Very Brief Consulting Company Background

In 1984, Kim Bigfour founded the company that would become Bigfour Consulting (BC). This company initially operated from Kim's apartment while at the College of William and Mary. Bigfour was a first-year MBA student at the time. BC was started with $1000 in startup capital.

The company was an immediate success. In less than a year after starting the company was grossing about $80,000 per month. At that point, Bigfour decided to drop out of school and devote full attention to the company. In 1991, BC became the world's leading consulting brand in terms of sales and profit. In the quest for continued growth, BC has broadened their product line to include Accounting and Financial consulting services. Recent acquisitions also provided BC with the ability to offer business process outsourcing services such as call center operations and claims processing.

In 2015, Fortune magazine ranked BC as number 41 on the Fortune 500 list [1], with $61.5 billion revenue and $2.635 billion profit.

Department Background

The Consulting Services division at BC offers expertise in a number of consulting areas. Strategy consulting is the area in which BC would help a company identify opportunities to improve efficiency and effectiveness, and manage change to ensure project success. Enterprise consulting involves the use of ERP solutions to standardize processes and make decisions based on standardized business data. Technology consulting helps companies develop solutions that support their business strategies, within a budget. In addition, BC consulting services offers business intelligence programs and change management consulting.

You are a relatively new consultant working for Bigfour's Consulting Services, just recently graduated from the company training after a successful academic career in the the Mason School of Business at the College of William and Mary.

A Potential Client Calls

Recently, a company named Epic Tome Publishing, Inc. (ETPI) called enquiring about the availability and cost of consultants. They described their needs as a "tune-up" of the current processes and well as a need to prepare, plan and develop the capability of delivering a line of eBooks.

Client Company background

ETPI is primarily an academic publisher, publishing titles of academic interest, but not textbooks. ETPI currently has 14,101 titles in print, with a title turnover rate of about 25% per year, well above the general publishing industry average of 8%. There are about 300 employees working for ETPI, indicating an average productivity for a publishing house.

The following table provides a breakdown of book sales and revenues. ETPI finds it useful to group titles in to three categories, A, B and C. The "A" category, sometimes referred to as the "front-list", has titles that are hot sellers (at least by ETPI standards). "A" titles constitute about 21.3% of total titles and just over 73% of revenues. The A titles contribute more than 80% of profits because the inventory carrying costs are less. "B" titles make up about 33.65% of the titles in the catalog and 22.7% of revenues, contributing about 17% of the profits for the company. "C" titles are 45% of total titles and about 4.3% of revenues, contributing 3% of profits. The "B" and "C" categories together constitute the "back-list". Titles typically move from A to B to C over their lifetimes, or from B to C. ETPI's goal is to have all titles start as A titles, although about 27% start as B titles and about 4% start as C titles.

	# books	Dollar Volume	Percentage	# books sold
A	3003	$ 30,561,890.33	21.30%	1,299,953
B	4745	$ 9,516,528.26	33.65%	404,786
C	6353	$ 1,844,613.41	45.05%	78,461
Total	14101	$ 41,923,032.00	100.00%	1,783,200

Typically, a title will go through at least two printings, perhaps more depending upon demand. A typical book length for ETPI is 257 pages. A title printing run can be from 500 to 10,000 copies, although usually is about 1,000. Estimates for the sales of new titles and delivery dates are made by the title's acquisitions editor and the title's marketing manager. These two people pass a spreadsheet back and forth until they are happy with the sales estimates, delivery dates, and list of titles. An order to print is generated by a Marketing & Sales administrative assistant, Kerry Steffen. Kerry calculates the order quantity by multiplying the sales projections by 75%. This "compensation factor" was introduced by the Accounting department in order to reduce finished goods inventory as a compensation for the optimism of the editors and marketers. Due dates are not altered. Orders for printing, consisting of book title, SKU, quantity and due date are approved by the publisher and are transmitted monthly to the Production Department. Reprints are handled in a similar manner. For all titles forecast to stock-out in the next quarter, based on current inventory and sales rate, a line is generated in a spreadsheet with title, SKU and current sales rate. This spreadsheet is sent to the title's acquisitions editor and marketer, who decide order quantity and due dates. Kerry applies a compensation factor of 50% to reprints. Sometimes the editor will postpone any printing of a title if the author is producing a new edition.

The production scheduler, Madison Selmar, receives the spreadsheet with the orders to print. Madison sorts the orders by due date, calculates expected production time, and produces a tentative production start date for each title. If there are too many titles that start on the same date, the title(s) with the smaller quantity are postponed until the next available day. All title design details are stored the Editorial department. The data includes number of pages, page size, binding type, as well as all the pages ready for pre-press. The data is stored on paper and computer as appropriate.

The ETPI Organization

ETPI utilizes a functional organizational form. As seen in the abridged org chart there are four VP level executives.

The CFO, Yoshi von Sheckle, and six staff perform all day-to-day bookkeeping and accounting activities. In addition, the Director of IS, Kai Jordan, and the other two IS staff members report to the CFO.

The Publisher, Stevie Speare, is responsible for the all content ETPI publishes, developing ETPI publications standards, the publication/title budgets as well as participating in strategic and operational planning as appropriate. The Publisher manages three primary areas, acquisitions, manuscript editing and project/production editing. The acquisitions editors are responsible for finding authors who have already or will produce manuscripts for ETPI publication. A manuscript editor provides copy editing to improve an author's work and also applies the ETPI publishing standards (APA, MLA or Chicago) to the manuscript. The project/production editors manage the title from initial manuscript through bound title stages, and are responsible for budget and schedule. There are approximately 25 acquisitions editors, 25 project/production editors and 50 manuscript editors on staff. Additional needs for manuscript editing capacity are met by using freelance copy editors.

Kelly Jones, the VP of Production has two primary responsibilities, book production and book distribution as well as participating in strategic and operational planning as appropriate. The responsibilities of the Director of Production, Skylar Barnes, include scheduling, acquiring raw materials, all steps in the production process, maintaining accurate inventories and delivery of books to the warehouse. 98 employees are involved in the production of books. Once the books have been delivered to the warehouse, the Director of Distribution, Taylor Arden, is responsible for stocking the books, picking orders, shipping orders, and maintaining accurate inventories. In all, the distribution organization has 63 people.

The VP of Marketing and Sales, Pat Wile is responsible for all marketing and sales, and has a staff of 17. He and his staff produce the printed catalog, market to institutional buyers, and create a presence at trade shows. In addition, they produce and distribute brochures about new and recently published titles.
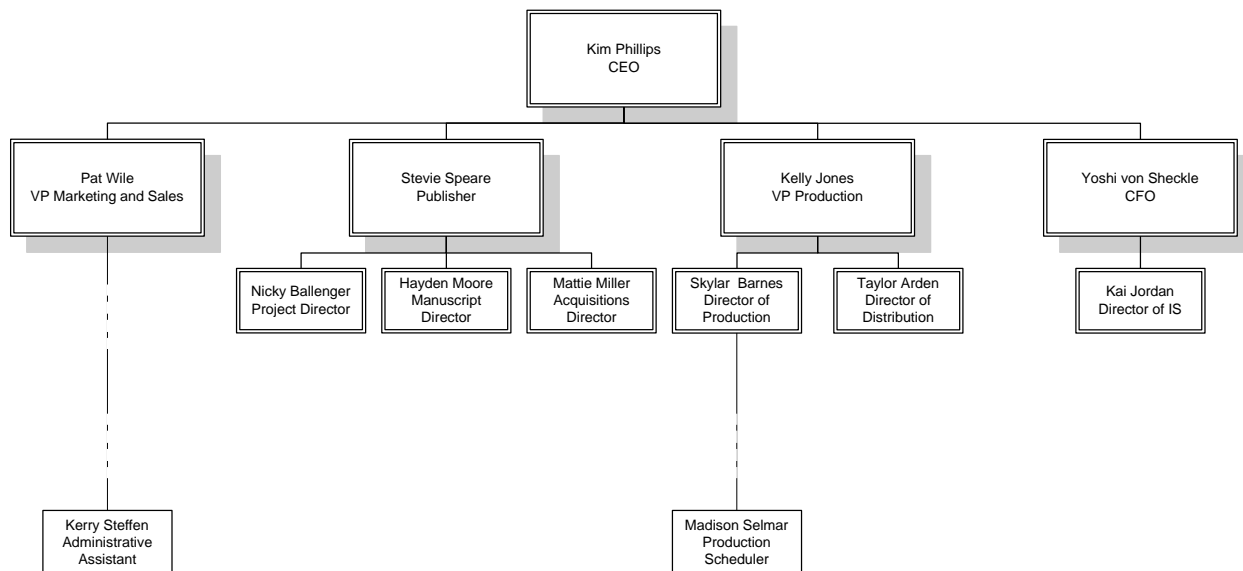
Getting a Title Into Print and to the Customer

The process of producing a title for sale has several steps. First, a decision to produce a title must be made. This happens in two ways; an acquisitions editor will identify a good title for which they advocate for publication or a marketer will identify a market opportunity for a title for which they will advocate for publication. Once the decision to produce a title has been made an acquisitions editor will acquire the title or find an author to write the title. Once the title content has been acquired, a production editor will manage the process of manuscript editing and pre-production. Once the editing and pre-production is complete the title and ancillary materials to the production department for production.

ETPI uses offset presses to produce the titles in their catalog. The particular presses employed by ETPI use roll of paper and print on both sides at once. The book production process has several steps. First, a set of "plates" for each page and each color are produced in what is called the "pre-press production." These plates have the image of the book page and are used in the press to transfer ink to the rollers for printing. The plates used are made of aluminum.

The second step in the production process is the press run. During this step all the pages for the book are produced using the offset press, several pages, but not the entire book, can be printed at once. Plates must be changed to produce the next set of pages. A typical book requires 16 sets of plates, each with 16 pages. . The paper is cut into "plate" sized rectangles by the press.

Once the press run is complete for the book the third step can begin. The sheets of paper and binding materials are moved to the bindery where the pages are stitched and glued together, trimmed, and assembled into the book. After assembly, the books are sent to the warehouse. You may read more about the offset printing process at: http://computer.howstuffworks.com/offset-printing.htm

Orders for books come from libraries, booksellers and individuals. Orders are accepted by phone, mail, fax, and web. Payment may be made by credit or debit card, check or purchase order. Phone, mail and fax orders are manually entered into the accounting system which verifies payment where possible, and schedules billing for those orders that cannot be verified. All non-verified-payment orders must be approved before the order is transmitted to the warehouse. All orders with verified payment are automatically transferred to the warehouse. Occasionally an order for an out-of-stock title is received. If this happens, the warehouse notifies the marketing department of the expected production date of the title and marketing contacts the customer to determine what the customer wants to do. If the customer wishes to cancel the order, a refund is made, otherwise a backorder is entered, and the payment re-verified at shipment.

Interview with Casey Phillips, CEO

Consultant: What is it that you want the consulting engagement to accomplish?

Phillips: My main goal is to increase productivity in order to reduce costs and improve profits. In this environment, with the advent of eBooks, the Kindle, Print on Demand and so forth, unless we get better, we won't survive. My informal "walking around" observations tell me that we have some glaring inefficiencies. Our attempts at improvement of those problems have not been particularly effective. I think we don't have the right kind of knowledge or thoughts to drive the improvements.

Consultant: What kind of knowledge do you think is needed?

Phillips: I have met some CEOs from other industries who made some huge improvements in their operations through a program called Lean Six Sigma. After reading a couple books, I'm not sure we have anyone here that understands the ideas behind Lean Six Sigma.

Consultant: Other than those you have already mentioned, what problems do you see with the company?

Phillips: We have some problems delivering to customers…I'm not sure that we have the right processes to deliver the product the customer wants at the right time for an acceptable price. I know we don't have the right metrics to drive customer satisfaction and internal improvement. I worry about the strikingly divergent opinions and actions between the functions in the company, such as between marketing and production. In the same vein, it also seems to me that we don't coordinate demand and supply very well.

Consultant: What do you see as the reasons that people and institutions purchase books from ETPI?

Phillips: In my talks with organizations and libraries that purchase our books, the content of our titles seems to be the driving motive for purchase. To be sure, I have heard these same customers joke that while the descriptions of the content look great, it would be even better if they could actually purchase the books. It makes me think that backorders are common. I've asked for a report on backorders, but have not received it.

Phillips: Recently I have been reading the books *The Long Tail* [2] and *Anything You Want* [3] on the Kindle. They have some very interesting ideas. Have you read them? They make me think that eBooks could be a viable alternative for us. Or perhaps we need to be looking more seriously at print on demand technology [4]. But that's why you're here.

Consultant: What type of information do you need?

Phillips: I get most of the information I need from reports that I ask for. The CFO provides many of those reports. Most of them are special purpose, one-off reports. I do wish there was an online reporting mechanism I could use to get daily indications of how we are doing.

Interview with Pat Wile, VP Marketing and Sales

Consultant: What is it that you want the consulting engagement to accomplish?

Wile: Our customers are screaming that we don't deliver on time, that we never have the titles they want in stock, and that the orders that do get filled take forever. So I want this consulting project to identify the problems in production and distribution, so that they can fix them and so that we have more satisfied customers. I am really sick and tired of all the customer complaints my department gets. Sometimes I call distribution and ask about an order, no one seems to know anything about it. It is really frustrating.

Consultant: Other than those you have already mentioned, what problems do you see with the company?

Wile: I have brought these issues to our weekly senior management meetings. Jones initially took some responsibility for the problems, but lately has been trying to blame my department for unreasonable promises to customers, and unreasonable requirements for customer service levels. That is a bunch of BS, and they know it. But it sounds plausible and takes a little of the heat off them and puts it on me. All the production and distribution department wants is more money. Does anyone know what a reasonable customer service level would be? How long should it take to order a book? These would be good things to know.

Another problem we have is that some of our C titles go out of print, and we can't truthfully forecast enough sales to justify a printing. We need a forecast of at least 1,000 to justify a printing. Some of our customers have been very disappointed, not to mention our authors.

Consultant: What do you see as the reasons that people and institutions purchase books from ETPI?

Wile: The customers like the quality of writing and the production quality of our books. Our editors do an excellent job of selecting titles for publication, readying them for production, and specifying the books components like bindings, paper, typefaces, and etc. It certainly isn't availability or delivery speed that draws our customers in.

Consultant: What type of information do you need?

Wile: And that's another thing! I can't get any data about anything at any time. I feel like I'm flying blind. I'd like to be able to capture contact information from customers and their preferences for the types of books they read. Somewhat like profile information and be able to see what they have purchased in the past to be able to better market to them. We need a web presence like the larger organizations…something like Barnes and Nobles or even as simple as a Facebook page. Speaking of which, WHERE IS OUR WEBSITE? Even if we don't get a fully functional website right away, I still want to know how the customer contacted us for orders (call in directly, mail, and or online) to see where we need to put more marketing resources. We really don't know our customer (who they are, what they like, how they find us) and to survive as a competitor in this market, we need to get more intimate with our customer. Unfortunately, Amazon has set the bar very high. The challenge is we don't have the systems in place that help capture the data we need so that we can easily access it and make decisions.

Interview with Yoshi von Sheckle, CFO

Consultant: What is it that you want the consulting engagement to accomplish?

von Sheckle: Our costs are out of control, which hurts our profitability. We have lots of capital tied up in book inventory, which really strains our credit line. In addition to the inventory carrying costs, our flexibility in meeting market demand and the opportunity to acquire best-selling authors has been compromised. We are also seeing overtime costs from Production and Distribution. They say that the orders they get are requiring overtime, but I'm not sure. I'm going to send an accountant to investigate.

Consultant: Other than those you have already mentioned, what problems do you see with the company?

von Sheckle: At times, accounting has had to work overtime to refund customer payments for books they ordered because we thought we had them in stock, but we really didn't. Our inventory records were in error. Quite embarrassing, as well as painful to correct.

Consultant: What do you see as the reasons that people and institutions purchase books from ETPI?

von Sheckle: I'm not sure. But the refund situation I mentioned certainly can't help. I wonder how many other screw-ups we make.

Consultant: What type of information do you need?

von Sheckle: I really get all the information I need from the accounting system. All I need are the balance sheet and income statement, with the ability to drill down as required. The CEO asks me for reports frequently, so it would be nice to have a system that allowed me to create these reports easily. I wish I could generalize about the kind of data that the CEO requires, but I can't. I have suggested that we go through the process of developing a balanced scorecard for each one of the senior executives, but I haven't been able to get much traction for that idea.

Interview with Kelly Jones, VP Production

Consultant: What is it that you want the consulting engagement to accomplish?

Jones: I want some help determining what sort of capacity we need. We have several offset presses as well as all the machinery in the bindery. We get constant complaints from marketing and sales that we don't have a particular title in stock. We do the research we find out that there is slow demand for the title. Not enough demand to warrant a press run, at least with the machinery that we have. I have asked whether we could supply those titles as eBooks. Marketing says that there might be a market for that, but they would like to wait and see. My staff is very nervous about eBooks, as it might put them out of a job. I need to know which way to go.

We seem to be very busy, we run a lot of overtime. Lots of new titles come at us every week. Our current offset presses take on the order of three hours to changeover from one set of plates to a new set of plates. Since there are 16 sets of plates in a book, usually, you can see that we spend a lot of time setting up to produce a book.

Consultant: Other than those you have already mentioned, what problems do you see with the company?

Jones: As I said before, I think we have a real mismatch between the kind of capacity we have and the kind of capacity that we need. I've asked my staff to look at print on demand technology. No one seems to know how to do the analysis. There are some pretty interesting ideas out there in the industry. I have also asked my staff to look at outsourcing, but they don't seem to know how to do that analysis either. I was hoping you could help.

Consultant: What do you see as the reasons that people and institutions purchase books from ETPI?

Jones: I'm not sure. I'm not very close to the customers. We do seem to field a lot of complaints about order fulfillment, particularly with regard to the time it takes to fulfill in order. Those complaints generally are for backordered titles. It's probably a reason that people don't buy our books, although in many aspects they don't have anywhere else to go, our content tends to be unique.

Consultant: What type of information do you need?

Jones: I wish I had reports that would just tell me what's going on. The reports I get are from accounting, which are all financial based. I get beat up a lot about our costs. Costs don't tell me everything I need to know about how to run production. I try to run such a lean staff that I don't have someone that I can rely upon to produce the kinds of nonfinancial reports that would be useful to me. I heard our CFO talk about a balanced scorecard, which sounded pretty good. But it also sounds like a lot of work and I'm not sure that we have time. We seem to have to run a lot of overtime just to keep up.

Interview with Stevie Speare, Publisher

Consultant: What is it that you want the consulting engagement to accomplish?

Speare: We have a great group of acquisitions editors. They have identified blocks of good, new content that we could put in our catalog. The problem is that we can't produce titles economically in small quantities, and lots of the new content would be "short" runs. Our marketing department tells us that that sort of content would be salable and highly desired by that small group of individuals and organizations that need or want that type of content. Of course when I say "that type" of content, I mean that we have content that is useful for lots of different niches. I am hoping that what you will accomplish is to provide us with a plan so that we can economically produce these short run titles. The other thing that's an issue to me is that we have an antiquated pre-production system. It takes much too much time for us to prepare the material to put it on the plates. I understand that for our more popular content that running an offset press is the way to do it but that doesn't mean that we have to have this antiquated system. Lots of other book publishers have more up-to-date systems. I think we were state-of-the-art 25 years ago, but not anymore.

Consultant: Other than those you have already mentioned, what problems do you see with the company?

Speare: I don't think we are as profitable as we ought to be. It seems like our costs are too high. But I don't have any information that tells me exactly where we are or what we ought to be doing differently. I think we're competitive when we purchase content, I think we spend too much time in preproduction, which is costly. But I don't see that we have a choice. Marketing and Accounting seem to beat up production regularly about costs. But I don't know that there's anything different they should do. They are stuck with this 25-year-old technology, too.

Consultant: What do you see as the reasons that people and institutions purchase books from ETPI?

Speare: I think the people buy from us because we produce high-quality books, from both a content and physical product perspective. In addition, our content is unique and can't be found other places.

Consultant: What type of information do you need?

Speare: I need a good reporting system on our preproduction process. As you may know, preproduction is rather like project management, and we have production/project editors to help manage that process. But I don't have much visibility into what's going on. I don't know whether a project is ahead of schedule or behind schedule, or above or below budget. It makes it difficult to manage. Our CFO suggested that we develop a balanced scorecard something or another, and I've heard about something called Earned Value Analysis, but I think that's just a bunch of BS, and a way for them to avoid responsibility.

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