TUCK SCHOOL OF BUSINESS AT DARTMOUTH
Glassmeyer/McNamee Center for Digital Strategies
Case #6-0016

Papirius spol. s.r.o.: Office Depot Is Coming

The Situation Facing Papirius

Petr Sykora and Jan Cerny sat in Jan's corner office on the second floor of their 2-year-old Dolni Chabry distribution center on a chilly July afternoon and pondered the future. Despite having built the biggest and fastest growing office supply company in the Czech Republic, Papirius' two founders were far from complacent. Office Depot had recently committed significant resources towards building an Eastern European presence in the region's biggest market, Poland, tangibly defining the impending "foreign threat" that Jan and Petr had feared since founding the company in 1993. Papirius also faced an opportunity to leverage its operational and cultural knowledge by expanding into Hungary, Slovakia, Poland and the Ukraine. At the operating level, and for the third time in four years, the company was facing a major facilities expansion and systems upgrade. Finally, their domestic mission was far from complete. Although they had achieved about 30% market share in Prague and about 10% market share in the $200M Czech office supply market, they felt this share was far short of the firm's potential.

Papirius spol. s.r.o.

Humble Beginnings

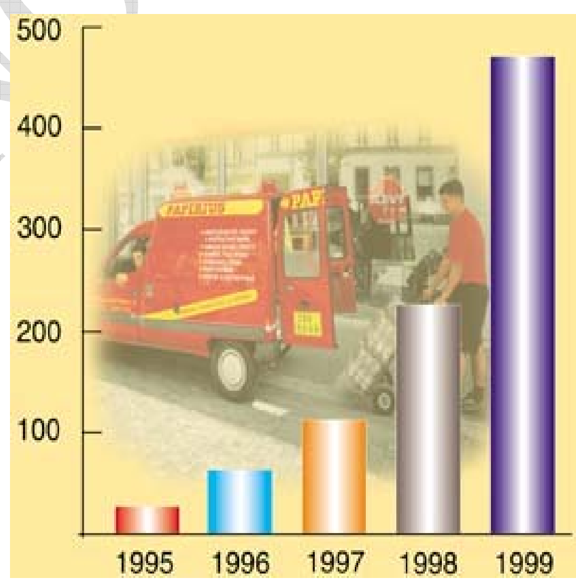
In the spring of 1993 two 18-year-old college students wondered how they might make some money between classes. One of them had a friend that worked for a paper wholesaler, and so they decided to try their luck as sales representatives. After a week of work, they finally landed their first client (for a toner cartridge). When they tried to fill the order, however, they realized that the wholesaler didn't have the cartridge in stock. Afraid to let down their very first client, they searched around Prague and found the product elsewhere. As they had very little money, they bought the product on credit and hopped on the metro, stopping only to buy some snowdrops as a gift for the customer. Smiling at the box of snowdrops, their customer thanked them heartily for their on-time delivery.

This case was developed by Professor M. Eric Johnson of the Tuck School of Business at Dartmouth, with research assistance from Daniel R. Justicz (T'00), Jay A. Altizer (T'00). It was written as a basis for class discussion and not to illustrate effective or ineffective management practices. Revised: 2004

With this experience in hand, the two of them fronted 10,000 Kc (cca. $300) of capital and started their own business. After some time, they were able to borrow a car, and a few months later they bought their first fax machine. Shortly thereafter they bought an old Skoda for 20,000 Kc and hired their first employee.[1] Their "customer first" approach, while commonplace in Western Europe and the USA, struck a chord with Czech consumers. Both their overall sales and total customers served grew at compound annual rates in excess of 100%[2], with 2000 sales projected to exceed 800M Kc ($20M). By 2000 they were one of the largest players in the office supply market competing with many small local players with limited offerings.

Customers

Net Sales in Million Kc



[1] Adapted from the "How it all began" section at www.papirius.cz.

2 Ibid.

The company's growth was financed entirely by internal cash flows and the initial founders' equity contribution of 10,000 Kc until early 2000, when the company opened a line of credit with a local bank (Ceska Sporitelna). Jan and Petr had repeatedly declined offers of equity investment from foreign and domestic investors, choosing instead to retain their independence and financial flexibility. While there was a cultural bias against the use of debt in the country, their decision to wait so long before accepting financing from a bank was in large part due to the inability of local banks to understand the operations of a rapidly growing distribution business.

Expanding Outward from Prague

By the summer of 2000, Papirius supported a catalog of over 3,500 office-related supplies and delivered anywhere in the Czech Republic within 24 hours. The firm started their operations by servicing only the Prague market. By early 1995, they expanded into Brno, the Czech Republic's second largest city, and by the end of 1998, they covered the entire country. They had outlined plans to enter some of the larger Slovak cities by spring 2001, and were considering strategies for entering Poland. Their bias was towards expanding into countries that had similar cultures and lacked established competitors.

Much of their thinking seemed to always be focused on domestic facility expansion. The relative geographic centrality and market size of Prague led to a hub and spoke distribution system (described below). While they felt like they had only recently moved into their 3,300m^2 customized facility in Dolni Chabry, their rapid growth and the lack of adjacent warehouse space meant that another move was a necessity. They had contracted with a developer who was willing to build out a 7,800m^2 facility with options for another 13,000m^2 – more than enough room to support an operation eight times the company's current size. While intuitively this felt like ample space, they were anxious to plan far enough ahead to accommodate at least three years' growth. The move was scheduled for August, during a traditionally slow time in the office supply business.

The Papirius Approach: Customer Service

The typical Papirius customer was a small firm of approximately 50 employees. The orderer and recipient of the Papirius delivery were usually the same person, typically filling the role of an office manager or a similar position. The customer would place her order before 5PM and expect delivery before noon the next day. Her interface with Papirius would typically be a detailed glossy catalogue that was available upon request and automatically sent annually to existing customers. About 65% of the customers placed their orders by filling in the requisite information on the order request form and faxing it via an 0800 toll-free fax number to Papirius' Distribution Center. The remainder used the phone to order. Papirius had launched a web site over a year ago and its sales were steadily growing, but still only represented about 5% of the orders. Petr estimated that Internet access among their fax ordering accounts was as high 95% and believed that it would rapidly replace the fax orders as customers became more comfortable with the Web. However, Petr felt that the fraction of phone orders, originating from old-fashion buyers and those without Internet access, would likely remain stable. The next interaction a customer would have with Papirius would usually be with the driver/delivery person the next morning when products were delivered.

The Papirius strategy was to offer their customers excellent service and value as defined by on-time free delivery (for orders larger than $40), competitive pricing, ease of ordering, and a large, complete selection of goods. The history of price consciousness among Czech consumers stemming from 50 years of economic hardship continued to exert a subtle but important impact on Papirius' business. Even when purchasing for a relatively larger corporation, Papirius' typical customer was extremely price conscious, and as a result, Papirius was hesitant to exert too much upward pricing pressure on its customers. Recently they had started a campaign to educate their customers about the value proposition that Papirius provided by saving their customers' employees time. In tandem, however, they were pursuing a customer acquisition and retention campaign centered around a "Price Jackhammer" mini-catalogue. Papirius viewed customer confidence in their delivered value to be of paramount importance.

The Czech Economic Climate

Initially the darling of Eastern Europe, the Czech Republic began a period of economic stagnation in 1996. Most economic observers attributed the economy's sluggish performance in the late 1990s to structural issues that have impeded the country's transformation from the centrally planned economy that existed prior to 1989. As noted in 1999 by *World Trade Magazine*,

> "Even three or four years ago the Czech Republic still looked like a bright spot, but now it's clear that privatization has been mishandled and that banking laws and creditor protection remain weak. The political logjam means none of these problems is being addressed. The only encouraging sign is last year's increase in FDI to $1.8 billion, which should at least underpin some productivity growth."[3]

The initial period following the 1989 "Velvet Revolution" was dominated by two issues: the country's separation from their sister state Slovakia after more than 70 years of joint statehood and the coupon privatization scheme championed by the conservative government of (Economic and then) Prime Minister Vaclav Klaus.

Coupon privatization involved distributing shares in non-strategic state-owned companies directly to individual citizens. While seemingly a capitalist's dream, the plan had two major shortcomings. First, the existing laws formulated under a totalitarian regime were inadequate to protect small shareholder rights. Second, individual investors seeking financial security either sold their shares to or placed the shares certificates and voting rights in the hands of banks that remained majority state owned. These facts, coupled with inadequate "Chinese Wall" provisions, often meant that banks with significant shareholdings in money-losing

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[3] Andrea Knox, World Trade Magazine, July 1999.

companies often loaned money to these companies in an effort to support their equity investments. The results were disastrous for the economy. Not only was scarce capital loaned to companies that would never repay the money, massive bureaucratic enterprises were also effectively given stays of execution, delaying much needed reform and redistribution of human capital in the Czech economy. The backdrop of a massive state-sponsored bailout of all the major commercial banks clouded the start of the new millennium in the Czech Republic. The minister of trade was trying to get a restructuring program going, but it was not clear how it would be done or financed. Many wondered if the government would be willing to endure the pain.[4] Throughout 2000, a major effort was underway to dress up the banks for privatization. But this process was riddled with revelations of scandal. The headline on the July 4, 2000 Prague Post was like many others that summer declaring "Discovery of massive-debts and a criminal investigation follow high-level housecleaning." Banking was not the only institution going through upheaval. The same day's paper also headlined turmoil in the state-controlled television network, where independent thinking journalists who pressured Prime Minister Klaus for openness quickly lost their jobs.

Papirius' Strategy: Overnight Delivery to Business Customers

Papirius sold office products directly to business customers. Papirius was a pure distributor, in that it did not manufacture any of its products. All products were purchased from domestic or international suppliers. The product line included assorted office products (paper, pens, pencils, toner cartridges, etc.), food and beverage products for at-work consumption, and a small number of specialty items stocked specifically for key customers. This was similar to the model followed in the U.S. by companies like Corporate Express and B.T. Office Products.

Overnight Delivery Model

Papirius used an overnight delivery model to fulfill customer orders. The order-processing department received customer orders throughout the day, and then the warehouse filled the orders in the evening. Each order was picked and then placed on a "spur" according to its final destination. Orders bound for Prague were queued according to their delivery route around the city. In addition to the Dolni Chabry distribution center, Papirius had 11 regional depots situated around the Czech Republic. Orders bound for different regions were queued up for the "line-haul" trucks that carry orders to depots around the Czech Republic. At these depots, orders were then reloaded into delivery vans according to their specific regional delivery route.[5] The regional depots were simply transfer stations and did not hold significant inventory.

[4] Ibid.

[5] Map of Czech Republic from Maps.com

By the early morning hours, order picking was complete, and drivers loaded their trucks. Regional orders would be transferred to delivery trucks and also be en-route to the customer by mid-morning. The order cycle was complete when drivers finished their delivery routes by around 2:00 p.m. A typical day of operations at Papirius looked like:

	Customer orders	Deliveries	Order processing	Inbound processin	Inventory mgt.
6:00 AM		Drivers load trucks			Cycle count
7:00 AM					
8:00 AM	Orders taken over	Vans leave Depots		Receipt and put away	
9:00 AM	phone, fax, internet	and Prague;			
10:00 AM		Deliveries to			
11:00 AM		customers from			
12:00 PM		8 until 2			
1:00 PM			First pick at 1:30;		
2:00 PM			picking throughout		
3:00 PM			day		
4:00 PM					
5:00 PM					
6:00 PM	Order cut off @ 6:30				
7:00 PM					
8:00 PM					
9:00 PM		Line haul trucks leave			
10:00 PM		Prague; travel			
11:00 PM		to transfer stations			
12:00 AM					
1:00 AM					
12:00 AM					
1:00 AM					
2:00 AM					
3:00 AM			3-5 a.m.: Final pack		
4:00 AM					Cycle count
5:00 AM					

Papirius used a conventional set of information systems to manage its processes. There were four important components in their suite of systems[6]:

Web Applications	**Order Management System**	**Warehouse Management System**	**Accounting System**
• Web front end for order management • Online catalog • Online brochure	• Order processing • Purchasing • Inventory management • Customer invoicing	• Manages order fulfillment • Pick/pack/ship • Slotting • Receipt & put away • Queues orders but outbound spur • Manages material handling equipment in warehouse	• General ledger • Accounts payable • Accounts Receivable • Supplier invoicing

[6] Source: Interview with Papirius' senior management.

Papirius' Organization

Papirius' business processes were straightforward. There were seven groups within the company[7]:

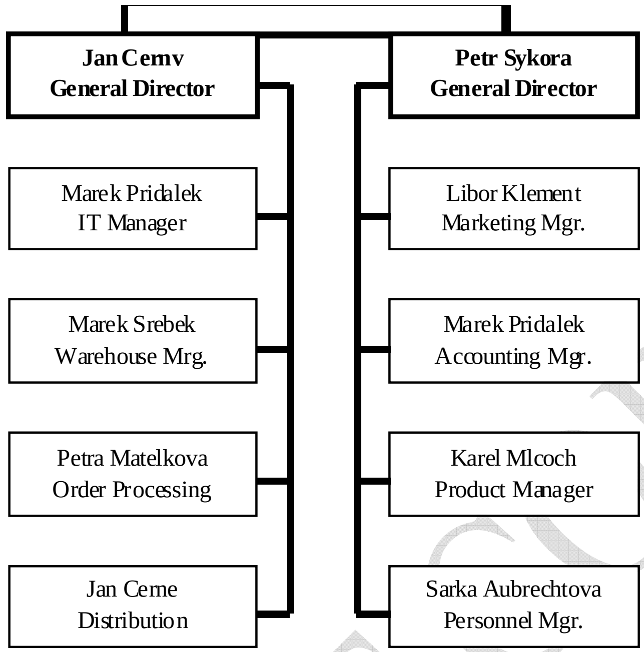
Order processing	Order entry and customer service
Marketing	Prepare and distribute catalogs; choose products for inclusion in catalog; promotion; Sales
Product group	Purchase products from suppliers; establish service levels for various products; establish and maintain vendor relationships
Warehousing	Receive inbound purchase orders from vendors; Pick/pack/ship customer orders
Distribution	Deliver products to end customers; manage delivery fleet
Information technology	Systems development and maintenance
Accounting	Accounts payable, accounts receivable, management reporting
Personnel	Human resource management

All of these functions were housed at corporate headquarters in the central Dolni Chabry distribution facility. Petr and Jan split responsibilities for each of these four groups and managed the business on a day-to-day basis[8]:

[7] Ibid.

[8] Source: Internal Papirus documents.

Papirius Organization Chart



Capabilities

Papirius served a base of over 16,000 customers, delivering approximately 1000 orders daily. While an average day generated about 3M Kc, swings of 30% were common with Monday and Fridays typically slower than midweek. The sample monthly operations report, shown below, provided a set of sales and fulfillment statistics[9]:

Date:	27/04/00	
Turnover		
Today's gross revenues		2,578,024
Month-to-date revenues		77,340,720
Lines per day		
Items ordered		5,367
Items fulfilled		5,351
Items unfulfilled		16
Percentage		99.70%
Invoices per day		
Total invoices		743
Invoices completely filled		728
Invoices not completely filled		15
Percentage		97.98%

[9] Source: Internal Papirius reports, interviews with Papirius management

Exhibit 2 contains other statistics about the Papirius operation.

Papirius strove to provide very high levels of order fulfillment with availabilities of greater than 99.5% for each item they stocked. To showcase its high service, Papirius offered customers the guarantee “Tomorrow or It’s Free” – items that were not in stock would be delivered later at no charge. Of course there were some limits on the types of products covered under the guarantee, and customers could not order multiple units of an out-of-stock item and receive them all free. Petr estimated that the promotion cost less than $200/day and thought the publicity was well worth it. In fact, he felt that it was good that some customers received free merchandise – he argued that it was a positive thing to give something to the customer from time to time to reinforce the value of their service and ability to meet promises. Providing high levels of customer service did cost Papirius precious capital. Even with ongoing efforts to improve inventory turns, Papirius held about one month of demand in inventory.

Office Depot Expands Internationally

Superstores Expand Globally

Over the past decade, U.S. and European superstores like Wal-Mart, Carrefour, Toys ’R Us and Office Depot have taken their concepts abroad, attempting to gain market share and economies of scale on a global basis. Wal-Mart, for example, opened its first international supercenter in Mexico in 1991.[10] By 2000, Wal-Mart’s International division operated in nine countries, with a European presence in Germany and the U.K.[11] Underscoring the increasing importance of international expansion, Wal-Mart expected 30% of its profit growth to come from abroad by 2005.[12] So-called “Category Killer” retailers had headed abroad as well. Toys ’R Us International opened its first stores in 1984, in Singapore and Canada. By 2000, Toys ’R Us maintained over 450 international stores in 27 countries, including franchise operations.

International Struggles

While international expansion had provided these retailers with a good avenue for growth, many Superstores and Category Killers encountered difficulties abroad. Long known for its flawless execution stateside, Wal-Mart stumbled numerous times in entering overseas markets:

Through a joint venture with C.P. Pokphand Co., Wal-Mart opened three Value Club discount stores in Hong Kong in late 1994. Joe Hatfield, who headed Wal-Mart’s China unit, acknowledged that those stores stocked some merchandise that was more appropriate for

[10] Source: Company information posted at http://www.walmartstores.com/corporate/coinfo_international.html

[11] Source: Company information posted at http://www.walmartstores.com/corporate/coinfo_international.html

[12] “Wal-Mart Goes Shopping In Europe,” Fortune, Jeremy Kahn, 6/7/1999.

Westerners than Hong Kongers. One of the outlets prominently displayed a basketball hoop – an unlikely adornment for Hong Kong's high-rise apartments.[13]

Likewise, in Japan, retailers met with mixed success. The office superstores were among a big crowd of American retailers that had run into trouble there. During Japan's recession of the 1990's, U.S. companies stormed in, aiming to make a killing by revolutionizing a tradition-bound retail industry. They sparked profound changes with their new products, offering better value and wider selections. But only a few, including Toys 'R Us Inc. and Gap Inc. truly succeeded. Many others were scrambling to revise their strategies, and some were even giving up.[14]

Though it was still early in Wal-Mart's Brazilian foray, the Bentonville, Arkansas retailer had been posting wider-than-expected losses, resulting from a ruthless price war with well-established local competitors.[15]

Other retailers felt the pain along with Wal-Mart as they adapted to new markets. Some retailers failed to merchandise properly for the new markets they entered. Other firms were unable to circumvent local middlemen in purchasing. All firms had to deal with hostile responses from home-market competitors. These expansion difficulties all came at a time when growth in the home markets was drying up, making growth abroad even more imperative.

Questionable Future for Category Killers

Some industry experts had been suggesting that the Category Killer concept may be dead in the U.S. Sector after sector of the retail market had been filled with Category Killer competitors, making it difficult for any firm to prosper. Since many of these retailers differentiated themselves primarily on price, price wars among them were common. In the office supply business, competition within the U.S. had become fierce. "It has become clear that three strong players in this market is at least one too many," wrote a pair of analysts from Donaldson Lufkin and Jenrette in an August 1999 report that depressed the stock prices of all three office superstores.[16]

Office Depot Follows Suit

Wrangling with all of these competitive pressures, Office Depot had also chosen to go abroad for growth. Office Depot claimed to be among the world's largest office products retailer, operating a total of 989 stores operating in ten countries worldwide by mid-2000.[17]

[13] "Wal-Mart Expands Cautiously in Asia," Wall Street Journal, Bob Hagerty and Peter Wonacott, 8/12/1996.

[14] "U.S. Superstores Find Japanese Are a Hard Sell," Wall Street Journal, Yumiko Ono, 2/15/2000.

[15] "Wal-Mart Won't Discount Its Prospects in Brazil, Though Its Losses Pile Up," Wall Street Journal, Matt Moffett and Jonathan Friedland, 6/4/1996.

[16] "Lots of Category Killers Don't Look So Super Anymore," Boston Globe, Steven Syre and Charles Stein, 9/30/1999.

[17] Source: Company information posted at www.officedepot.com

Having begun operations in Delray, Florida, Office Depot now ran operations in Canada, France, Japan, Mexico, Israel, Poland, Hungary, Columbia and Thailand.[18] These international expansion plans were in part enabled by the acquisition of Viking Office Products. Viking, an office products cataloguer, had already developed a strong international presence in both catalog and web sales. Office Depot had made it clear that expansion in Europe was coming and that it planned to rely on Viking's knowledge of the marketplace to succeed.[19]

Viking had an established record in cracking new European markets. It reportedly broke even in the U.K. during its first year. When it launched in Germany a few years later, it reportedly showed a profit after 18 months. As in the U.S., Viking was not the cheapest option; customers just thought it was. And after years of lackluster service, U.K. customers appreciated the high levels of service Viking offered and the convenience of buying from a catalog.[20] Office Depot was using this platform to enter new markets via the web. Country-specific web sites had been launched in three countries, with at least three more to come.[21]

As Office Depot continued to integrate Viking into their operations, they increasingly endeavored to gain scale globally in their operations. Office Depot was just beginning to realize benefits from global purchasing. It had deals with well over 65 major manufacturers on a global basis and they planned to go through each category of products to identify cost savings and/or private label opportunities.[22] Office Depot executives had given these international expansion efforts high priority and remained committed to an aggressive expansion program. Company executives and analysts both agreed that the biggest opportunities for the future growth were the Internet and overseas sales channels. The company's international division, which includes operations in 17 countries, continued to report the biggest increases in existing-store sales of any area outside the Internet.[23]

Office Depot in Japan: Not-So-Smooth Sailing

Just as with other Superstores and Category Killers, Office Depot had encountered bumpy roads abroad, including Japan.

Like many foreign merchants, Office Depot had linked up with local partners that knew the lay of the land, a strategy that permitted quick expansion but limited operational control.[24] After a promising start, "the Americans soon hit a wall." Japanese office products were very

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[18] Source: Company information posted at www.officedepot.com

[19] "Viking Purchase Readies Chain for Overseas Expansion," Discount Store News, 10/26/1998, Anonymous.

[20] "Business-to-business Overseas Success Stories," Catalog Age, 3/1/1999, Mike Mckenna.

[21] "Office Depot: Gravitating Towards Its Strengths," JP Morgan Equity Research, 4/12/2000, Analyst Danielle Turnof.

[22] "Office Depot: Gravitating Towards Its Strengths," JP Morgan Equity Research, 4/12/2000, Analyst Danielle Turnof.

[23] "Office Depot Clicking Online, But Not In Stores," Portland Oregonian, 5/14/2000, Elaine Walker.

[24] "U.S. Superstores Find Japanese Are a Hard Sell," Wall Street Journal, Yumiko Ono, 2/15/2000.

different from those in the U.S. – for example, loose-leaf binders had two rings instead of three – requiring Office Depot to buy most products from traditional local suppliers.[25]

In the U.S., Office Depot was able to operate each store profitably by selling a portion of the products from each store via retail and then delivering the rest directly to consumers. They presumed that this model would also work in Japan. Instead, the Japanese stores had been plagued with problems where the challenge was delivery and acceptance. In Japan, Office Depot struggled to shrink the store footprint to make the economics work.[26] These profitability problems were compounded by the actions of local competitor Plus Corporation, the number two competitor in Japan. Struggling to lift its sagging sales, Plus created a small division in 1993 called Askul to sell discounted stationery by catalog. Askul targeted exactly the same customers as its U.S. rivals: small business owners that were not getting the discounts that big companies buying in bulk received.[27] In the face of operational difficulties and competitive pressures, Office Depot was forced to make drastic changes, closing its large store in Hiroshima and focusing on Tokyo.

A Lurking Threat: Office Depot Enters Poland

By 1998, Office Depot had established a sizeable presence in Poland and Hungary through a series of retail super centers and a growing business-to-business direct delivery business. The Viking acquisition gave Office Depot a platform from which they would be able to accelerate expansion across Central and Eastern Europe. Papirius viewed Office Depot's strategy as a serious threat to their business and believed they would enter Prague before the end of 2001. Jan and Petr estimated Office Depot's current Polish turnover (including their super center sales) to be around $100 million, or about five times Papirius' current level.

But Office Depot was not the only threat. European office supply companies, such as French Lyreco, had already entered Poland and were eyeing other countries in Eastern Europe.

As they began formulating their potential responses to an Office Depot entrance into the Czech market, Jan and Petr thought of several different responses. After seven years of aggressively growing their business under adverse conditions, they were very focused on not squandering their incumbent position. Among the alternatives they discussed were:

1. Developing a competing chain of superstores.
2. Aggressively growing their current delivery business to monopolize the best customers.
3. Expanding into the home delivery market.
4. Opening their distribution network to other retailers.

[25] "U.S. Superstores Find Japanese Are a Hard Sell," Wall Street Journal, Yumiko Ono, 2/15/2000.

[26] "Office Depot: Gravitating Towards Its Strengths," JP Morgan Equity Research, Analyst Danielle Turnof, 4/12/2000.

[27] "U.S. Superstores Find Japanese Are a Hard Sell," Wall Street Journal, Yumiko Ono, 2/15/2000.

5. Partnering with a retail operation that could benefit from Papirius' distribution network.

6. Acquiring domestic competitors to gain market share.

7. Competing creatively, not on price.

All of the proposed strategies would involve a movement away from the "organic" internally funded growth that had characterized their business to date, and could quite possibly require dilution of Jan and Petr's economic interests and operating control of the business.

They believed that the Czech business environment, despite the country's likely accession into the European Union in 2003, was a hostile environment for any new business. They knew that their strong presence in the Czech market could serve as a deterrent to new entrants, and that a new entrant would have to endure a lot of costs as they learned the local landscape.

Petr & Jan Plot Their Future

Although Petr and Jan had traditionally made it their first priority to focus on growth within the Czech market, two things were becoming clear to them. First, Poland offered a market potentially four times larger than the Czech market with similar cultural and operating conditions, and Slovakia, the Czech Republic's former sister state, stood barren with no major competitors. Second, they wondered about their decision to provide coverage to the entire Czech Republic. From a marketing perspective, it was a huge advantage summed up by the tag line "Anywhere within the Republic within 24 hours." Operationally and financially, however, they knew it was a different story.

Petr and Jan were also trying to realistically assess the threat posed by a potential entry by Office Depot into the Czech marketplace. Clearly, they assumed, Office Depot would have deep pockets, and viewed their entry as a long-term investment. Additionally, Office Depot would have the ability to source their product internationally and undercut Papirius on many commodity-type products. Office Depot would also have a broader strategy, opening retail super centers alongside their business-to-business delivery services.

On the flip side, however, they would be entering the market with relatively little experience in the Eastern European market, and far less knowledge of the Czech customers. Petr and Jan were determined to make Office Depot's entry into the Czech market as unattractive and unprofitable as possible, but without resorting to a price war that they would surely lose.

Case Questions

1. What issues do you see with Papirius' existing business model? Has all of Papirius' growth been good for the company?

2. What metrics or information would be helpful in determining what new markets they should focus on? What new markets should Papirius enter, if any?

3. Petr thought that one interesting way to leverage Papirius' current business-to-business delivery competencies would be to open up their distribution network to third-party vendors. Papirius could offer the same "24-hour guaranteed" delivery service to other vendors. What questions would you have to answer in order to determine if this was a good idea? What concerns would you have about this business model?

4. What types of businesses would make good partners for Papirius if they were to open up their distribution network to new partners?

5. What effect would the Office Depot entry and subsequent margin reduction have on Papirius? If you were Office Depot, where would you attack Papirius? In what areas of the country will Office Depot try to establish a presence? What effect will the Office Depot superstores have on Papirius' market?

6. What non-price strategies that Papirius could pursue to help combat the threat posed by Office Depot?

Exhibit 1: Selected Macroeconomic Data

		1995	1996	1997	1998	1999	2000 Forecast	2001 Forecast
Gross domestic product	*bill. CZK, curr.pr.*	1381,1	1572,3	1668,8	1798,3	1836,3	1910	2021
Gross domestic product	*prev.year=100,const.pr.*	105,9	104,8	99,0	97,8	99,8	101,5	102,2
Consumption of households	*prev.year=100,const.pr.*	105,9	106,9	101,9	97,4	101,2	101,1	101,3
Consumption of government	*prev.year=100,const.pr.*	95,8	103,5	100,8	99,1	99,9	99,8	101,4
Fixed capital formation	*prev.year=100,const.pr.*	119,8	108,2	97,1	96,1	94,5	101,7	102,7
GDP deflator	*prev.year=100*	110,2	108,6	107,2	110,2	102,4	102,5	103,6
Inflation rate	*per cent*	9,1	8,8	8,5	10,7	2,1	4,0	4,8
Unemployment rate	*average in per cent*	4,02	3,89	4,79	6,45	8,70	9,6	10,8
Wage bill	*prev.year=100*	.	117,9	107,8	104,8	102,9	102,5	104,1
Current account (BoP)	*bill.USD*	-1,37	-4,29	-3,21	-1,34	-1,06	-1,4	-1,2
Current account / GDP	*per cent*	-2,6	-7,4	-6,1	-2,4	-2,0	-2,5	-2,0

Current Fx Rates

	7/4/00
CZK/USD	38.34

Exhibit 2: Operational Information

Papirius Operations Information			
Delivery Vans		85	
Line Haul Trucks		5	
Total Number of Drivers		90	
Cost/driver/day (wages + benefits)		800	
Cost/truck/day (daily lease expense)		450	
Daily turnover		3,000,000.00	Kc
SKU base (2000)		3500	
SKU base (1999)		3000	
SKU base (1998)		1500	
Time between deliveries (Prague)		10	min.
Time between deliveries (Regional Depots)		20	min.
Time required to complete a delivery		5	min.
Orders processed/regional depot/day		25	
Total number of regional depots		11	
Average order size		3000	Kc
Number of suppliers		80	
Customer credit terms			
	10 days	70%	
	<45 days	20%	
	Cash on Delivery	10%	
Source: Papirius internal reports, interviews with management			

Exhibit 3: Selected Financial Data

Income Statement (in 000s)

	1997	1998	1999
Net Revenues	108,530	221,514	465,739
COGS	79,285	165,490	325,039
Material/Energy Cons.	4,384	7,015	13,968
Services (leases, rent, etc.)	10,614	22,293	61,896
Wages, Social Security	8,969	21,244	52,893
Fines and Penalties	9	43	93
Depreciation	1,045	2,935	4,528
Taxes	-	-	-
Other Expenses	2,935	1,971	4,902
Net Income	1,289	523	2,420

	1997	1998	1999
Net Revenues	100.00%	100.00%	100.00%
COGS	73.05%	74.71%	69.79%
Material/Energy Cons.	4.04%	3.17%	3.00%
Services (leases, rent, etc.)	9.78%	10.06%	13.29%
Wages, Social Security	8.26%	9.59%	11.36%
Fines and Penalties	0.01%	0.02%	0.02%
Depreciation	0.96%	1.32%	0.97%
Taxes	0.00%	0.00%	0.00%
Other Expenses	2.70%	0.89%	1.05%
Net Income	1.19%	0.24%	0.52%

Balance Sheet (in 000s)

			1997	1998	1999
Assets					
	Fixed Assets		1,263	6,125	11,644
	Current Assets				
		Cash	2,582	5,531	5,615
		Inventory	5,926	15,811	25,834
		A/R	7,719	14,954	36,993
		Accruals	961	3,185	2,409
			18,451	45,606	82,495
Liabilities					
	Line of Credit			6,000	13,000
	Required Reserve		1,148	570	952
	A/P		12,655	31,577	54,153
	Other Payables		3,244	4,766	8,377
			17,047	42,913	76,482
Equity					
	Paid-in Capital		100	100	1,000
	Retained Earnings		1,304	2,593	5,013
			1,404	2,693	6,013