdrew from work in the bookstore, and only come to help occasionally, new people are necessary, especially if the planned changes will require further and maybe completely new measures.

Recent advertising has been carried out locally by means of posters and has not been restricted to certain target groups. Karolina is sure that new target groups (e.g. students) could also be addressed through targeted advertising. Through her academic work, Karolina knows about other advertising media (means, messages and target groups) and is considering using them in the development of a new advertising strategy. Because the bookstore has many current bestsellers on offer, a meeting every month with an author is organized which is of great interest to readers, and at the same time is a form for promotion of the family business. The meetings are attended by an average of 78 customers who pay an admission fee of 8,00€ per person. The authors' meetings, which were previously used as an advertisement for the bookstore, are developing into a lucrative source of income, as attendances have been increasing for many years and the advertising, which has so far only been carried out by 'word-of-

mouth', finds a fertile soil in Kraków and its surroundings. Estimates and projections were made by a market research institute, which Karolina hired, showing that the number of participants could quickly increase tenfold with the right advertising measures. Unfortunately, the premises and staff would not be big enough for this, although it would be a promising idea. Furthermore, participants at the meetings complain about the lack of parking space despite there being enough parking space available for approximately 80 participants. Karolina knows, however, that she would have to find new parking space for additional visitors.

### *Karolina and her new challenge*

From her youth, Karolina spent a lot of time getting to know literature. Thanks to the fact that her parents ran a bookstore, she had access to a variety of books and while still in high school, she liked helping her parents in the shop. Karolina studied economics at one of the best European universities and then for seven years she developed her knowledge and gained experience in managing a team in a large corporation. Although developing a career, she was always faithful to her passion: books. After graduation she decided to join the family business. In this way she combined her passion for books and reading with the responsibilities that result from running the bookstore. Karolina decided to refresh her knowledge of management so as to create a competition strategy. The existing situation is new for both Karolina and the company and, as the new owner, she wanted to get to know all sides, including the physical, management and financial aspects. Thus, she got to know the business and the situation was not good.

Karolina is facing challenges with declining income, competition from the chain bookstore nearby and online bookstores along with the threat of losing financial liquidity. Not only questions of personnel planning, but also the premises, sales strategy and advertising measures must be reconsidered in order to lead the company back to competitive advantage and profit. In addition, Karolina has noticed that a competition strategy that would allow many issues to be sorted out and getting to know the competition has never been investigated. Karolina is asking herself what advantages the traditional and local bookstore "My book" has over the competition. What could be done to improve its situation?

### Literature:

Dobrołęcki, P. (2018). Polish Book Market 2018, Biblioteka Analiz Sp. z o. o. on The Polish Book Institute. <https://instytutksiazki.pl/en/polish-book-market,7,reports,18,polish-book-market-2018,46.html> (ostatni dostep 22.08.2019)

Drafińska, A., Liberadzka, B. 2017, Trendy na rynku książki w Polsce – wybrane aspekty (Trends on the Polish book market - selected aspects), *Handel Wewnętrzny*, 2017;5(370):111-120 111; <http://cejsh.icm.edu.pl/cejsh/element/bwmeta1.element.desklight-bb3f79cb-2c7e-4bb1-9b78-2524b52fe007>

Draga S, Rynek książki w wybranych krajach europejskich na tle problemów globalnych (The book market in selected European countries against global problems):

[http://www.pik.org.pl/upload/files/Sonia\\_Draga\\_Rynek\\_ksiazki\\_w\\_Europie.pdf](http://www.pik.org.pl/upload/files/Sonia_Draga_Rynek_ksiazki_w_Europie.pdf)





## MATERIAL



"My book" premises in one of the old streets in Kraków



The new "Kraków-Center"<sup>3</sup>

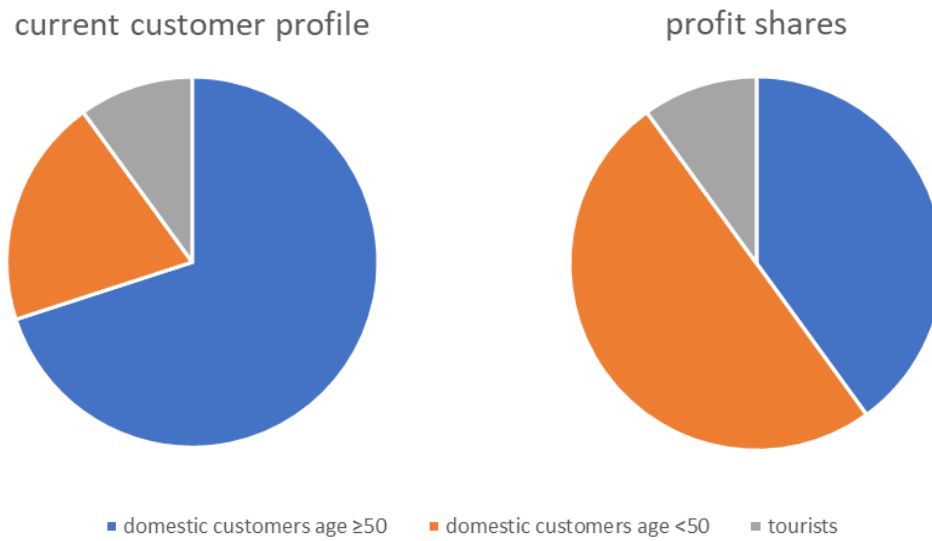
<sup>3</sup> <https://pixabay.com/de/photos/architektur-geb%C3%A4ude-alte-stadt-2602324/>;  
<https://pixabay.com/de/photos/shopping-center-shop-einkaufen-906721/>

Income		Expenses	
Book sales	48.720€	Purchase of goods	27.283€
E-book sales	3.210€	Personnel costs	18.400€
Author meetings	624€	My salary	2.500€
	<u>52.554€</u>	Rent	4.665€
		Electricity	465€
		Insurance	436€
		Bank instalment	1.650€
		Advertising	360€
			<u>55.759€</u>

**Antique furniture**  
≈ 32.000€ → SALE?

Move to the Krakow centre?

Student salary ≈ 10€/h  
↳ reduce personnel costs?



Percentage share of customer groups in the total customer profile and their share in the bookstore's profits

Name	work area	date of birth	years of service	others
<b>Management</b>				
Nowak, Karolina	head of the bookstore, personnel management, strategic planning, marketing manager	17.08.1992		
<b>Employee (2.300 € per month)</b>				
Jasinski, Damian	book orders, sales	26.10.1963	32	father of 3 children, many contacts with authors and publishers, long-term friend of the family
Kowalska, Dorota	sales	10.07.1955	12	has 4 grandchildren, lives outside Kraków
Janczyk, Krystyna	organizer of meetings, sales	03.06.1967	16	mother of 2 children, co-invented meetings with authors
Michalska, Zuzanna	sales, display	02.11.1958	34	recently became a grandmother, lives near the store, knows nearly all customers
Ostrowski, Tomasz	sales, maintenance of the website homepage	02.02.1974	10	tech-savvy, recently divorced, no children
Sobczak, Kamil	organizer of meetings, sales	23.04.1963	23	widower and father of 2 children, popular with younger and older customers
Wieczorek, Marta	displays, sales	12.06.1957	28	both her sons have finished university and have started careers, popular with customers
Wozniak, Anna	e-book requests, sales	07.03.1978	12	single mother of a 12-year-old daughter with a great affinity for technology, interested in technical media such as e-books
<b>Student assistance 4€ per hour</b>				

Employee list of “My book”



Current poster advertising “My book”

