

Enhancing customer valence and engagement for Captain's Comics & Toys

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ABSTRACT

This case study is designed to expose undergraduate business students to the challenges faced by a small niche business in the comic books industry. Students explore the dynamic history of the comic books distribution network and the impact of increased digitization in the wake of COVID-19. Students perform a strategic analysis to develop recommendations to mitigate risks and leverage opportunities in a declining market, and techniques for improving customer valence and engagement strategies. By using a real company, students apply classroom learning to a realistic, high-stakes scenario that requires strategic innovation to mitigate the risk of a digitization threat to a traditional brick-and-mortar business and thus to ensure sustainability of its business model into the future.

Keywords: customer engagement, customer valence, digitization, digital comics, direct distribution network

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INTRODUCTION

CEO and store owner Michael Campbell sits behind his desk cataloging the inventory of Captain's Comics & Toys (CC&T) while discussing customer engagement strategies. Michael's goal is to enhance his company's footprint in its current geographic market in Charleston, South Carolina (Campbell, 2023). The company operates from a single store in a metropolitan area with a population of 800,000+. Sixteen years ago, Michael purchased CC&T from its founder and began to rebrand the company, rebuild its customer base, and enhance the company's influence in the community. Michael views CC&T as a "cultural hub," providing the community with products that tap into the pop culture of current youth and previous generations (Campbell, 2022). While he has no desire to expand his store's physical footprint, he is seeking new and innovative methods to reach the community through enhanced customer engagement and increased perceived value. To understand the context of CC&T, a brief background of the industry is outlined in the next section.

INDUSTRY BACKGROUND

The 1930s marked the rise of the comic book industry (Rhoades, 2008). In 1938, Action Comics debuted their new character, Superman, and Detective Comics introduced their new character, Batman (McAllister, 1990). Another company, Timely Comics, was founded and would eventually become Marvel Comics (Lavin, 1998). Over time, Action Comics would become part of Detective Comics and compete with Marvel. The characters and stories developed by both Detective Comics and Marvel captured the hearts and imaginations of generations of readers. Throughout the 30s and beyond, a superhero boom arose (Klock, 2002; Darowski, 2014). But with television in the 1950s, a relative decline of print media occurred (Krieger, 2023). The 1960s and 70s experienced a revival of superhero stories, a revival that has carried through to the 21st century in various media (Austin & Hamilton, 2019).

Originally, comic books were sold as newsstand editions. Publishers sold to distributors and distributors sold to retail operations. Although newsstand editions implies they were only sold at newsstands, that wasn't the case. Comic books were sold at multiple locations, including grocery stores, convenience stores, bookstores, and drugstores (Steirer & Perren, 2021; Ohlandt 2022). Comics were sold on a returnable basis so that unsold copies could be returned to the distributor for a small percentage of the cover price. Eventually, the cost of returning the comic books led to returning just the front cover, then a third of the cover, which enabled retailers to sell the coverless comics (Shooter, 2011).

As comics grew in popularity in the early 1970s, specialty shops devoted solely to comic books emerged. (Miller & Worden, 2022; Ohlandt, 2022). To gain a competitive advantage, the specialty shops negotiated directly with the publishers to secure comic books on a non-returnable, discounted cost basis. As a result of the direct connection, specialty shops received new issues about a week earlier than the retailers. Eventually, the comic book shops found it profitable to sell to the retailers, undercutting the distributors (Ohlandt, 2022). There was no way to distinguish the source of the copy, so retailers would return the non-returnable books to the distributors; the cost was ultimately absorbed by the publishers. By the late 1970s, the publishing houses began printing for direct distribution (Ohlandt, 2022). They printed two types of comics: one with a UPC bar code, which could be returned and one with a blank box in place of the UPC

code, which was not returnable. Throughout the 1980s, the direct market distribution model became the dominant method for distribution to retailers and remains so today.

Digital technology enabled comic book manufacturers, such as DC and Marvel, to explore a direct-to-consumer delivery of digital comics (Strengers et al., 2022). Digital subscriptions for all comics would put total control of distribution into the manufacturers' hands. It could render print comics obsolete (Campbell, 2022). Initiatives in this direction, however, fueled an outcry from both the retailers and comic book purchasers. Retailers recognized the threat to their businesses inherent in online commerce of digital comics (Nestman, 2018). Comic book purchasers decried the mass digitalization of the industry because they viewed printed comic books as entertainment and as an art form (Campbell, 2023). Recently, some retailers have been put out of business due to e-commerce platforms such as eBay as well as sites like Facebook Marketplace. Others, however, have survived and even thrived in the digital era. Despite an overall market growth in the comic book industry during recent decades, online sales are starting again to cut into the profit margins of traditional retail stores (Johnston, 2023). Retailers therefore must be able to compete nationally, not just locally.

Competition from digitization and online sales continues to be a significant risk to the comic book retail sector and on its own would probably be a sufficient threat to cause the brick-and-mortar stores to perish over the next decade. At least, that was the projected timeframe until the COVID-19 pandemic hit and sped up the clock. COVID-19 resulted in public health authorities ordering non-essential retail sectors and businesses to shut down (Crawford, 2020). Diamond Comic Distributors announced on March 24, 2020, a "full suspension of distributing published material and related merchandise" (Johnson, 2020). Salkowitz (2020) described this as an "extinction-level event" for printed comic books and an existential threat to the comic book retail sector. Additionally, the rise of artificial intelligence and the metaverse have opened up new digital worlds to children and adults seeking new, competing forms of entertainment. Within this mass era of digitalization, the main challenge for small business retailers such as CC&T is remaining relevant to existing customers while attracting new customers from the upcoming generation.

CAPTAIN'S COMICS & TOYS BUSINESS MODEL

Michael Campbell's purchase of CC&T resulted from several years of personally searching for greater joy and fulfillment within the workplace. Michael had spent several years in the corporate world focusing on organizational management and development, but quickly became dissatisfied in his work (Campbell, 2022). As a child, growing up in Charleston, he developed a passion for storytelling and collected comics (Stories, 2023). He frequented CC&T as a customer, although in those early years the store was branded "Captain Lou's Comics" (Campbell, 2023).

In 2007, the store's original owner wanted to retire from the business. Michael discussed with his wife the opportunity to leave his unfulfilling job to become a small business owner within the comic book distribution industry. Michael contacted the Small Business Association (SBA) to learn how to get a loan. In April 2007, at just 23 years old, Michael obtained a \$350,000 SBA loan and purchased the business (Campbell, 2023). A picture of the storefront is represented in Image 1 (See Appendix).

As the new owner of CC&T, Michael quickly realized there was a lack of consistent clientele. Under the previous ownership, CC&T had failed to directly connect with the customer and create the customer engagement necessary to drive business activity (Stories, 2023). Michael

also recognized that the store was not configured in a way to drive up revenue. The previous owner had disregarded strategic planning, and had failed to recognize the long-term potential of relationships with customers. Michael essentially undertook an ethnographical study over several months by observing the patterns and behaviors of the current customers (Campbell, 2023). Additionally, he asked customers questions about their desired experience and sought feedback on how to improve the store. Michael responded to his customers' feedback by redesigning the company's business model. He based the model on a version of Pareto's 80/20 rule. The 80/20 rule is defined as 80% of sales are generated by 20% of customers (Cooper & Kaplan, 1991; Brynjolfsson & Simester, 2011). Image 2 (see Appendix) provides a visual representation of this concept.

In addition, Michael went one step further by "giving people 80% of what they want and 20% of what you think they want" (Campbell, 2023). He began to remodel the store by putting the showcase items near the entrance to highlight the type of inventory available to clients. See Image 3 in Appendix.

Next, he redesigned the flow of the store based on his model by stocking new release comics and products toward the back of the store (Campbell, 2023). This meant his regular customers had to walk through the whole store to access the latest in comics (Kranzbuhler et al., 2020). It increased traffic throughout the store and kept the customers present and engaged in the store longer than they normally would have been, resulting in a greater likelihood of increasing revenue (Torres, 2015). Image 4 (see Appendix) illustrates the new arrivals situated in the back of the store.

Michael also developed services that stemmed from the customer relationships he fostered. The main service he created is a subscription in which the customer selects five printed comic series. Michael compiles the monthly series into a portfolio for each subscribing customer to ensure access to the comics before the comics are released generally. This service provides two critical pieces of information about customer valence – what a customer perceives as value (see Heinonen, 2018). The first piece is the type of content and story a specific customer enjoys (Kranzbuhler, et al., 2020). The second is which publications will likely sell to his general, non-subscribing customers. This extra information about customer preferences allows him to optimize the ordering of comics and to reduce costs (Thakor, et al., 2008). This series of small changes by Michael fundamentally transformed CC&T's interactions with customers from transactional to relational (Campbell, 2023). These changes also generated substantial revenue growth for Michael's store. From 2010-2020, CC&T achieved an average annual revenue growth of 10% (Campbell, 2023). See Image 5 in Appendix.

Michael recognized that the strategic changes further contributed to an increase in business resulting from the affordability of his products. Meanwhile, superhero themed movies became more mainstream and a greater part of pop culture. Marvel studios generated a revival in the comic book industry. The increase in comic pop culture provided an opportunity for Michael to cultivate relationships with his customers and foster loyalty. Understanding customers' desires and tastes allowed him to provide his customers with products they would like, but also products they might not have tried. Yet, even as CC&T continues to optimize its services, retailers face an ever-looming threat to their business.

CURRENT CHALLENGE

The primary challenge currently faced by CC&T and other comic book retailers involves, as noted, the ever-looming threat of being undercut by comic book publishers integrating the digital medium and online distribution directly to customers (Hajli, 2020). This vertical integration could result in mass closures of comic retail stores. Consequently, comic book retail stores like CC&T are becoming more dependent on their customer base to maintain revenue and growth, but are still vulnerable to changes made by comic book publishers (Kostyra et al., 2016; Campbell, 2023). In the ways described, Michael is successfully cultivating and expanding a loyal customer base. The 80/20 model has worked well, at least within a relatively stable environment. Yet, the potential for vertical integration casts a shadow of discontinuity over this industry.

Even more creative strategies must be conceived and implemented. An extensive body of research on valence theory may hold rich potential for new strategies. Michael is currently looking at new ways to understand and enhance how customers perceive the value of printed comic books and the value of services his company can provide. Another set of useful strategies may derive from a better understanding of how to engage customers more effectively to enhance loyalty. Michael recognizes a small percentage of his loyal customers buy printed issues as collectibles. Strategies for increasing customer engagement may also depend on finding new ways a retailer can build greater customer trust and interest. The emergence of the metaverse and artificial intelligence may have applications for small business retailers. He is exploring ways a digital comic might be adapted for retail sales. And as many art museums around the world attract visitors by offering virtual reality experiences, Michael ponders similar approaches.

DISCUSSION QUESTIONS

1. Does CC&T still have a competitive business model?
2. Focusing on CC&T's current strategies, what steps could Michael take to reach further into his local community or to tap into a national market to increase his current 20% loyal customer base?
3. What distinct products or services does Michael currently provide to enhance customer valence/loyalty and to create a sustainable competitive advantage? (Hint: Why do people like comic books? Does it matter whether they are attracted to fantasy or hero figures? If so, how might this business leverage that angle?)
4. In what ways might a customer's perceptions of the value of a retailer's products or services (i.e., a customer's *valence*) increase customer engagement?
5. Assuming CC&T can increase customers' perceived value of the products or services the company offers them, how could that translate into more engagement with the store by that customer?

6. How has the digitization of comic books and direct sales impacted CC&T's business model? What new products/services could mitigate the risks of digitization and online sales by publishers?
7. In what ways might a new customer's trust in a specific retailer expand how much that customer engages with the retailer?
8. How might CC&T in particular reach out within its community to establish a greater level of social trust with new customers?



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APPENDIX

Image 1. The Front of Captain's Comics & Toys



Image 2. Pareto's Rule

"20% of your customers generate 80% of your business." -Pareto's Rule

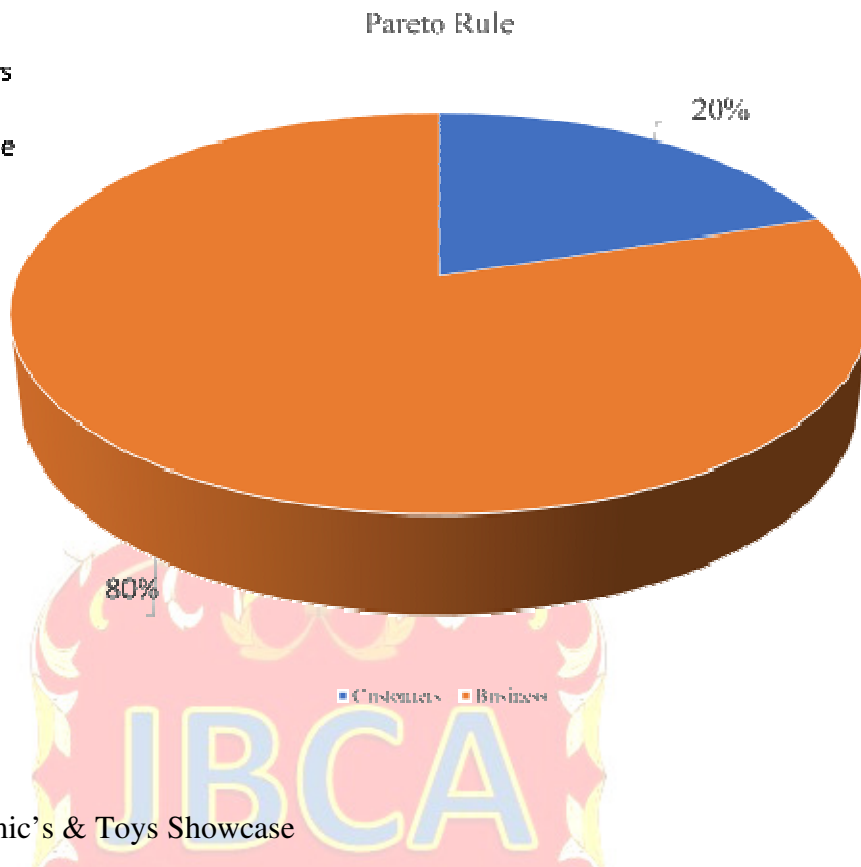


Image 3. Captain's Comic's & Toys Showcase



Image 4. New Arrival Comics in the Back of the Store



Image 5. Comic Preferences Based on Customer Feedback

