



Bookstore Priority Initiative Follow-Up

Division of Student Affairs

August 3, 2020

Office of Internal Audit and Risk Management



Missouri State[™]

U N I V E R S I T Y

DATE: August 3, 2020

TO: Grant Jones, Interim Bookstore Director until June 29, 2020
James Sexton, Bookstore Director as of June 29, 2020

CC: Dr. Dee Siscoe, Vice President for Student Affairs
Clifton M. Smart III, University President

FROM: Donna Christian, Director of Internal Audit and Risk Management
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Bookstore Priority Initiative Follow-Up

BACKGROUND

In March 2019, the University retained Campus Bookstore Consulting (CBC), to analyze the University Bookstore's operations. In June of 2019, CBC provided the results of their analysis in a 113-page document highlighting twelve strategic initiatives. These initiatives included:

- Implement a Comprehensive Textbook Rental Program
- Improve Inventory Management
- Protect Course Materials Market Share
- Improve Utilization of the Computer System
- Improve Business Planning / Financial Performance Awareness
- Improve Personnel Management and the Staffing Model
- Reduce the Number of Retail Locations
- Renovate the Bookstore Facility
- Improve Loss Prevention / Asset Protection Controls
- Establish A Comprehensive Marketing Strategy
- Improve the Website
- Develop and Implement Customer Service Standards

Each initiative is supported with numerous specific recommendations and opportunities that the consultants suggest should be implemented to improve the financial and service potential of the store. After digesting the analysis, a list of the top six priorities was created for the staff to address first: textbook rentals, improve inventory management, hire a marketing coordinator, improve utilization of the Ratex POS system, improve the store's website(s) and create a business plan. It was determined that the other initiatives would be addressed as short-term or long-term goals depending on the opportunity to make progress on each. Coordination of this on-going planning would be part of the creation of a business plan outlined above.

The University paid \$38,973 to the CBC for their services.

In the fall of 2019, the University contracted with Ueli Stadler, a bookstore consultant to provide on-site consulting services and assistance with the implementation of these six priority initiatives. The consultant began work on October 24, 2019 and delivered a report to management on May 25, 2020. In his report, he highlights that he spent a large part of his efforts working on personnel matters, which were not part of the initiatives he was contracted to address. His report also notes that the COVID-19 pandemic shut down the University in March, two months prior to the end of his term, which caused him great difficulty in accomplishing some identified goals.

The University paid \$61,666 to Ueli Stadler for his services.

On June 29, 2020, the University hired James (Jim) Sexton as the new bookstore director.

The Office of Internal Audit and Risk Management has been a participant in the interviews, reviews and analyses completed throughout these efforts. A summary of the CBC's recommendations and Office of Student Affairs determination of priority initiatives was presented to the Board of Governor's Risk and Audit Committee in September 2019. This report is meant to provide an update on the actions taken to implement those priorities. Subsequent report(s) are planned to address these priorities and the remaining initiatives.

OBJECTIVE AND SCOPE

The objectives were to review the Bookstore's progress in implementing the six priority initiatives following the end of the on-site consultant's scope of work. This review also included our annual procedures to confirm inventory procedures and values. The scope included, but was not necessarily limited to, the fiscal year ended June 30, 2020.

SUMMARY

Of the six priority initiatives established by the University Bookstore, two were implemented, two are in progress and two have not been implemented. It should also be noted that some progress was made to implement several recommendations made by the CBC that were not included on the priority list. While overall significant progress has been made, Bookstore management should re-prioritize the initiatives taking into consideration the progress to date.

The Bookstore continues to be a financially successful operation, ending with a net operating income of \$820,793 at June 30, 2020. It has not only been able to contribute to the direct needs of the students, faculty, and staff, but it also financially contributes to the University's operating fund through budget transfers. A comparative income statement for the last five years is provided at the end of this report.



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Audit Field Work Completed: July 16, 2020

OBSERVATIONS, RECOMMENDATIONS AND MANAGEMENT RESPONSES

OBSERVATIONS

The CBC report contained many recommendations. The most crucial and available were developed into priority initiatives. These initiatives were first addressed by University Bookstore staff before an on-site consultant was hired to provide additional insight and knowledge in the accomplishment of these goals. Below, the actions taken by both the Bookstore staff and the consultant are outlined with each defined priority initiative.

1. Implement a Comprehensive Textbook Rental Program – Implemented

CBC Recommendations:

- Collaborate with MSU Faculty for support of a textbook rental program.
- Maximize the number of rental titles offered and ensure prices are competitive.
- Include a rental option for online course materials ordering.
- Ensure integration of credit card tokenization.
- Ensure single transaction capability for purchase and rental transactions.
- Ensure utilization of the student charge account for rental transactions.
- Implement a consistent marketing program for the textbook rental program.
- Discontinue the third-party rental option.

University Actions:

University Bookstore management signed an exclusive partnership agreement with Nebraska Book Company (NBC) to implement a rental program with a pilot during the Summer 2019 term. This pilot program consisted of nine (9) titles. Rental fees were collected/charged to student accounts and collateralization was required via credit card. Tokenization was established for these credit card transactions and the collateralization was returned once the book was returned. The Bookstore further established procedures to charge the collateralization amounts to the student's accounts if books were not returned and the credit card information became invalid for any reason. The Bookstore's website for book ordering was integrated to allow a rental option on available titles, allowing single transaction capability and the website was also improved to market the program to students and parents. Bookstore staff attended Academic Leadership Council meetings to promote the rental program and take questions and input on their plans. Overall, the pilot was a success.

University Bookstore staff further developed the program for all available titles adopted for the Fall 2019 term available through NBC. The same fee structure and collateralization process was applied. The bookstore offered more than 900 titles for rent.

On-Site Consultant's Actions:

In October 2019, the consultant implemented the following for the Spring 2020 term:

- Discontinue the exclusive partnership agreement with NBC
- Source rental books from different wholesalers to take advantages of competing rental rebates.
- Discontinue offering rental of titles without sufficient rebate.
- Change the rental pricing structure.
- Add a fee for failure to return.

By not renewing the agreement with NBC and expanding the possible sources of available titles, the Bookstore was able to select the vendor with the highest rebate offered and removed the Bookstore's liability to NBC for books not returned by students. In addition, Bookstore staff specifically reviewed the value of offering a title with a rebate of less than \$4 per copy.

The Bookstore also changed the rental pricing structure. A \$10 fee for failure to return was established. During the Spring 2020 term, the bookstore offered approximately 600 titles for rent, and the current Fall 2020 term offers again more than 900 titles.

2. Improve Inventory Management – In Progress

Six areas of inventory management were prioritized by the CBC report. They and any remedial actions are summarized as follows:

A. Course Materials (Textbooks)

CBC Recommendations:

- Research active invoices for missed returns.
- Establish a disciplined returns timeline for non-adopted course materials.
- Minimize the loss of returns eligibility for new, used, and rental textbooks.
- Dispose of Fall 2018 and prior non-returnable course materials.
- Establish a disposition schedule to liquidate of all non-returnable course materials.
- Improve staging and identification of non-adopted course materials.
- Discontinue utilizing Monsoon/Amazon.com.

Bookstore Actions:

Bookstore staff adopted the recommended return schedule for the Summer 2019 term and discontinued use of Monsoon/Amazon.com in August 2019. They hired a part-time staff member to handle returns in October 2019 and have begun being more aggressive to obtain return permissions from suppliers. Bookstore staff also developed a system to track canceled courses, unadopted materials, return deadlines, and to monitor dead book inventory.

During our review of the June 30, 2020 textbook inventory, we identified approximately \$180,000 in dead book inventory. While progress has been made in reducing the amount of dead book stock, there is more work to do.

On-Site Consultant's Actions:

The consultant did not work with this area because, according to his report, he had planned for these efforts to occur during the last portion of his term, when the Bookstore was closed due to the COVID-19 pandemic. Instead, he left a list of his own recommendations that might help Bookstore staff fine tune this area themselves.

B. General Merchandise

CBC Recommendations:

Re-establish an open-to-buy plan, analyze financial indicators (i.e., sales by categories and aged inventory reports), and distinguish "sale" from "clearance" merchandise.

Bookstore Actions:

The Bookstore re-established an open-to-buy program through Management One. This is used to track and analyze financial indicators needed including turnover and aged inventory. Reports are printed and reviewed monthly.

On-Site Consultant's Actions:

The consultant and the University bookstore soft goods manager discussed floor layouts. A separate section of the sales floor was designated for "clearance" merchandise, and new signage hung to clearly identify these items separate from all other items and all other "sales."

C. Clothing

CBC Recommendations:

Review aged merchandise, implement permanent markdowns on broken sizes and low quantity, and establish a permanent markdown budget and disposition policy.

Bookstore Actions:

The former Bookstore Director created two reports for the Clothing/Soft Goods Manager to review items on order and items on hand, in efforts to track aged merchandise more precisely. In addition, the Bookstore revised its policies for aged, broken sized, and low quantity merchandise by adding received date to the SKU tagging and altering the markdown budget as follows:

	25% discount	33% discount	40% discount	50% discount	60% discount
Old Plan	30 days	31-60 days	61-90 days	91-sold	N/A
New Plan	60 days	N/A	61-120 days	N/A	121-sold

On-Site Consultant’s Actions:

The consultant did not work with clothing because, according to his report, he had planned for these efforts to occur during the last portion of his term, when the Bookstore was closed due to the COVID-19 pandemic. Instead, he left a list of questions that might help Bookstore staff work through this area themselves.

D. School and Art Supplies

CBC Recommendations:

Discontinue manually pricing merchandise and develop and utilize a Plan-O-Gram for school supplies.

Bookstore Actions:

Bookstore staff continue to manually price merchandise and do not utilize a Plan-O-Gram for school supplies. They are investigating the purchase of new hooks or saddles for their product which would display pricing for all items stocked in that identified space, but new hardware has not yet been identified or purchased. In addition, Bookstore staff explained that they purchase school supplies from several different suppliers and while those suppliers provide Plan-O-Grams, those plans are specific to their product only and Bookstore staff do not believe they are applicable to the entire stock. Further, Bookstore staff stated that the sales floor is ever changing, and Plan-O-Grams would be obsolete very quickly in this flexible environment. The staff has made efforts to better categorize inventory items.

On-Site Consultant’s Actions:

The consultant’s final report does not address this portion of the initiative.

E. Clinique

CBC Recommendations:

Eliminate the Clinique Department.

Bookstore Actions:

Bookstore staff explained preliminary discussions have taken place but could not continue until the hiring of the new Bookstore Director (started June 29, 2020).

On-Site Consultant’s Actions:

The consultant’s final report does not address this portion of the initiative.

F. Trade books

CBC Recommendations:

Minimize the Trade book Department with exception of special orders and events.

Bookstore Actions:

Bookstore staff took action to minimize the Trade book department, which now only includes a small section of one bookshelf at the front of the store and only features local authors and University produced items which are sold on consignment. Special orders are made for special events; however, all products are returned after the event takes place.

On-Site Consultant's Actions:

The consultant's final report does not address this portion of the initiative.

3. Hire a Marketing Coordinator – Implemented

CBC Recommendation:

Hire a marketing/website coordinator.

Bookstore Actions:

With the assistance of the Office of Human Resources, a job description was prepared, and a position established and opened for applicants. A hiring committee was comprised of the Interim Bookstore Director, the Clothing/Soft Goods Manager (direct supervisor), a representative from Web and New Media and a Marketing Student employee. The position was filled effective December 2, 2019.

On-Site Consultant's Actions:

By the time the consultant arrived on campus, the hiring committee had already narrowed applicants to three finalists. The consultant was invited to participate in the final interviews and noted in his report that he agreed with the decision made.

4. Improve Utilization of the Ratex POS system – Not Implemented

CBC Recommendations:

Provide Ratex computer system training and fully utilize the system reports.

Bookstore Actions:

Limited progress has been made to fully utilize the POS system and no specific training has taken place. The employee responsible for the Bookstore's Ratex system terminated employment in late 2019. This position remains unfilled due to the University hiring freeze.

On-Site Consultant's Actions:

The consultant notes in his report that he did "relatively little" in this area because he was not already familiar with the POS system upon coming to campus and had to learn the system himself in effort to train others on its usefulness. By the time he had achieve any level of proficiency with the system, the Bookstore was closed due to the COVID-19 pandemic. The consultant did work with staff to improve some of the existing processes which exist outside of the POS system to make them more efficient. This included teaching of Excel tricks to speed processes and enhanced use of the open to buy platform. The consultant also worked with tech support of the POS system to alter system capabilities for better utilization.

5. Improve the Store's Website(s) – In Progress

CBC Recommendations:

- Communicate the Bookstore's value proposition.
- Eliminate website-landing page, update regularly, present engaging homepage, use center of the homepage for promotions, provide link to featured merchandise, and remove duplicate links.
- Improve website images and merchandise availability, provide a shipping link.
- Provide concise ordering instructions for textbooks and measure website fulfillment rates

Bookstore Actions:

The Bookstore's student marketing team worked to communicate the Bookstore's value proposition, current promotions, seasonal events, and featured items in a more prominent and engaging way.

On-Site Consultant's Actions:

Following the hiring of the Marketing Specialist (item 3 above), the student team, Clothing/Soft Goods Manager and newly hired Marketing Specialist worked to create better graphics using vivid colors. The contractor notes this was completed with, "only modest input" from himself. He partnered with Financial Services to add PayPal as a payment type (still in progress). He worked with Marketing and Communications to determine how to eliminate the dual website issue and currently, the Marketing Specialist is working to consolidate these sites before elimination can be achieved (still in progress). He also helped develop the Bookstore staff's idea of a virtual buyback and rental return portal due to the COVID-19 pandemic occurring just shortly before buyback would have begun.

6. Create a Business Plan – Not Implemented**CBC Recommendations:**

Implement a formal business planning process.

Bookstore Actions:

The Bookstore did not take any specific action to implement this recommendation.

On-Site Consultant's Actions:

The consultant stated that his final report could double as a business plan; however, the final report does not include identification of strategic initiatives and action plans with measurable action steps.

RECOMMENDATION

Substantial progress has been made to implement the priority initiatives. Additionally, we observed that progress has been made to implement other recommendations made by the CBC that were not on the priority initiative list. However, much work is still needed to address the remaining recommendations by the CBC. It is the recommendation of the Office of Internal Audit and Risk Management that Bookstore management re-prioritize the initiatives taking into consideration the progress to date.

MANAGEMENT RESPONSE

Management concurs with the recommendations outlined in this report. A new Director of the Bookstore has been hired (June 29, 2020) and will lead the Bookstore staff to ensure compliance and efforts are aligned with the recommendations outlined in the CBC report. Strategic Initiatives that the team will focus on as priorities include:

- *Improve Inventory Management*
- *Improve the Store's website*
- *Improve Utilization of the Ratex POS system*
- *Create a Business Plan*
- *Improve Personnel Management and the Staffing Model*