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Casa del Libro:
From "dot.com" to "dot.cold"

Abstract

In 2001, the largest editorial group in Spanish, *Planeta*, launched an online venture, *casadellibro.com*, mainly motivated by the Internet frenzy and the huge growth expectations of the moment. The obvious reality of the market at the beginning of 2002 forced the new management, appointed during that summer in the midst of a high-growth scenario, to face a huge downsizing and cost reduction. Thus the main problem is to decide whether they should look for a new and inexpensive technological platform, or stick with the initial one, with high maintenance costs but offering a superior functionality for a high number of users. What seemed to be a simple decision about which platform to use became a decision about the future of the firm, confronting financial, technological or cultural factors, among others.

Keywords: Internet, electronic commerce, technology platforms, UNIX, Microsoft, scenario analysis

Introduction

Industry Background

The online bookstore industry in Spain was facing a very tough scenario in the beginning of 2002. The failure of several pioneer and flagship projects, like bol.com, crisol.es or submarino.com[1], and the negative influence of the recent dot.com burst were fuelling important concerns about the viability of the business model. On the other hand, the traditional, offline bookstore industry was growing at a 3% rate, on what looked like a fully matured market.

Some online bookstores, however, were still struggling for survival. Amazon.com, for instance, was the most famous online bookstore in the world. Incepted as a bookstore, the online behemoth was now offering books, DVDs, appliances, toys, etc. and tons of related information. Amazon was the clear leader and benchmark in the sector, despite

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[1] Bol.com was an initiative of the German editorial group Bertelsmann, a global leader. Due to important losses, the online venture was closed in July 2001. Crisol.es was the online storefront of the PRISA group, a leader in the Spanish editorial industry, also ceased its activities during that year. Submarino.com, initially a typical startup, was bought by the French distribution group Carrefour, and also closed later, in February 2002.

being still in the red zone. Barnes & Noble was the main brick & mortar bookstore in the US, and it seemed to have reached a fair amount of sales in the domestic market.

The French player FNAC, specialized in leisure products spanning from a huge selection of books and music to electronic apparel, was playing a strategy of "minimum price guaranteed", which happened to be a total success in Spain. In 2001, FNAC sold about 2 million books in their physical superstores, a success they were now trying to replicate into the Net.

El Corte Inglés was the oldest player in Spain. The largest retailer in Spain and one of the largest in Europe, its success was based upon the "everything under the same roof" principle, and the trust and quality of its customer service over the years. "Customer is always right", or "If you are not completely satisfied, you get your money back" where two of their most successful claims. With trust the main perceived problem for e-commerce in Spain, *elcorteingles.es* was, undoubtedly, in a very good position. Books were one of the products that *elcorteingles.es* started selling on the Net, but they quickly added a huge and extremely diversified offer of products and services in order to match their offline strategy.

Casa del Libro: The company

Founded in Madrid in 1923, *Casa del Libro* is the only large bookstore chain in the Spanish market, with 12 bookstores in the most important cities at the end of 2003. There are some other companies competing in the Spanish bookselling market, but all of them are general stores (*El Corte Ingles*, FNAC, etc.), commercializing a wide array of products and considering books as just another product line. With more than 50 million euros sold at the end of 2003, *Casa del Libro* is the second bookseller in Spain, far from the leader, *El Corte Inglés*. This second position was achieved through an expansive plan designed to grow in a mature market, with growth figures very close to inflation rates. The objective of this plan was to consolidate the firm as the international reference for books published in Spanish. To do so, they leveraged on their huge stock of books and tried to build a reputation as a 'cult' place for readers and bibliophiles, despite their preferences or reading habits. In fact, *Casa del Libro*'s database was the most complete and up-to-date database in the industry, even better than the one edited by the Spanish Ministry of Culture (more than 3.000.000 references, but less updated). To provide access to the books contained in such a huge database, *Casa del Libro* works with more than 1,600 suppliers, more than doubling the number of suppliers in *El Corte Inglés*' catalog.

Casa del Libro belongs to *Planeta*, the main editorial group in Spanish. The online initiative, *Casadellibro.com* was, in fact, seen by *Planeta*, an extremely traditional group, as a way to achieve world leadership in the market of books in Spanish. In order to do so, the group teamed up with AOL, and tried to match the launch of casadellibro.com with the beginning of operations of AOL in the ISP market in Spain, in

September 2001. By the end of 1999, they hired a prestigious consulting firm to develop a business plan for *casadellibro.com*.

Casa del Libro had been selling books on the Internet since 1995. During those years they had been working with what we could call "an artisan website", not integrated with the back office, running in an IBM AS/400 platform. Everyday operations were based in manual processing. Considering that such a model could obviously not cope with the skyrocketing growth expected due to the agreement with AOL, the group decided to create a new virtual company from scratch. Catching the Internet wave and improving the market capitalization of the *Planeta* group as a whole was another strong motivation to launch an online initiative, considering that *Planeta* was a publicly traded company and that, at the time, all market analysts were severely punishing all firms with no activities on the Internet.

Planeta approved the project in January 2000. Once approved, the development of the initiative followed the classic pattern of the dot.com era: the acquisition of the best and most expensive equipment and software available in the market. It was crucial to ensure that the platform would guarantee the high performance, security, availability and scalability required for a project like this.

A new CEO was hired in June 2001 to manage *casadellibro.com*, after several months of searching in a job market in which finding experienced and skilled people was like finding a needle in a haystack. The selected person, Ignacio (Nacho) Somalo, was about to face the challenge of his life: building up an entire company in just a few months. The task included hiring a whole new management team, relocating the premises and supervising the launch of the new technological platform, which, by the way, had been designed and bought just before the new CEO arrived to the company.

By September 2001, Nacho discovered that the ambitious platform designed to support the commercial operations cannot possibly be integrated by the consultants due to some mistakes committed during the design phase, despite the efforts and the money already invested. To add up, AOL's debut in Spain did not achieve the expected results, being in fact a total failure, and implying a drastic reduction in the sales forecast. Precisely at the time, the so-called Internet bubble exploded, the September 11th terrorist attacks flooded the world with fear, and the stock markets fell down deeply and abruptly.

Under such conditions, the priorities of the *Planeta* group shifted considerably. Cost control and loss reduction became urgent and prior objectives in the short term, moving all the former strategic objectives to a second level. Accordingly, in January 2002, the management team in *casadellibro.com* confronted their newly given goals with the ones they were contracted for only 6 months ago: from spectacular investment to brutal austerity and abruptly projects closure; from hyper-growth sales projections to ultra-pessimistic ones; from hiring to firing… The coming meeting with *Planeta* to discuss the overviews for 2002 and to make a decision on the new dimension of the project opens the discussion about the technological platform. Should they keep the existing platform? Redesign it? Or should they look for something totally new, given the

circumstances, and think about other technological alternatives? Which solutions were available at the time?

By the moment the decision was to be taken, the environment had changed abruptly. Sales forecasts where far from the ones expected during the Internet bubble. The new figures where so pessimistic that even seemed unfair and unreal to *casadellibro.com*'s CEO. Under such circumstances, a complete and careful context analysis was crucial.

Despite the situation, *Casadellibro.com* was increasingly selling more and more books. In Spain, the consistent increase in both the installed base of PCs and DSL connections looked like positive indicators for a rosy future. Not so spectacular as initially expected, but expecting to hit the black in approximately two years time.

Description of study

In order to gather information for the case study, the research team conducted, recorded and transcribed several hours of interviews with *casadellibro.com*'s management team. Internal and external information was also gathered and revised, including memoranda, competitive reports from analysts, financial information, etc. A deep analysis of the two technology platforms was also performed.

The design of the first architecture was complex. Based on Sun machines, it had a cluster of 4 servers with 2 CPUs each, running in a Solaris (UNIX) operating system. The software included a database manager (Oracle 8.i running in cluster), Vignette 5.6 to manage content and support e-commerce, and Excalibur v5.3 as the search engine. The design was also redundant, in order to guarantee high availability. To complete that, a firewall and a load balancer were also included. All the aforementioned solutions were considered bestinbreed at the time.

The newly proposed platform used Microsoft technology on HP servers, powered by Windows NT, with SQL Server as database engine, and Microsoft Commerce Server 2000 as the electronic commerce application. The maintenance cost expected was much lower, and the development cost was also considerably less.

One of the main issues lies, of course, with market forecasts: whilst the initial projections envisioned by the analysts made a clear case for sticking with the first solution, robust enough to sustain a huge number of transactions, the current perspectives at the time of the decision seemed to advise the firm to switch to a new, less expensive one, despite the risks associated with a potential need to rescale and redesign in case the growth was higher than expected.

The case leads to two almost-extreme possibilities[2]: whilst the first one means maintaining and redesigning the powerful platform already acquired; the second one proposes to develop the new *casadellibro.com* using a considerably simple and cheap platform. Facing the huge costs associated with the first solution, and having the experience of the already large sum of money invested in the first phase, the second solution seemed initially better from a common sense perspective. Next step would then be to perform a new selection of vendors and an indepth situation analysis to prepare the next meeting with *Planeta*.

It is crucial to compare the two platforms proposed, functionally and from a business perspective: on the one hand, the UNIX-based one already acquired, on the other, the Microsoft possibility. To do so, students are driven to define some objective set of criteria, including availability, performance, scalability, maintenance, administration, technical support, and, of course, cost. Interestingly enough, the criteria used to sustain a Microsoft-based solution looks, when analyzed in this case, extremely similar to the arguments currently used to favor open software-based platforms against Microsoft-based ones.

The case provides also some guidance on how to work in changing environments, and particularly on how to interpret market forecasts. When the *casadellibro.com* project was initially defined in 2001, the need for a powerful solution was evident: according to most analysts, transactions would be eight times more in less than two years; in five years from then they would reach one million orders, surpassing 50 million visits per year by the end of that period. With an average of 3.6 pages visited per session (the only figure quite stable by that time), this would lead to approximately 200 million pages served. All these figures were estimations taken into account to support the decision, and need to be carefully reinterpreted in order to recommend one of the two potential alternatives.

In addition to that, students have to consider the highly conservative environment predominant in *Planeta*. In such a context, the deep and thorough knowledge about *e*commerce accumulated in the management team seems to be an issue. The dot.comtype culture at *casadellibro.com* differs widely from the classic, conservative one at *Planeta*, causing a deep culture crash that can be perceived in every meeting. It is important to take that into account when facing any meeting, since most of the projections and forecasts that the management team puts together will probably be turned down by the *Planeta* executives, or, at the least, extremely questioned and examined with great caution. The management team at *casadellibro.com* fears that the *Planeta* group, considering the new environment, will be tempted to close the door of the new venture, as it happened to most of the other online ventures in the editorial industry in Spain at that time.

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[2] Although not mentioned in the case, a more aggressive cost-reduction solution could be taken by choosing to develop the new platform using open software: Linux, Apache, etc. However, open software solutions were considered, at the time the decision was made in Spain, not "serious" enough for commercial exploitation. The discussion, however, pops up consistently during class discussion.

Case development

Strategy for change

The key point in the case is to balance the situation, accepting that the company faces a bad situation, but not the worst situation. It is also crucial to understand the political implications of any decision to be made. The board of *Planeta* was integrated by the same executives who had formerly decided to place their bets on the business model and technological platform now under siege. On the other hand, the *casadellibro.com* management team was not onboard when those decisions were made. Therefore, any proposed change in the platform implies a clear message of "you (and not us) made a mistake before". A change in the platform implies also asking for additional resources precisely when the priority of the moment was to cut any possible expenses. Last, but not least, the quality of the forecasts was extremely important: if sales were to fall below expectations, the cost of the old platform, considered as sunk costs, were not too terrible in relation to putting together a new, although not expensive, infrastructure. But if forecasts were too pessimistic and sales exceeded expectations, then the value of the existing platform is huge, since the Microsoft one would probably not be able to accommodate such a growth, thus implying additional changes and investments.

Students need to realize in this case that sunk costs should not be taken into account for the analysis. When the analysis is stripped from the huge cost of the UNIX platform, the alternatives become comparable. Sticking with the UNIX platform becomes then the most common sense option, since it has neither political costs, nor additional risks related to sales being higher than expectations. The board meeting was precisely focused on demonstrating these facts. The board considered that a closure would seriously hurt brand name and reputation, and realized that the management team did not have the time to work properly, but nevertheless had been able to complete the tasks they where hired to. Given that, they decided to adopt a "wait and see" strategy, thus giving them a few more months.

Role of technology

Considering that *casadellibro.com* is an online bookstore, the importance of technology is paramount in many ways. First of all, every business process is implemented at the platform level. Back and front-office processes need integration, and all productivity improvements are directly related to platform's performance. When the board decided to stick with the UNIX technology, develop a new solution and redesign the web, the executive team felt they were finally in control of the company. Initially, they felt like they were just landed, and most of the important decisions were already been made. Therefore, their role changed from mere controllers of what was originally there, to take care of their own project, their company, their business. This new sense of implication helped them to become more involved, and developed a deep confidence in the solution.

Implementation

Nacho Somalo, CEO of *casadellibro.com*, had previously worked as a technology consultant in one of the world's biggest consulting firms. During his tenure, he acquired significant experience in platform implementation, and developed a deep knowledge of the methodologies involved. During the interviews, Somalo and his team proved to be extremely knowledgeable about the critical success factors for a successful technology implementation.

The decision to stick with the UNIX system was already taken. However, a new integrator was required. At that precise moment, they realized that the down economy also had a positive side: vendors where aggressively looking for customers on a difficult market, so this time it was easy for the firm to spot a trustworthy partner for the new project and to sign a deal in fairly good conditions. This also helped to keep costs significantly low. The implementation process worked much better this time, given that the new management team, with significant experience, was in control of the process from the very beginning, starting with vendor selection.

Outcomes

Casadellibro.com survived the dot.com crash, and continues to grow steadily at a rate in occasions superior to 100% per year. The company is expected to turn a profit in 2004. During 2002 and 2003 the company was completely restructured, with a new business plan scheduled to be reviewed every six months.

It is important to understand what specifically went right in this case. First of all, the scenario analysis was thorough and complete. The environment was immediately perceived as a rapidly changing one, and the evaluation of the different alternatives included not only financial figures, but also the influence of political factors, a key aspect to be taken into account. A simple scenario analysis table like the one reproduced in Exhibit 1 was a powerful tool to evaluate the situation. Secondly, the excellent communication strategy adopted during the board meeting, when the board members were confronted with the bad news and became aware of the risky situation. After this meeting, the executive team gained the extra time required to demonstrate that their assumptions were right. Finally, the company was doing its business: selling books on the Internet. With an adequate platform and web operating properly and with a insignificant marketing budget, *casadellibro.com* was able to increase revenues and achieve positioning as the leader in online book selling in Spain. Even better, during such a process, the *Casa del Libro* brand perception of being a cult bookstore where you could find any book was reinforced by the digital branch.

During those two years there were neither important problems nor mistakes. For a management team that has seen itself so close to the end, all situations look rosy. The

positive scenario (in comparison to the terribly negative one expected by the board after the dot.com burst) gave the company a maneuvering margin to breath.

Lesson learned

Creating a company from scratch, even a digital one, is not an easy task. Particularly when the management team is selected *ex-post*, once most of the important decisions have been already taken and the project is in its implementation phase. The team's involvement with the project is a very important issue to consider, so is much better when such involvement can be achieved from the first moment, when they can make their own decisions, get familiar and adjust the platform they have decided upon.

Every finance professors in business schools all over the world teach this everyday: sunk costs are not relevant for investment decisions. However, it becomes really difficult to forget the money that has been lost in front of you. Had they included the sunk costs in the financial comparison of the platforms, the UNIX one would have looked totally unaffordable. But given the new situation, the maintenance of the UNIX platform solution was close to the same cost as the acquisition of the Microsoft one. With no clear winner for such an important criterion, other factors became more relevant, like the political situation inside the company or the room to grow provided by each of the platforms to reach new objectives.

There is also a lesson to be learned on how technology creates value for a firm. When implanting a new technology in my company, what's really to take care of? The decision between UNIX and Microsoft solutions led to the development of a functionality 'checklist' that any manager should understand in order to cope with any technology-related decision. Once you understand these concepts, the main point is to have experts' advice to evaluate them and make a decision. These are the factors:

Availability

It represents the probability of normal, uninterrupted function offered by a platform or, inversely, the probability of non-programmed interruptions of service. A highly available platform means a highly guaranteed level of service. We could also talk about 'robustness'. In the *casadellibro.com* case, the market research was clearly favoring the UNIX platform. Machines and software offered higher performance under any circumstances. Microsoft seemed to display more incidences in its exploitation. Moreover, the redundancy already built-in in the UNIX solution was a clear guarantee of availability.

Performance

To what extent a platform will offer a fair response time. For this functionality, the market prospects were not very clear. The UNIX platform seemed to be better, but the

complexity of the solution could lead to a paradox. Performance results could get worse even despite the fact that higher processing power was available. Fine tuning and gradual improvement could allow the UNIX platform to reach maximum performance needed. But this type of platforms usually has a natural tendency towards entropy. On the other hand, in a low transactions environment, the Microsoft platform looked much better, because of its simplicity. In the specific situation depicted in the case, the evaluation of performance was closely linked to the next factor, scalability.

Scalability

It measures the ability to maintain an optimum performance level when the volume of transactions grows strongly. The evaluation of this factor was clearly favoring the UNIX platform. UNIX allows for an easier and higher scalability. Some experts, however, think that for Microsoft platforms, properly designed and dimensioned, the scalability factor could match the results of the UNIX one. Even this being true, the maximum capacity under Microsoft was one-fifth the maximum capacity UNIX could handle. Above this point, re-dimensioning the platform would be mandatory.

Maintenance & administration

The relevant elements here are cost and easiness. Microsoft solution is the clear winner in this category, since more experts and vendors are available in the market to provide those services, and the focus on easy-to-use software, one of the salient characteristics of the Redmond firm.

Programmers Cost and Easiness to find them

This is one of the hidden costs on any technological project. Free software, for instance, can seem cheaper at the first sight. But maintenance could be a total madness if a proper provider cannot be found. Finding programmers for any Microsoft solution is extremely easy, and for a similar expertise level the cost is much cheaper than for any other competing technology.

Support

Once products are implemented, service becomes relevant. Microsoft and UNIX solutions have similar problems regarding this point. If a winner is to be selected, the robustness of UNIX products would probably give them a little edge in this category.

Concluding Comments

The present case offers an example of how an apparently simple decision on which platform to choose becomes a highly complex situation in which cultural, political and economic factors play significant roles. In a changing environment like the one right

after the dot.com crash, coming up with a reliable sales forecast and choosing the appropriate platform for such a sales level could determine the survival of a firm. In a context like this, the present case offers a possibility to play with all the factors involved, and provides a rich setting to discuss the set of relevant criteria involved in a technology decision. Although the dot.com crash will probably not happen again – or we hope so –, the lessons learned in this case can be applicable to any decision-making process in a technology environment. The current "Linux versus Windows" debate offers us another chance to think about those issues, and spices up class discussion of the case.

Short biographies:

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