

## Dateline Egypt, 15AD? Library at Alexandria missing just after the Bookstore went Chapter 7 (Part 1)

The Library at Alexandria was a Wonder of the Ancient World, a legend not a myth. It was flourishing at the time of Cleopatra with one million volumes. There are three theories of what happened, but no one actually knows\*. On the other hand, the Alexandria Book Store had a messy public bankruptcy.



The Library had selection and slight discount pricing, and were in only one location. Soon the Bookstore at the Library faced competition from equally large bookstore chains, and later technology startups. The competitors all utilized cash better. Book sales increased 42%, but the competitors drove it. Nile.com later played the key role. (See Part 2)

**Let's explore the cash world of this industry.** Consumer retail has practices and jargon unique to retail. However, the common business goal in any industry is to generate cash. Typically, consumer companies collect their funds at the transaction and have no Accounts Receivable. Retailers are *product-centric* versus *project production-centric*. Therefore, transactions have predictable margins.

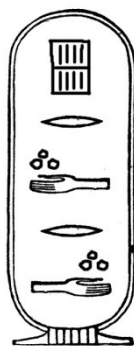
**How does cash work for bookstores and retail in general?** The new competitors “Store on the Border” and “Cleo & Marks” were large multi-store retail chains. They were similar with new ideas compared the Library Bookstore and the small local shops. Besides coffee bars, they featured regular **discounting**. They realized it is not all about profit! They understood there is always a relationship between Working Capital and Margins. By wise inventory practices they unlocked the **Cash Potential** of their industry. New and 18-month-old popular books are discounted. The old standbys on the shelves typically are not. **Sold quickly** equals discounts, lower margins. **Sold slowly** equals no discounts and higher margin. Inventory turns helped determine what was an acceptable margin.

### What is the Working Capital Design?

Store buys Inventory

Customers buy and pay immediately  
**Cash In**

Store pays the Book Company –  
**Cash Out**



Average Days = 12 to 15

Average Days = 1

Average Days = 30

For the retailer  
the cash comes  
in one day,  
but it takes an  
average of 17  
days to go out.

**Where do Margins fit in?** The Library’s Bookstore earned larger margins because of limited discounting. However, with increasing volumes, Cleo and Marks and Store on the Border created greater discounts from the publishers. They also had fewer excess books.

\* The suspects respectively are a Roman, a Christian and a Moslem - Julius Caesar, Patriarch Theophilus of Alexandria and Caliph Omar of Damascus

*Results through people and processes*

**Low Working Capital requirements mean margin flexibility.** There is no greater position than **Negative Working Capital** when A/R and Inventory dollars together are less than Accounts Payable ( $A/R + Inventory - A/P = \$0$  or less): this was experienced by the two new competitors. Their primary skill was more rapid turnover of inventory. The result was New Stores had more flexibility on margins. You simply have more competitive alternatives. Conversely, employing more working capital demands tighter control of margins. Another by-product is the effect on bank interest of lower interest rates.

Manufacturing, product or project, distribution, and service businesses all are driven by this Working Capital relationship. In retail and food manufacturing, the quicker turnover of inventory and immediate A/R payments are true game breakers.

*This chart demonstrates the Negative Working Capital.*

	The Crown's Library At Alexandria	Family bookstores	Store at Border or Cleo and Marks	
<b>Current Price</b>	90%	100%	80%	<b>Despite Discounting</b>
<b>Current Revenue</b>	\$9,000	\$10,000	\$8,000	
<b>Cost</b>	47%	50%	45%	
<b>Cost \$</b>	\$4,700	\$5,000	\$4,500	
<b>Margin</b>	<b>\$4,300</b>	<b>\$5,000</b>	<b>\$3,500</b>	<b>And far less Margin \$</b>
<b>A/R</b>	0	0	0	
<b>Inventory</b>	\$783	\$1,250	\$375	<b>60, 90 and 30 days respectively</b>
<b>A/P</b>	\$588	\$417	\$750	<b>45, 30 and 60 days respectively. This is effectively borrowing from the suppliers</b>
<b>Working Capital</b>	<b>\$196</b>	<b>\$833</b>	<b>-\$375</b>	
<b>Interest</b>	<b>\$98</b>	<b>\$417</b>	<b>-\$188</b>	
<b>Cash Generation</b>	<b>\$4,006</b>	<b>\$3,750</b>	<b>\$4,063</b>	<b>Faster working capital turnover makes them better at generating cash.</b>

**You're the Banker / Business Advisor.** How do you bid to the food or other retail industries? These operating questions will help you evaluate the company's performance.

*In the last 24 months, Jacquard has worked with two consumer retailers, two Internet retail companies and two consumer goods manufacturers.*

### Your Business Questions

Review their view of cash in and cash out.

Do they have a price versus terms practices? Are they formal and understood by employees?

How fast does the inventory turn over? Can anything be changed??

What are their spoilage or inventory losses? From what?