

Case 9: Bread of Life Bookstore

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An Overwhelming Situation

Kevin Hutchinson¹ exhaled slowly and tapped his pen gently against his forehead. The clock on his desk chimed softly – 2 p.m. “Where do we go from here?” he thought.

His eyes darted across the sea of papers on his desk. Never in his seven years as manager of Bread of Life Bookstore had he felt so overwhelmed. He had just received year-end financial statements from the store’s bookkeeper, and they had confirmed what he already knew – declining sales and shrinking margins had combined to put the business into a loss position for the first time in recent memory. Kevin felt that he had a good understanding as to what had happened, but what to do about it seemed elusive. The board of directors would be expecting a meeting soon to discuss the store’s performance and to gauge his opinion as to the future viability of the business.

Kevin leaned back in his chair and closed his eyes – perhaps a mental review of the store’s situation would prove helpful.

History of the Enterprise

Francis LeFort incorporated Bread of Life Bookstore of Sydney, Nova Scotia, Canada, in 1930. An itinerant evangelical preacher who had been conducting mission work with the province’s aboriginal population, LeFort felt that the ministry could be supported and grown through the existence of a bookstore that would carry materials useful to aboriginal ministry and for the edification of the local Christian population. The store opened as a small shop in the front corner of a building on Steeves Street in the city’s downtown area and by 1954 had moved to occupy the entire building.

Organization

Since its inception, Bread of Life Bookstore had been operated as a ministry of Bread of Life Mission, Inc., a registered charitable organization managed by a volunteer board of directors. As of 2004, the board consisted of seven members, three of whom served on the store’s

management committee, providing guidance and advice to Kevin Hutchinson, the store manager. Bread of Life Bookstore’s mission stated that it existed “To support the ministry of the Association of Evangelical Native Churches (AENC) by providing and promoting Christian resources to our valued customers.” The store carried out this mission by remitting its net income plus any donations received annually to the AENC.

At the end of 2004, Bread of Life Bookstore carried a variety of products for sale to its clientele, including Christian books and magazines, church resource materials, music and videos, and various other products (e.g., T-shirts, inspirational plaques, jewelry, etc.). The store’s annual statements of income and expense (see Table 1 on next page) indicated that the business had experienced four years of consistent profitability with the exception of 2004, during which time the operation experienced a loss of \$65,488 and was – for the first time in memory – unable to remit funds to the AENC.

Kevin Hutchinson, who came to the store after five years with a medium-sized retail operation in the Halifax, Nova Scotia, area, had managed the store since 1999. Upon arrival he had found the business lacking an organization chart, so he immediately went to work preparing one (see Table 2 on page 85) while seeking to modernize the store’s retail operations. Kevin felt that the business ultimately reported to Jesus Christ in that it existed as an extension of His Great Commission – literally purveying the Word of God to this corner of the world.² In a physical sense, Kevin reported to the management committee of the board of directors. As far as Kevin was concerned, the management committee was “hands-off” in its approach to store operations, meeting infrequently and with few suggestions respecting how to deal with challenges being faced by the organization. As such, he often felt that the burden of responsibility for the store rested squarely upon his shoulders.

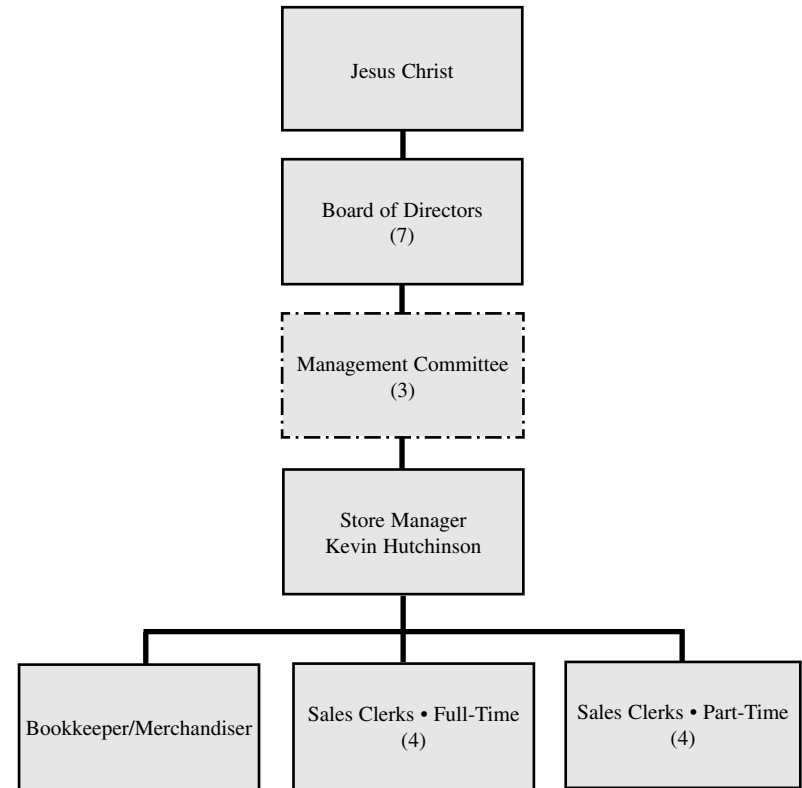
Under Kevin were nine employees – one full-time bookkeeper/merchandiser, four full-time sales clerks, and four part-time sales clerks. These employees worked shifts Monday through Saturday during the store’s hours of operation: 9 a.m.- 5 p.m. from Monday-Thursday, 9 a.m.-9 p.m. on Friday, and 9 a.m.-3 p.m. on Saturday. Kevin was proud of the structure he had brought to the organization, although events of the past year had concerned him. It seemed that there

Table 1

Bread of Life Bookstore Statements of Income and Expense

Period Ending:	Dec. 31, 2000	Dec. 31, 2001	Dec. 31, 2002	Dec. 31, 2003	Dec. 31, 2004
Revenue					
Book & Magazine Sales	432,275	449,320	441,003	463,884	339,992
Church Resource Sales	153,200	148,092	147,237	162,270	118,416
Music & Video Sales	188,956	194,89	199,406	205,565	175,692
Other Product Sales	18,771	19,237	18,420	22,010	17,444
Total Revenue	<u>793,202</u>	<u>811,547</u>	<u>806,066</u>	<u>853,729</u>	<u>651,544</u>
Expenses					
<i>Cost of Goods Sold</i>					
COGS – Books & Magazines	259,365	274,085	273,422	296,886	231,195
COGS – Church Resources	125,624	118,474	116,317	133,061	98,285
COGS – Music & Videos	113,374	118,888	125,626	133,617	119,471
COGS – Other Products	<u>10,136</u>	<u>10,965</u>	<u>10,315</u>	<u>12,766</u>	<u>12,385</u>
Total Cost of Goods Sold	<u>508,499</u>	<u>522,412</u>	<u>525,680</u>	<u>576,330</u>	<u>461,336</u>
<i>General & Administrative</i>					
Accounting & Legal	2,238	2,045	2,355	2,681	2,862
Advertising & Promotion	18,278	10,779	12,563	11,281	16,403
Bad Debts	638	594	438	601	384
Bank Charges & Interest	840	873	814	922	978
Insurance	3,420	3,600	3,670	3,745	3,908
Maintenance & Repair	3,250	4,877	2,412	2,834	1,992
Office Supplies	1,488	1,390	1,434	1,604	1,598
Postage & Shipping	2,484	2,790	2,984	2,101	1,929
Salaries & Benefits	198,480	202,450	206,499	210,629	214,841
Telephone & Internet	1,800	1,898	1,974	1,904	2,132
Utilities	8,261	8,420	8,211	8,492	8,669
Total General & Administrative	<u>241,177</u>	<u>239,716</u>	<u>243,354</u>	<u>246,794</u>	<u>255,696</u>
Total Expenses	<u>749,676</u>	<u>762,128</u>	<u>769,034</u>	<u>823,124</u>	<u>717,032</u>
Net Income (Loss)	<u>43,526</u>	<u>49,419</u>	<u>37,032</u>	<u>30,605</u>	<u>(65,488)</u>

Table 2

Bread of Life Bookstore Organizational Chart³

had been more interpersonal conflict between staff members, and Kevin sensed that a lack of confidence in the store's long-term viability was growing, especially in the face of new competition.

Competitive Environment

The Bread of Life Bookstore had enjoyed more than 70 years of relatively light competition. During most of its operating history, no Christian retail stores of its nature existed within 100 kilometers of the Sydney area.⁴ During the 1990s, the business began to note some fluctuation in sales volume in step with the increasing popularity of online booksellers such as Chapters.ca and Amazon.com. These online retailers were able to offer many of the mainstream Christian titles and popular Christian music that Bread of Life carried. In response to these developments, the store established its own Web site in 2003 that – while permitting the advertising and sale of the store's products – did not offer the discount prices of its online competitors. The store was also experiencing an increase in competition from secular retailers like Wal-Mart as these operations began to devote more shelf space to religious products.⁵ In spite of the increase in secular competition, however, the business had continued to generate a level of profit deemed acceptable by the board.

In June 2003, the local competitive environment changed completely with the arrival of Blessings Christian Marketplace in Sydney. Blessings began as a home-based business during 1987 in Saint Paul, Alberta.⁶ By 1989, it had moved into a retail space in downtown Saint Paul and in subsequent years opened stores across the country. As a privately owned Christian retail chain in 2004, Blessings consisted of 24 stores spread across 19 Canadian cities.⁷ These retail outlets offered a diverse selection of Christian products including books, media, church resource materials, and other sundry products of interest to Christians across denominational stripes, reflecting the chain's mission, "Giving our world the opportunity to discover God's love through Christ honouring products."⁸

The Blessings operation in Sydney opened in a small retail mall located in the city's growing west end and immediately embarked on an aggressive marketing campaign that included the mailing of attractive color flyers to residents of the city, radio advertising, and the staging of public relations events including book signings and personal

appearances by recording artists. The store was open Monday through Saturday, 9 a.m.-9 p.m.

The Christian Retail Industry

The sale of Christian products surged during the 1990s and into the 21st century. While data on the size and volume of the Canadian industry was scarce, the Christian Booksellers' Association (CBA) in the United States estimated 3,500 retailers across the country sold Christian merchandise worth \$3 billion in 1997.⁹ By 2000, this amount had increased to an estimated \$4 billion,¹⁰ and by 2002, sales were just under \$4.2 billion (\$2.4 billion via Christian retail outlets, \$1.1 billion via general retail stores, and \$725 million via direct to consumer ministry channels).¹¹

The CBA attributed this growth to the increased buying power of the churchgoing public, of which the average shopper was defined as "a well-educated Caucasian, age 30 to 49, with net income of more than \$40,000."¹² In terms of purchases being made by this market, the CBA estimated that 39% of purchases were for books and Bibles, 19% for gift items, 17% for music, 7% for cards, 6% for supplies, 3% for videos, 2% for jewelry, 1% for software, and 5% for miscellaneous items (with 1% unaccounted for).¹³

CBA Canada listed 219 member and affiliate stores in 2003, spread across the country.¹⁴ Not surprisingly, store locations generally followed population, with 47.0% of retail operations located in central Canada (Ontario, Quebec), 39.7% in western Canada (Manitoba, Saskatchewan, Alberta, British Columbia), 12.3% in Atlantic Canada (Newfoundland and Labrador, Nova Scotia, New Brunswick, Prince Edward Island), and 0.9% in northern Canada (Yukon, Northwest Territory, Nunavut). At the date of listing, 19 of these stores were owned by Blessings Christian Marketplace, and by 2004, the chain numbered 24 outlets.

The Challenge of Being Independent

The growth experienced by the industry was not without its downside, as many independently owned stores lost market share to secular retailers who increased their selection of Christian products.¹⁵ Many independents expressed frustration with the fact that they lacked sufficient buying power to secure the volume and negotiated discounts available to larger retailers. Some even suggested that larger chains –

like Blessings – were applying predatory business practices when entering markets traditionally serviced by independents and essentially driving them into the ground.

The difficulties being experienced by independent Christian retailers were not necessarily new – small firms had always faced significant resource disadvantages when competing against larger firms.¹⁶ Independent retailers in the secular bookselling industry had been dealing with these challenges for a number of years and had achieved some success by pursuing focus and/or adaptive strategies.¹⁷ Independent Christian retailers, it seemed, had been slow to pursue such competitive approaches.

In an address to a CBA conference in 2004, former Christian retailer Steve Adams had stated that “... today, independent Christian retailers are facing a declining share of a growing market. We face the prospect of a serious contraction in the number of stores, in the impact of our stores, and in the relevance of the independent retailer in communicating the message of Christ to His people.”¹⁸ His recommendation to deal with the situation was differentiation, suggesting that the independent Christian retailer “maintain the perception that he is THE source for personal service and a broad selection in a shopping experience that is distinctively Christian. Without these qualities, our customer relationship is not authentic and we find ourselves not dominant in anything.”¹⁹

... he was uneasy about going toe-to-toe with another organization that purported to be engaged in Kingdom work.

A Complex Situation

Kevin Hutchinson felt that Bread of Life Bookstore was at a critical point in its history. For more than 70 years the business had operated profitably and generated consistent operating funds for the mission it supported. Despite the fact that the 2004 year-end loss was the first in recent memory, Kevin felt that it was significant – not only because of its magnitude, but also because of the message he believed it delivered concerning the store’s continued viability as an independent Christian retailer. As he considered the store’s financial results and thought about the industry and Bread of Life’s position in it, he concluded that there were two main issues that he needed to bring to the board’s attention:

1) An increasingly competitive retail environment. Kevin felt that the greatest competitive threat to Bread of Life’s survival was Blessings Christian Marketplace. From his perspective, Blessings represented deep pockets and economies of scale that combined to make a formidable competitor. In addition, Blessings’ Christian nature made him unsure of how to compete with them. On one hand he felt that the chain represented a serious competitive threat that was eroding his customer base and directly impacting his sales volumes – as had been demonstrated by the 2004 financial statements. At the same time he was uneasy about going toe-to-toe with another organization that purported to be engaged in Kingdom work. He had considered the words of the Apostle Paul to the Corinthian church, “... whereas there is among you envying, and strife, and divisions ... one saith, I am of Paul; and another, I am of Apollos ... Who then is Paul, and who is Apollos, but ministers by whom ye believed, even as the Lord gave to every man? I have planted, Apollos watered; but God gave the increase. So then neither is he that planteth any thing, neither he that watereth; but God that giveth the increase ... For we are labourers together with God ...”.²⁰ Kevin felt that God would not bless competitive actions that might harm a fellow servant.

Yet Kevin was also bothered by Blessings’ retail strategy, which seemed to focus upon aggressive expansion of the chain. He had also been giving some thought to the words of Dennis Mulholland, an independent Christian retailer who had commented to the CBA that “the ministry concept of Christian retail is being replaced with the Wal-Mart dog-eat-dog model ... Corporate chain profitability now takes precedence over ministry and Christian consideration for each other ... it’s not about heart – it’s about looking independents in the face with a friendly grin while putting both hands in their pockets all the way to their knees.”²¹ Was it possible that chains like Blessings were sacrificing the Great Commission for profitability? Were such businesses simply taking advantage of faith in a utilitarian way to generate sales and attract customers?²² And if so, did that change the way in which an independent Christian retailer like Bread of Life could respond to them?

2) Calls for product diversification and industry cooperation.

Another of Kevin's concerns surrounded recent recommendations that independents should be more receptive to the diversification of product lines and cooperation with other channel members. Specifically, he had been reading Dick Malone's *Survival Guide for Evangelical Christian Retailers* and was challenged by the author's assertion that independents should consider appealing to a much broader customer base by "carrying a significant selection of product that may not be explicitly Christian but does not conflict with Christianity. This type of customer orientation expands the store's customer base beyond traditional clientele. It moves them beyond the church community to seekers or non-believers who walk in off the street because of curiosity about faith or because you carry product they want."²³

Kevin felt that Bread of Life's product offering was already quite diverse, ranging from the traditional – books and Sunday School supplies – to what he considered to be modern – T-shirts and a small inventory of Christian-themed jewelry. All products, however, carried a Christian theme or motif, and the thought of carrying products that were not explicitly Christian seemed to run contrary to the store's mission. He also felt that Malone went a bit too far in his criticisms of independents that were hesitant to travel down the secular road. The *Guide* maintained "while most CBA independents are motivated primarily by a ministry concept, too often their ministry perspective is tied too closely to their denominational or personal statement of faith. In this context, their stocking and marketing strategies are limited to people who share their own Christian beliefs in detail on primary and secondary issues. It will be increasingly difficult to succeed in Christian retailing without broadening your customer base."²⁴

Kevin was also concerned with Steve Adams' recommendations concerning the need for independent cooperation: "It seems to me that a radical and sweeping re-imagining of our business practices is our key to survival. We need to act like the Body of Christ that we are. If pride and ego and territorial issues could be put aside for the sake of a common mission, good things could happen. We need to think big, act fast, and work together. We must consolidate and cooperate."²⁵

Kevin had wondered at the feasibility of such an approach to survival – his initial thoughts were that any such action would certainly result in the loss of an independent's ability to map its own future. Was

it possible that an independent could remain independent if pursuing a consolidation strategy? Would such a course of action simply turn independents into the chains they were seeking to resist?

The Task Ahead

Kevin ran his fingers nervously through his hair. He had given the issues facing the Bread of Life Bookstore considerable thought and much prayer, but a course of action to recommend to the board still eluded him. He knew that the board was expecting an explanation of the past year's performance, concrete recommendations to deal with the situation at hand, and a strategic plan to carry the store successfully through the year ahead. He took a deep breath, pulled out a pad of paper, and looked at the clock – 5:45 p.m. It was going to be a long night.

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ENDNOTES

¹At the request of company management, names, dates, and certain financial details have been changed and/or distorted to ensure privacy and confidentiality. The author gratefully acknowledges the willingness of company management to participate in the development of this case study.

²Management believes strongly in the headship of Jesus Christ with respect to the business and seeks to conduct all operations with the view that the store is adding to the Kingdom of God by a) generating operating funds for the mission, and b) providing Christian resources to the community.

³The management committee is comprised of three members of the board of directors – the dashed line serves to reflect the fact that the committee is part of and yet distinct from the board.

⁴Christian Booksellers Association Canada, *2003 Members Resource Directory*. A few sellers of Christian material do exist within the region but they are not listed as Christian retail stores and do not carry the breadth of product lines Bread of Life Bookstore does.

⁵*The Economist*, Christian retailing: Made in heaven, 347(8069), 1998, p. 63.

⁶More details can be found at www.blessings.com/history.html.

⁷More details can be found at www.blessings.com/about.html.

⁸More details can be found at www.blessings.com/mission.html.

⁹*The Economist*, Christian retailing: Made in heaven, 347(8069), 1998. Information concerning the size of the Canadian industry appears anecdotal, a likely result of the comparatively small nature of

the industry in Canada.

¹⁰Cave (2000).

¹¹Poynter (2004), citing CBA data reported in the August 4, 2003 edition of *Publishers Weekly*.

¹²*The Economist*, Christian retailing: Made in heaven, 347(8069), 1998.

¹³Warren (1999), citing results of the 1998 CBA Operating Statement Survey.

¹⁴From the CBA Canada 2003 *Members Resource Directory*.

¹⁵Yeldell (2004).

¹⁶Welsh and White (1981) suggest that small firms' lack of resources creates significant disadvantages when they compete directly with larger businesses.

¹⁷Zimmerman, et al. (2002).

¹⁸Adams (2004).

¹⁹Ibid.

²⁰I Corinthians 3:3-9 (KJV).

²¹Mulholland (2004).

²²Wright, et al. (2002) discuss reasons for publicizing an organization's belief basis and concerns that exist around damaging the reputation or taking advantage of faith.

²³Malone (2004).

²⁴Ibid.

²⁵Adams (2004).

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