THE CHRONICLE OF HIGHER EDUCATION

Campus Services

http://chronicle.com/weekly/v51/i21/21b02301.htm

From the issue dated January 28, 2005

How One College Store Has Stayed Independent

By GEORGE H. MITCHELL

According to the National Association of College Stores, there are about 4,830 such outlets in North America, 4,630 of them in the United States, the rest in Canada. Of the 3,180 North American stores represented by the association in July, just over half, 51.6 percent, are run by their institutions, 29.5 percent are run by chains, and 18.9 percent are run by smaller, private companies. In the last dozen years, association figures show, the number of operations contracted out to chains in the $10.8-billion college-store market almost doubled. You can almost hear the ominous theme from *Jaws* as a major player circles, ready to gobble up your store next.

If your store is barely treading water -- losing money and offering lousy service -- maybe contracting out is something you should look into. But I'm here to tell you that even today independents can not only survive, but thrive. To do so requires, however, a no-nonsense approach to management and an aggressive emphasis on innovation that sometimes run counter to campus stores' quirky origins and pixilated ways of doing business.

I speak from experience, having managed college stores for 37 years. They were not in good shape when I took the helm -- at the Universities of Maryland and Miami, and at Georgia Tech -- but I'm proud to say that they were in good shape when I left.

In May 1987 I was hired to provide similar critical care as president and CEO of the University Co-operative Society, the store serving the University of Texas at Austin. When I arrived, it was a disaster. I found almost a million dollars out of a $4-million inventory missing, annual sales about a million dollars less than projected, and almost $5-million in debt.

The first move was to eliminate superfluous staff members. My second week in Austin I cut 27 positions from a staff of about 135, most with the title of manager or supervisor, and the third week I cut 20 more. Previously, the management had allowed the workers' union representative, the Communications Workers of America, to call the shots. Employees played ball or drank beer on company time, haggled over relatively trivial stuff like whether too much lighting might affect their eyes, or protested because they weren't allowed to bring purses and shopping bags into the store. I set strict new rules, and they could accept them or leave. Angry, the union, for a little more than a year, filed grievance after grievance with an arbitrator, but we won every time. Within a year of my arrival, 35 employees had dropped out of the union; within two years the union represented only one employee. The absurdity is that the pay, hours, and benefits -- the important matters -- that the union had negotiated before I came were a fraction of what our employees get now without a union.

I didn't want to be known as the great managerial Satan, so I concentrated that first year on fostering a good working relationship with the remaining employees, and I have tried to maintain that relationship since. I am glad to report that some Co-op employees have spent their entire careers with us, and that we offer a top-notch benefits package. All full-time employees' medical and life insurance is paid 100 percent by the Co-op. For employees with more than one year of service we pay 100 percent of their family's medical insurance too. In addition, we try to provide the best medical plan with the least possible out-of-pocket expenses. No full-time employee earns less than $10 an hour. Of the 168 central and south Texas companies our Aetna representative works with, he tells us, ours has among the five most generous packages.

Next came the task of instituting new financial and inventory controls and tightening the few we had. Like most large college stores in the 80s, the Co-op had wanted to become a department store, but didn't have the know-how. It was doing big business -- but doing it badly, grossing around $9-million annually when I came. Within five years I closed departments that were, combined, grossing more than $5-million of that -- but all losing money. We closed cameras, men's and women's fashions, the convenience store, the framing and poster shop, cosmetics, and greeting cards.

We focused, instead, on the basics -- textbooks and other course materials, school supplies, and licensed merchandise. We shed our trade-book operation, contracting it out to Barnes & Noble in 1996 (an uncommon move, which I think we were the first in the country to make).

I decided that expanding our used-book business was the best way to outperform our seven competitors in books, clothing, and school supplies. We started paying 50 percent of the new-book price for used textbooks, while our rivals were paying 50 percent of the used-book price. That business line flourished for us, and for the last 10 years we've been one of the country's top sellers and buyers of used textbooks. To give you some idea, in August 2004, we received 11,166 Web orders. In November, we received 300 orders for used books through Amazon alone, 60 percent of which were shipped out of state. By two weeks into December, we had already exceeded that number. Amazon and eBay are our major competitors.

We started working with any used-book wholesaler who wanted to do business with us, and worked out a formula fair to everyone involved, requiring whole-salers to sell us books at a four-to-one ratio. That means that if we purchase $1-million in books from a wholesaler at cost, they expect us to sell them $250,000 worth of books at wholesale. Many college bookstores use only one wholesaler -- it's an outdated college-store tradition rationalized as maintaining a business "friendship." It's disadvantageous to students, and something store managers should look into. There are three major wholesalers -- the smallest with a book list of 40,000 titles, the largest with a list of 150,000 -- and each sets its own price for each book. By using all three, we can give students the best possible prices available for the books they need.

To be sure we had an adequate supply of the right books for each semester, we had to work more closely with members of the faculty and administration. Our goal is to get the textbook list for every upcoming freshman and sophomore course in time to buy the correct books back at the end of the current semester.

Once professors and students realized that we were conscientiously catering to them, they gave us their business. Our competitors either sold out to us or went bankrupt. Today we gross about $40-million in sales with six successful stores and return all the profit to the university (excluding a percentage for reinvestment, which varies depending on market circumstances). In the fiscal year 2003-4, we paid students, and members of the faculty and staff, about $1-million in rebates and gave an additional $2.2-million in scholastic prizes and other gifts. Those include awards and programs such as the Hamilton book award ($10,000 grand prize with four $3,000 runners-up), a $10,000 award for excellence over a career in research, a $5,000 award for best research paper, $70,000 in awards to help UT professors publish their books, the $20,000 Mitchell student award for academic excellence (plus three $5,000 and five $2,000 student awards), and $120,000 in undergraduate research fellowships of up to $1,000 each. Every semester the Co-op gives $75,000 to student organizations (grants of up to $5,000 each), and every year we donate $150,000 for study abroad (with awards from $1,000 to $4,000).

As sole sponsor, the Co-op annually contributes about half a million dollars to the Gone to Texas student welcome, the multicultural Campus Fusion, the Explore UT open house for prospective students, the 40 Acres Fest, the Texas Revue talent show, the Orange & White Ball, and the Fashion Spectacular.

Behind all big decisions at the Co-op is a nine-member board of directors, four of whom are faculty members appointed by the university president, and four of whom are full-time students elected by the student body. Those eight directors elect the ninth, who serves as chairman. Currently in that position is Michael H. Granof, a professor specializing in government and not-for-profit accounting.

With the board's guidance, the Co-op has been able to oversee the kind of expansion the store attempted in the 80s but wasn't ready for. We've opened four more stores serving various neighborhoods and professional students as well as undergraduates, including an outlet store with greeting cards and a dollar section. A year ago we opened the Co-op for Women -- the country's first college store catering exclusively to women.

Because suppliers weren't lowering their prices despite ever more outsourcing to cheaper labor markets, we've begun outsourcing and importing some items directly -- in other words, cutting out the middleman. For example, we are importing for a little less than $2 each the car emblems that we used to pay $8 for, and we just received our first in a series of fine porcelain dinner sets with unique artwork created for us. Last year we imported about $100,000 worth of merchandise; we plan next year to increase that to $1-million.

Textbook sales remain a challenge. Bookstores are the first to be blamed for high textbook prices because we are the most visible link in the chain. Anyone who knows about the industry, though, realizes those prices are a problem that stores or even publishers can't solve alone. College bookstores nationwide are finding sales dropping in the face of global competition, with students able to buy $100 books on eBay for $20. It's a serious conundrum, and not one we have space to get into here. (Although if you're interested, you might look at Granof's examination of the problem in the November 26, 2004, issue of *The Chronicle Review.*) Meanwhile, the Co-op recently started providing a link on our Web site for classified ads to help students sell and buy books. The last time I looked there were 245 books advertised. We're not involved in the transactions; it's just a service to students. After all, that's what we're here for.

Barring some dramatic shift in textbook publishing, I'd suggest that college bookstores devote more attention to used books until they constitute 40 percent of their business, and that they sell textbooks on the Web (we sold textbooks online to more than 12,000 students in the fall). Stores should also provide custom publishing to professors, just as most of the major publishers are doing. We have our own custom-publishing house, which has grown 10 percent over the past year. We define custom publishing as anything that we produce in book or packet form, whether it be out-of-print books, copyrighted material from other sources, business-school cases, or original material. Our custom-publishing sales for the year ending June 2004 were $832,508 (594 jobs), and as of November 30, 2004, we were trending toward 10 percent more than last year.

Also, we just purchased an InstaBook machine with which we can print and bind books for professors or even take a book and incorporate the professors' notes. It will initially be marketed as a tool for professors to produce original content in a pleasing form, but we will also focus on local nonacademic customers and their small-run printing needs.

No matter how many such ideas we come up with, though, the truth is that textbook sales will probably continue to drop. Campus stores need to downsize accordingly or find other ways to make up the business.

In confronting that and other problems, managers of independent college stores need to strike a balance between sound market research and innovation, and surround themselves with people who do the same. They should look closely at the assets and challenges facing their particular operation (for instance, when I came, the Co-op had a gung-ho, logo-hungry sports-fan clientele, but also intense competition). Most important, they must never lose sight of their core mission: to provide textbooks and supplies at reasonable prices.

Finally, when they run out of ideas, they should retire. That's when I will -- those of you who have inquired with greater or lesser tact may take note -- and not a moment before.

George H. Mitchell is president and CEO of the University Co-operative Society of the University of Texas at Austin.

http://chronicle.com
Section: Campus Services
Volume 51, Issue 21, Page B23