Synopsis

BUS 478 (D400)

March 21, 2013

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Firm History

Barnes & Noble, Inc. (B&N) began as a small used-bookstore owned by Charles Barnes in 1873 (Datamonitor, 2012). The first actual B&N bookstore did not open until 1917, when a partnership was forged between William Barnes and G. Clifford Noble (Datamonitor, 2012).

In 1941, the company's headquarters was established in downtown New York (FundingUniverse, n.d.). In the next few decades, the company continued to grow. By the 1970s, B&N had been acquired by Leonardo Riggio (Datamonitor, 2012).

Riggio focused on turning the company into a well-rounded bookstore by introducing a plethora of genres into its inventory (FundingUniverse, n.d.). B&N also gathered public interest as the first bookstore to offer discounts on best-selling books (FundingUniverse, n.d.).

In the late 1980s, the company introduced an online book purchasing system (Datamonitor, 2012). This was well-received and its online activity had expanded by mid 1990s (Datamonitor, 2012). In 1997, the company's official website barnesandnoble.com was launched (Datamonitor, 2012).

Since then, B&N has diversified to provide online game shops, multimedia platforms, e-book readers and a multi-channel textbook rental program (Datamonitor, 2012). These projects allow B&N to establish itself as a pioneer in the bookstore industry by remaining innovative and successfully expanding to become one of the largest book retailers in the United States.

Environment

General Environment

Global Environment

Expanding Potential E-Book Market: Significant growth in emerging international markets such as Brazil, Korea, and certain European markets (Wischenbart, 2012).

Demographic Environment

Majority of Book and E-Book Consumers are Women: Females account for 66% of total book sales and 64% of total e-books purchases (Book Industry Study Group, 2010).

Sociocultural Environment

Rise of "Green" Conscious Consumers: Substituting paper based books for e-books reduces environmental impact and demonstrates a company's social consciousness (Kho, 2011).

Technological Environment

E-Book as the Staple Reading Medium: Consumers prefer digitalized content over physical copies, thus requiring traditional book retailers to remain competitive by adapting to their preferences.

Tablets vs. E-Readers: An annual decline of 28% in e-reader sales may indicate that consumers are shifting their e-reading to tablet devices, a market that is effectively dominated by Apple and Amazon (Raby, 2013).

Economic Environment

Recovery from the 2009 Recession: As the economy slowly improves, consumers are realizing a greater disposable income (Euromonitor International, 2012).

Declining E-Reader Sales: In 2012, sales have been reduced to half of the sales made in 2011 (Grainger, 2012). This decline is attributed to the combination of increasing disposable income and decreasing tablet prices (Euromonitor International, 2012). As a result, these factors cause viable consumers to purchase tablets instead of e-readers.

Declining Average Price of E-Books: On average, the price of e-books has been declining (Milliot, 2012). This may increase e-book sales as consumers are able to afford more books with their higher disposable income.

Political & Legal Environment

Online Piracy of E-Books: With the digitalization of books, new threats such as online pirating and illegal resale are encountered (Wischenbart, 2012).

Industry Environment

Threat of New Entry: Low to Medium

The book retail industry has little barriers to entry but threat of new entry still remains fairly low for an industry leader such as B&N. This is because major brands like Borders have been forced to declare bankruptcy, implying that the retail book industry is more competitive and unstable than it appears (Lowrey, 2011). Furthermore, as reading becomes more digitalized, costs of advancing electronic platforms will impede the companies that lack the financial backing to enter. This is because companies must be able to keep up with the technological changes by providing consumers with the most up-to-date products while maintaining their bottom line.

Threat of Buyer Bargaining Power: High

Buyers have a high degree of bargaining power over B&N as consumers have a plethora of choices in terms of the purchase location, discounts and format of books. In terms of location, libraries, independent bookstores, online stores, and big chain grocery stores all offer a wide assortment of books in a variety of formats. Discounts are often implemented to attract customers and to remain competitive. Furthermore, while the assortment of books may differ between distributors, bestsellers are almost always stocked, giving customers many options.

Threat of Supplier Bargaining Power: Low

As the largest book retailer in the United States, B&N's suppliers have a low degree of bargaining power over the company. B&N's extensive distribution network means their purchases likely accounts for a significant portion of their supplier's sales. In 2011, more than 50% of B&N’s inventory was purchased from its five largest suppliers (Datamonitor, 2012). This is approximately $600 million of inventory, a considerable amount of revenue for most companies (Bureau van Dijk, 2013). Hence, suppliers will seek to retain B&N as a customer, thereby weakening their bargaining power.

Threat of Substitutes: Medium to High

Substitutes for books include other major forms of entertainment such as movies, the Internet, and television. It can also be substituted by other reading materials such as magazines and newspapers, since they are more readily available online. Lastly, reading can be substituted by other leisure activities, be it outdoor or indoor interests and hobbies.

Current Situation

General Statistics

As of January 2013, B&N operates 1355 locations across fifty states (Barnes & Noble, Inc., 2013). Of these stores, 677 are under the trade name Barnes & Noble Booksellers and the remaining are operating under Barnes & Noble College Bookseller (Bureau van Dijk, 2013). The company’s other major division is NOOK, which is in charge of digital sales. Furthermore, B&N also offers extensive retail services online through their website. The company has a staff size of approximately 35000 employees as of April 2012 (Bureau van Dijk, 2013).

Financial Standing

For the fiscal year ended April 28 of 2012, the company’s sales of roughly seven billion dollars was recorded, but deduction of expenses resulted in a net loss of 80 million (Bureau van Dijk, 2013). With respect to operations, the company’s trademark bookstores account for 65% of its sales revenue, 23% from its college and university stores, and the remaining 12% from its NOOK division (Bureau van Dijk, 2013).

Furthermore, an overview of the fiscal quarter ended January 26 of 2013, shows a continuing trend of operating losses with a decrease in all three of its main sales channels (Barnes & Noble, Inc., 2013). In particular, the revenue for the NOOK division decreased by approximately 26% this quarter (Barnes & Noble, Inc., 2013).

Stock Price and Market Share

Currently, B&N is trading at a price of $17.02 on the New York Stock Exchange (NYSE Euronext, 2012). The company's stock price has fluctuated greatly in the past year but has been steadily decreasing since 2007 (Bureau van Dijk, 2013). Furthermore, the company claimed 20% of the total book revenue generated in the first fiscal quarter of 2012, not far behind Amazon with a market share of 29% (Milliot, 2012).

Notable News

In April 2012, B&N signed a partnership with Microsoft forming NOOK Media LLC, receiving an initial $300 million in return of a 17.6% stake in the joint venture (The New York Times Company, 2013). There is also to be an additional payment of $305 million over the next five years (The New York Times Company, 2013).

In September 2012, it was found that credit card information had been stolen from 63 retail stores (The New York Times Company, 2013). The company did not divulge this until October as per request of the United States government (The New York Times Company, 2013). In order to discover the source and method of the incident, B&N turned off all the keypads in the affected stores and had them shipped off for inspection (The New York Times Company, 2013). The company has yet to reinstall the keypads (The New York Times Company, 2013).

Strategic Challenges

Improve Sales and Revenues (specifically in their NOOK division)

B&N's third quarter consolidated revenues for 2013 were $2.2 billion, a decrease of 8.8% compared to revenues in 2012 (Barnes & Noble, Inc., 2013). This drop was largely associated with a decline in B&N's NOOK division, consisting of the company's digital operations.

Develop Cost-Reducing Strategies for NOOK Operations

The NOOK division approximately doubled their losses from the previous year (Barnes & Noble, Inc., 2013). This is due to significant changes in sales, inventory costs and operating expenses (Barnes & Noble, Inc., 2013). B&N should consider implementing an effective cost structure for their digital division in order to achieve sustainable growth.

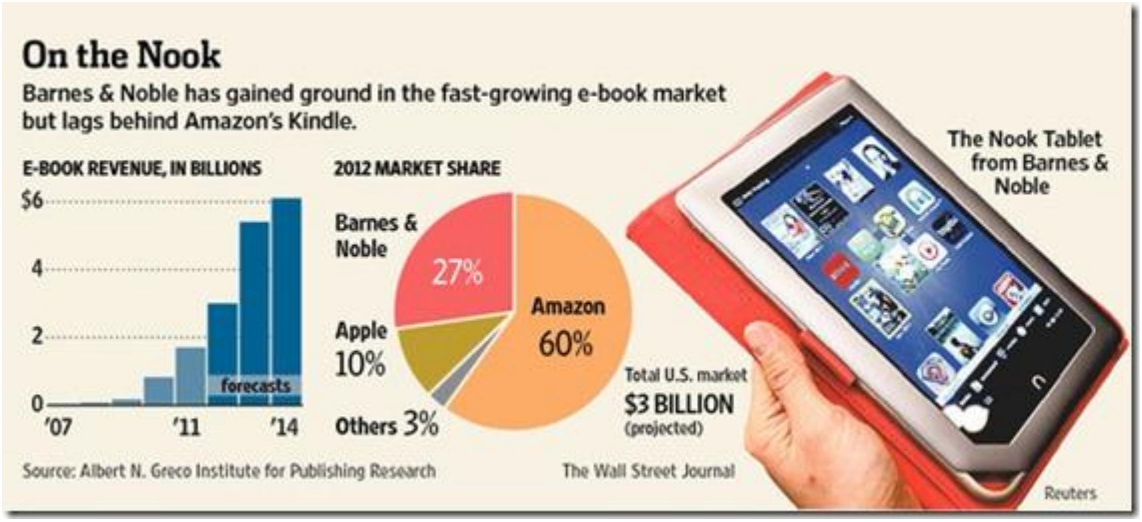
Store Restructuring

B&N has been closing 12 - 20 stores annually for the past few years (Milliot, 2013). The company's continued drop in sales for 2013 indicate a need for restructuring and re-considering opening new stores. The company would benefit from a restructure of their store layouts as well as careful consideration of the amount and type of inventory to be carried (Milliot, 2013).

Gain Dominance in E-Book Market

B&N has approximately 27% market share in America and is currently the second largest e-book retailer as shown in Figure 1 on the next page. Amazon, its biggest competitor, maintains its position as number one with a consistent and dominant market share of 60% (Figure 1). In order to gain a competitive advantage in this market, the company needs to focus on consumer trends and demands. B&N needs to improve its diversification strategies and capitalize on niche markets where it has the highest growth potential.

Figure 1



Note. Adapted from "Amazon's Fundamentals are Getting Worse," by Firstadopter, 2012, para.8. Copyright 2012 by The Wall Street Journal. Retrieved from http://www.firstadopter.com/2012/04/amazons-fundamentals-are-getting-worse/

Brand Repositioning

B&N's brand is primarily associated with the sale of physical books within traditional bookstores. The company needs to redefine itself by becoming an organization with a strong e-commerce presence, similar to that of its competition. Furthermore, if B&N wishes to maintain its retail stores, it then needs to create a unique experience for consumers that go beyond what an online retailer can offer. The company must provide the face-to-face social interactions and comfort in its retail locations that websites are unable to provide consumers.

Compete in the Tablet or E-Reader Market

B&N is competing against Apple and Amazon, both of which have strong reputation for technological products that are well constructed and popular among consumers. They offer a selection of entertainment products from videos to music and even games. However, B&N focuses mainly on books. This market consists of consumers who are already locked into either the Kindle or iTunes library, which further diminishes the appeal of B&N's NOOK. Furthermore, B&N is more financially limited than its main tablet competitors (The New York Times Company, 2013).

Ineffectively Used Partnership with Microsoft

The strategic partnership between B&N and Microsoft provided the company with strong technological resources and financial support. However, this partnership did not result in immense success. NOOK is not more prominently featured on the Windows 8 platform than any of the other thousands of available applications. This is exacerbated by the underperformance of Windows 8.

Strategic partnerships outside the tablet market may also be viable. The recent investment made by Pearson, a leading educational textbook publisher, could help B&N enter the education niche market by enhancing online learning. Although this may be a smaller business, there are fewer competitors in this market.

Retain Current NOOK Customers and Engage New Customers

B&N must find a balance between offering the services and products that regular customers expect while expanding into new markets by offering products that will draw in new customers. The company's welcoming atmosphere and vast physical book selection in its retail locations is preferred by its current customers. However, as the market progresses towards e-books, B&N must divert a greater focus towards expanding its e-commerce operations. B&N needs a strategy that both satisfies the needs of its loyal customers and appeals to the segment of the market looking to move into the future of book reading.

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