A Case Analysis of Barnes & Noble

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Table of Contents

Executive Summary

Barnes and Noble have three main issues of concern. First, Barnes and Noble is unable to find sufficient leadership in its boardroom. Leadership is struggling to deal with the ongoing issue of selling the company. An agreement to specific terms of selling the company will never be achieved unless the company hires a third party consultant to mediate the issue. A third party consultant will ensure the best overall result for the company and its shareholders. The hard part is deciding the right consultant to hire. The important thing is to make a decision quick because the company is fragile and each day value is lost. A consultant will provide much needed stability to the company which will increase confidence for interested buyers.

The second issue of main concern is that profit margins are decreasing for Barnes and Noble. Competitors such as Amazon are currently stealing market share causing profits to fall. Increased government regulation on the online retail sector of books is also driving up the cost of online sales. To solve this issue Barnes and Noble needs to realize that its stores can be a key asset to the company. Amazon does not have any stores and is unable to provide face to face interaction. Barnes and Nobles should use its bookstores to market its eBook to consumers. Employees inside the store should be able to demonstrate the Nook thoroughly to give customers a clear understanding of the products capabilities. By marketing these products inside current stores, Barnes and Noble will reach a diverse customer group. Ultimately this will allow the company to gain a competitive advantage over rivals such as Amazon. This competitive advantage will most likely stabilize or even increase current profit margins.

One final issue being faced is the decline in physical book sales. Technology has created the eBook and eReader enabling readers to download books online. Also, current government funding has decreased for college students causing colleges to cut back on the amount of students they enroll. As a result the sale of college textbooks for Barnes and Noble has decreased. The only solution to beating technological advances is to flow with them. Offering new differentiating products for eBooks and eReaders could set Barnes and Noble apart from competitors. Developing exclusive eMagazines and eBooks that appeal to niche markets is crucial for success in this new technological age. The textbook issue should be resolved by packaging deals on the Nook and NookStudy that offer eTextbooks. If this idea is actualized, a new niche market would be created among college students. Current students using college textbooks could also be a target market that could create substantial revenues. Electronic textbooks can offer kids enrolling for college an alternative to purchasing physical textbooks.

These issues must be promptly addressed to guarantee the future success of Barnes and Noble. Currently, the main objective of the company is to be sold in an agreeable manner. Until the company is sold it is important to stabilize or improve these important business issues.

Industry definition & SIC/NAICS Code

Barnes & Noble competes within two major industries; book dealers' retail and magazine distributors. As of July 31, 2010, the company operates "717 retail bookstores in regional shopping malls, major strip centers and freestanding locations in 50 states, and 633 college bookstores. Barnes & Noble stores typically stock between 60,000 and 200,000 book titles.[A]" Barnes & Noble has many other big competitors within the industries. They compete with other well-known companies such as Books a Million, Amazon.com, as well as non-book stores such as Wal-Mart.

- SIC/NAICS Code: 5942

Mission and Vision Statement Analysis

Mission Statement

A good mission statement will describe the company's current business practices and purpose. It depicts "who we are, what we do, and why we are here. [B]" "Writing an effective, engaging, and clearly defined mission statement is the best way to announce your company's goals to customers, clients, investors, and even employees. [C]" A well written mission statement will establish a memorable identity about the company to its reader.

- *"Our mission is to operate the best specialty retail business in America, regardless of the product we sell. Because the product we sell is books, our aspirations must be consistent with the promise and the ideals of the volumes which line our shelves. To say that our mission exists independent of the product we sell is to demean the importance and the distinction of being booksellers.*

  As booksellers we are determined to be the very best in our business, regardless of the size, pedigree or inclinations of our competitors. We will continue to bring our industry nuances of style and approaches to bookselling which are consistent with our evolving aspirations.

  Above all, we expect to be a credit to the communities we serve, a valuable resource to our customers, and a place where our dedicated booksellers can grow and prosper. Toward this end we will not only listen to our customers and booksellers but embrace the idea that the Company is at their service. [D]"

Analysis: This is a very strong mission statement expressing the exact purpose of the company and why they exist. It directly states what the company sells and its mission to be the best regardless of the products they sell. The mission statement is strengthened by the company expressing that its aim and company objective must stay consistent with the promise and ideals of the volume that line its shelves, providing a sense of direction and a guide for decision making.

Vision Statement

A good vision statement gives its reader a view of the organizations future business plan. It should answer the question "where are we going. [B]" Ideally, a vision statement will describe the best outcome the organization intends to achieve. It should give detail of the strategic course management is taking and how it will lead the company into the future.

- *"As digital and online sales accelerate, Barnes & Noble remains well positioned to gain a significant share of these exciting new markets. We believe the growth rate will continue to accelerate over the next few years, and our sales are growing at an even faster rate and gaining momentum every day. We are confident that in the years ahead, our market share will grow across all segments of our business as our investments in the future pay off. Our goal going forward will be to place a Barnes & Noble bookstore in every reader's pocket.[E]"*

Analysis: Barnes & Noble vision is very clear at stating where the company wants to be in the next few years and its hopes of growth and advancement into the online market. This vision falls short of being perfect because it does not depict how or where the company wants to expand its stores and other business aspects. Online sales are a very big opportunity for Barnes & Noble and it is striving to gain market share in this highly competitive market. The competitive market has caused the company to shift focus to growing its online sales.

Strategic Objectives

Objective 1- *To expand into the eBook and eReader market.*

- The eBook is an increasingly popular digital device in which the content of books can be downloaded on. Various companies, ranging from Amazon.com, Sony and Verizon, have created a device of this nature. The NOOK is the eBook reading device that was created by Barnes and Noble. The NOOK eReader is the application which makes it possible to download from a selection of over a million books in the eBookstore provided by Barnes and Noble. "Since introducing the eBook in October of 2009, Barnes and Noble has gained the most of this market with a percentage of 20%.[F]" As physical books become less popular due to these devices, Barnes and Noble is leaning on the successful marketing of the NOOK to gain a position in the digital world of reading.

Objective 2- *Managing college campus bookstores.*

- Barnes and Noble teamed up with colleges across the nation to "establish 637 bookstores under the name B&N College.[F]" These bookstores provide students and faculty with such needs as textbooks, course-related materials, emblematic apparel and gifts, trade books, school and dorm supplies, convenience and café items. Books can be bought new, used or by getting the NOOKstudy application to access digital text downloads on supporting devices. Also, Barnes and Noble is working on providing the option of offering textbooks at a cheaper rental price. Barnes and Noble's objective in pursuing this endeavor is to profit from textbook sales. "Students spent an average of $1,122 on textbooks during the 2009-2010 school year.[E]"

Objective 3- *Provide an attractive environment for customers.*

- Barnes and Noble bookstores provide a comforting home-like environment for customers around its shelves which hold 20 to 200 thousand titles of books. In most stores a café area is provided which serves coffees and pastries. Groups of couches and chairs are placed throughout the store to sit in while reading books and magazines. Also, free Wi-Fi service is a benefit that the company is providing in its stores.

Financial Objectives

Objective 1- *Getting into secure credit agreements.*

- Barnes and Noble signed a credit agreement with Bank of America lenders in 2009. "This agreement provided the company with commitments, some as high as a million dollars.[E]" This is a four year agreement that will be paid back in the future. It is backed by such Barnes and Noble assets as accounts receivable and inventory. This money will be used to help the company's working capital situation.

Objective 2- *Additional capital through acquisitions.*

- Acquisitions that the company will profit off of are B&N College (October 2009), Tikatok (September 2009) and Fictionwise (March 2009). "Through the acquisition of B&N College, the company acquired back its trade name that it had previously licensed to B&N College after a Stock Purchase Agreement with the company's sellers.[E]" Tikatok is an online platform that makes it possible for children and their parents to write, illustrate and publish books. This acquisition reached out to those who would enjoy such a project that related to the products the company sells. Bonuses are also connected to this acquisition if Barnes and Noble reaches set performance targets over the next four years. Fictionwise is one of the leaders of the eBook market that was purchased to extend on Barnes and Noble's digital plan. Payments due to meeting performance targets through 2011 are connected to this acquisition as well.

Objective 3- Keep *stores in place to drive in-store and online sales and cash flows.*

- Barnes and Noble bookstores are still going to be a key to driving sales even though books are moving into a digital online direction. The stores will become a marketing source where Barnes and Noble employees show the customers the benefits of the digital/online products and how to use them.

Competitive Analysis

Threat of New Entrants

- The invention of digital devices that you can download reading material on, instead of having to obtain a physical copy, has brought new critical entrants to the market. Outside of the NOOK, the Kindle (Amazon.com) and iPad (Apple) are two other devices gaining intense popularity. Also, other devices are in development to enter the market such as the Android tablet (Google's brand) and a device by Sharp which will be introduced in Japan.

Customers/Buyers Bargaining Strength

- "Barnes and Noble is a part of a specialty market that ranges from luxury cars and expensive jewelry to sporting goods and arts and crafts.[G]" This market is one that depends on how much money consumers have left over after buying needs.

Due to the recession that the nation is currently experiencing, consumer spending has become limited when it comes to buying such products.

Suppliers Bargaining Strength

- Barnes and Noble does not have much security when it comes to products that they depend on from suppliers, such as the definite availability of merchandise, content, components or services, particular payment terms or the extension of credit limits. There has not been any guaranteed long term contracts established between Barnes and Noble and its suppliers. This puts the company at a great risk. If so much as one of these key suppliers were to have to stop selling them the merchandise needed to continue sales or significantly increase the required payments to maintain its continued service. "50% of their purchased merchandise dollar value comes from Barnes and Nobles top five suppliers.[H]"

Threat of Substitutes

- Instead of going to bookstores, customers can also go to other companies that offer their favorite books at as high as a 50% off price cut. This includes such companies as Wal-Mart, Amazon.com and Target. "Barnes and Noble are threatened by these substitute ways of obtaining books due to them having very little pricing power to control it.[H]" Barnes and Noble are also experiencing a similar type of substitute threat when it comes to its NOOK eReader and the digital market.

Rivalry within the Industry

- Barnes and Noble and its competitors are fighting to be the top source of obtaining reading material. There are two groups of competitors that pose a threat against Barnes and Noble. These two groups are bookstores and specialty stores. Bookstores that compete against Barnes and Noble are Books-A-Million and Borders. Barnes and Noble have surpassed these bookstores and solidified themselves as the number one bookstore in the nation. "Specialty stores that compete against Barnes and Noble are Amazon.com, Wal-Mart and Costco.[I]"Barnes and Noble have not solidified as high of a market position when it comes to this group of retailers. This is due to having little pricing power unlike the specialty stores which are known for providing discount pricing that most companies would struggle to match.

Driving Forces

Changes in the long-term industry growth rate

- Charges in long term industry growth rate is a driving force for Barnes & Noble in the aspect that as technology increases and everything slowly goes digital they must adapt to the changing market situations. They had had to offer new products and services that open new revenue streams that keep the company growing.

Increasing globalization

- Increasing globalization enables Barnes & Noble to efficiently distribute their product worldwide creating a major driving force for the company. They are now able to reach markets they might not have been able to reach in the past.

Emerging new internet capabilities and applications

- Barnes & Noble has taken full advantage of the internet and e-commerce opportunities and has used them as a driving factor in the company strategy. With the release of NOOK, Barnes and Noble's own eReader, online books and magazines are available to the public from and store location or for purchase from the company's website. E-commerce allows Barnes & Noble to expand its business ventures into new markets that it cannot physically reach with a retail store.

Changes in who buys the product and how they use it

- There have been major changes in the lifestyle of B&N customers because as technology continues to improve more customers' lifestyles are changing and drifting away from printed materials. Barnes & Noble has used this driving force in finding new ways to stay attractive to its customers, given the changing lifestyles.

- Barnes and Noble have launched a line of "eco-friendly" journals and notebooks to appeal to consumers who are environmentally conscious.

Marketing innovation

- Many innovations in marketing have taken place in recent years with an explosion on social media and other innovations such as the internet. Social media allows companies such as Barnes & Noble to advertise to wide variety of potential customers. There has been as increase in consumer research allowing marketing and advertising to more effectively target at those who are most likely to but the product or service.

Entry of exit of major firms

- Barnes & Noble has put forth major effort into the expansion into education systems, specifically targeting new college enrollments. This offers a new relatively stable revenue stream for the company to aim for and claim market share in.

- Borders, a bookstore that used to be a powerhouse in the industry, recently went out of business. This allows for Barnes and Noble to try and capture the some of the market share that became available when Borders left the market.

Changes in cost and efficiency

- Through the purchase of Sterling Publishing Co. in 2003, Barnes & Noble is able to print over 10,000 titles very cost effectively. This makes them able to offer prices lower than competitors.

Industry Key Success Factors

Technology-related KSFs

- Barnes & Noble is able to maintain its position as the largest book retailer because they maintain a technological presence. When the first eReader was introduced Barnes & Noble was not far behind offering a similar product tailored to its company image. B&N are still perfecting its eReader, The Nook, which is one of the more advanced eReaders on the market. It is the first eReader with the first color touch screen for navigation as well as LendMe technologies. Since the technological boom Barnes & Noble has introduced smart phone apps, eBook downloads for home or personal computers, as well as online ordering. They are currently one of the Webs largest E-Commerce sights and feature more than one million titles in its online eBookstore. Keeping up to date with consumer trends allows Barnes & Noble to be very successful.

Manufacturing-related KSFs

- Barnes & Noble was able gain a major key success factor to its overall strategy through an acquisition of Sterling Publishing Co, Inc. Sterling Publishing Co. has published over 10,000 titles a year and continues to gain hundreds of new titles every year. Sterling Publishing is known for mostly non-fiction books and specializes in books that appeal to enthusiasts. Over 50% of Sterling's total books published are sold to its top five suppliers. Barnes & Noble is one of the largest book retailers. Currently the company offers around 10,000 titles in print. Owning Sterling Publishing allows Barnes and Noble to offer lower prices of print books to customers. Even though some profit is lost on these books, the company is able to compete more efficiently and maintain a market share. Maintaining a relationship with other suppliers allows the company to receive titles other than what they publish, providing more variety to the overall company's product mix.

Distribution-related KSFs

- The Nook is sold inside Barnes and Noble bookstores, at stores such as best-buy, and online through B&N's website. Selling the Nook inside Barnes and Noble bookstores is a distribution related key-success factor. Amazon does not have an actual store, only a website. The advantage of selling the Kindle in a store is none existent for Amazon.

Marketing-related KSFs

- Barnes & Noble.com uses the power of the established Barnes & Noble brand to its advantage by offering online customers a premier destination for "books, eBooks, magazines, toys, games, music, DVDs, BluRays, video games, and related products and services [E]."

- Barnes & Noble.com helps Barnes & Noble store traffic by providing store hours, directions, information about author events and other in-store activities.

- "Free Wi-Fi connectivity provided at the stores gives customers the chance to enjoy the "Read In-Store" feature to browse many complete free eBooks for their NOOK. Also, the "More In-Store" program, offers free, exclusive content and special promotions [E]."

- Too keep reaching out to new online customers through the NOOK. "A quarter of NOOK owners are new to BN.COM [E]."

- "To use retail stores in attractive geographic markets to promote and sell digital devices and content [E]."

Skills and capability-related KSFs

- Product innovation is one of Barnes and Noble's key success factors. The most innovative product Barnes and Noble offers is the Nook. The Nook is the digital substitute for physical books. Other competing digital e-readers are Apples iPad, Amazon's Kindle, and Sony's Reader. The Nook Color is the newest innovative capability offered by Barnes and Noble. The Nook Color has a 7-inch touch screen allowing customers to read magazines and newspapers in rich color. The Nook Color is available for sale November 19, 2010. The Nook is said to make reading an adventure and make children's books come alive. Full color magazines and kids books are a major market that has yet to be exploited by other eReaders. The Nook color demonstrates the high level of design expertise Barnes and Noble is able produce.

S.W.O.T Analysis

Strengths	Weaknesses
1. Barnes & Noble is an established brand with a solid market presence which correlates into a strong competitive advantage [J]. *2. Barnes & Noble enters into the digital market and shows a strong presence with its multi-channel strategy [J].* *3. Price conscious customers are attracted to Barnes & Noble's discount pricing [J].* *4. Barnes & Noble offers benefits to their customers.* *5. Barnes & Noble's acquisition of Barnes &Noble College has propelled the company into the college bookstore market.*	*1. Barnes & Noble's profitability has been harshly impacted by legal proceedings [J].* *2. Competitors are causing weak margins [J].* *3. Reliance on a small number of suppliers [J].* *4. College textbooks sales shifting to renting textbooks or digital textbooks.* *5. Falling profit margins cause less investment opportunities.*
Opportunities	**Threats**
1. Considerable growth expected from the eReader and eBook areas [J]. *2. With the acquisition of B&N College, Barnes & Noble has forayed into the college textbook market [J].* *3. Barnes & Noble launches a "go-green" line of products [J].* *4. Barnes & Noble will become the leading and largest retailer of magazines and newspapers in America.*	*1. Barnes & Noble's growth opportunities are negatively affected by competition and price wars[J].* *2. Decreasing physical book sales are reported even though digital product sales increase [J].* *3. College enrollment is declining due to a decrease in state funding [J].* *4. Barnes & Noble embroiled in boardroom issues.* *5. Barnes & Noble sees decline in holiday sales.*

Blue = Internal Analysis: Strengths and Weaknesses

Green = External Analysis: Opportunities and Threats

Analysis of Strengths

- ***Strength 1***- *"*Barnes & Noble was established in 1873 as a small bookseller and has become a prominent and well-known name in the bookselling business ever since. Barnes & Noble offers an extensive selection of book and book-related products which can be purchased in the company's numerous retail stores or through its eBook business. Not only is Barnes & Noble the primary "physical address" bookstore in the United States, but for the seventh year in a row it has been awarded the title of the pinnacle of all bookseller brands. In addition to Barnes & Noble achieving the success of selling the most books and book-related items, the company has also received accolades for ranking number two when it comes to customer trust. The company's focus on customer satisfaction has landed them the leader in this category for the past three years. Barnes & Noble has grown considerably over the past 100 plus years, developed into an extremely strong and recognizable brand, and by securing a considerable market share, has become one of the leading companies in the bookseller industry [F]".

  Acquisitions have further promoted the market presence of Barnes & Noble with several key acquisitions occurring in 2009. Among the acquisitions were Fictionwise, Tikatok, and B&N College. Fictionwise, obtained by Barnes & Noble in 2009, is the largest top selling electronic book seller in North America. By selling both encrypted and unencrypted ebooks, Fictionwise has become a prominent force in the eBook niche. Tikatok is an online community where children, parents, teachers, etc., can write, illustrate, and publish their own books. Books can be self-published into paperback, hardcover or online publications. When Barnes & Noble acquired B&N College, it established a strong presence in the college and university bookstore market. Thus, building on an already established and strong brand name, these acquisitions can only propel Barnes & Noble to a greater market share as minor competitors leave the business.

- ***Strength 2***- Barnes & Noble invested early and deeply when digital technology and communication devices started becoming available. By recognizing early that the company needed to shift its focus from a brick and mortar business to a multi-channel organization focused in and on the internet and digital market. Beginning in 2009, Barnes & Noble started its own eBookstore which featured an online site for purchase eBooks, newspapers and magazines. Not only are these online items available on desktop and laptop computers, they are also compatible for the Nook, Ipad, Iphone and numerous other digital platforms.

  By deeply investing early in the digital market, Barnes & Noble has built and established a strong competitive edge. Barnes & Noble is committed to bringing the customer the most current and up-to-date digital technology, despite the device or technology needed, when it comes to literature. By offering the eBookstore and its corresponding software, Barnes & Noble has gained a digital foothold and hopes to increase its market and industry share in the digital market. Barnes and Noble lunched The Nook, an electronic book reader, in 2009 and have attracted customers into the eBook sales niche. Even though eBook sales compete with and replace bookstore sales, loyal Barnes & Noble customers have increased their spending with the company by 17%. The Nook has also attracted new customers to Barnes & Noble which translates to successful online marketing strategies.

- ***Strength 3***- Due to the recent economic decline, Barnes & Noble has seen a trend in its consumers becoming more price conscious. The dominant market position held by Barnes & Noble allows the company to negotiate lower prices which are then passed on as savings to its customers. Incentives such as The Barnes & Noble Member program allow members to receive larger discounts on almost everything within the company. Additionally, the company employs an assertive discount pricing policy which discounts many items within its inventory. These savings draw in new customers and encourage existing customers to increase their spending.

- ***Strength 4***- Barnes & Noble recognizes the need to attract, retain, and maintain its customers. B&N have been offering incentives to attract customers to its stores in hopes that revenues would increase due to the likelihood that purchases will be made. In 2009, Barnes & Noble launched its eBookstore on Barnes & Noble.com which allows customers to purchase eBooks and read them on numerous digital devices. Also, complimentary Wi-Fi is available to all in-store customers. In-store customers also have the added benefit of "downloading over 700,000 eBook titles for preview and all at no charge [K]."

- ***Strength 5***- Barnes & Noble College is a thread of B&N College which was acquired by Barnes & Noble in 2009. "Barnes & Noble College sells college textbooks and course-related items, college paraphernalia including dorm materials, college-themed clothes, and convenience type items with the primary customers being students, school administrators, and school faculty. [L]" The schools have contracted with Barnes & Noble to operate the official student bookstore on their respective campuses. Barnes & Noble must then provide regular payments to the school which are based on a percentage of the bookstore sales.

Analysis of Weaknesses

- ***Weakness 1***- Legal proceedings, along with low sales growth, have caused Barnes & Noble to sustain increased expenses which, in turn, eventually affects profitability. Lawsuits include impermissible reduction in salary payments, shareholder complaints against the company's directors, and the development of the Nook, eReader. However, the most important and ultimately the most expensive legal proceedings deal with investor Ron Burkle. The expenses incurred by the company on behalf of the proceedings have been massive and the possibility of damage awarded has seriously impacted profitability. As a result and after experiencing a large first quarter loss in 2010, Barnes & Noble has put itself on the market for sale.

- ***Weakness 2***- Barnes & Noble has some tough competitors, such as Wal-Mart and Amazon, which has caused low profit margins. Although the gross margins for Barnes & Noble (29%) were higher than Wal-Mart (25.4%) and Amazon (22.6%), the operating and net margins were lower which shows elevated operational expenses. When compared with Amazon, Barnes & Noble has a much higher fixed cost. Inventory that takes time to move, coupled with low operating and net margins, hinders the company during times of little or low sales growth. Competitors such as Wal-Mart and Amazon have the benefit of higher margins and are thus able to endure price wars, dropping revenues, and economic declines.

- ***Weakness 3***- The majority of Barnes & Noble's and B&N College's inventory is acquired from a limited number of suppliers, both domestic and international. The company is in a precarious position due to the fact that no long-standing agreement has been made with these suppliers. Barnes & Noble has no guarantee from these suppliers to assure delivery of merchandise, especially during the recent economic decline. The inability of a supplier to fulfill the company's merchandise requests could result in an unfavorable effect on company profits, especially if another supplier could not be found in a timely fashion.

- ***Weakness 4***- "The Barnes & Noble College bookstore business may suffer considerable losses as current and future college students choose to forego the high costs of buying textbooks. [M]" Students are predicted to increasingly choose to either rent their textbooks or purchase the cheaper, electronic version. Although Barnes & Noble provides these alternative textbook choices, the transformation of the college bookselling industry will undoubtedly affect the profit margins of this company.

- ***Weakness 5-*** The economic decline, falling in-store sales, current legal proceedings have caused the profit margin for Barnes & Noble to fall. "Future company investments above and beyond those already made may not be possible due to investors feeling uneasy about the company's future. [N]." Barnes & Noble has remained in its prominent position due to investments previously made, primarily those pertaining to digital and online sales. Potential future investments, which pave the way for forthcoming opportunities, company growth, and retaining a prominent market share does not look promising.

Analysis of Opportunities

- ***Opportunity 1***- Due to heavy investing in the digital platform market, Barnes & Noble now enjoys a significant and prominent position in this area. With the introduction of the Nook, along with the corresponding Nook eReader software, Barnes & Noble has captured an even larger (20%) share of the eBook market than the share of its physical book counterpart (17%). The increased market share of the eBook market was also enhances by the opening of the eBookstore which offers over one million book titles that can easily be downloaded onto various digital devices. The market for eBooks is showing considerable growth and shows increasing sales from 2009 to 2010. Phenomenal growth is expected to continue as more eBook titles are made available.

- ***Opportunity 2***- Barnes & Noble have charged into the college textbook market with the acquisition of B&N College. The college textbook market shows to be stable, fragmented and also shows potential for growth. Barnes & Noble sees the possible profit to be made by contractually managing college bookstores, in which many are operating at a current loss. Barnes & Noble is harnessing the opportunity to grow its market share, in the college textbook business, by offering three textbook choices to college students. New print textbooks currently dominate the college textbook market but an option is to offer textbooks for rent. Instead of buying new, expensive books, students will be given the option of renting the same book, through their Barnes & Noble store on campus, for a fraction of the cost. Textbooks offered in a digital format are also increasing in popularity. E-textbooks are showing considerable growth and are expected to account for over 11% of total textbook sales by 2010. Barnes & Noble hopes to benefit from this trend by offering the NOOKstudy, a digital reading device which allows the student to easily download e-textbooks and is compatible with all eBooks currently offered by the company.

- ***Opportunity 3***- In 2003, Barnes & Noble acquired the United States based publisher, Sterling Publishing. Due to the growing popularity of environment-friendly items, B&N introduced "ecosystem" in August 2009. "Ecosystem" is a line of eco-friendly planners and journals published by Sterling, which places Barnes & Noble in the "go-green" group.

- ***Opportunity 4***- Barnes & Noble is currently America's second-largest magazine retailer. By "offering over 5,500 magazine issues and approximately 1,000 newspapers, Barnes & Noble has established itself as a major player in the magazine and newspaper industry. [F]" By relying on its strong market presence and loyal customer base, Barnes & Noble can easily become the nation's leading retailer of magazines and newspapers.

Analysis of Threats

- ***Threat 1***- The major competitors that Barnes & Noble faces do not come from companies in the book superstore group. Companies such as Wal-Mart, Amazon, Sam's Club, and drugstore chains account for over 50% of the United States book business. Considerable competitive pressure is exerted by these companies due to the fact that they have a loyal customer population and are not restricted when it comes to pricing. Barnes & Noble does not have the pricing power that these other companies enjoy which causes a harsh competitive disadvantage.

  Barnes & Noble faces the most competitive pressure from the digital industry. By introducing the Nook, the company hoped to gain a stronghold in the eBook field. Other products and companies competing with the Nook are Amazon's Kindle, Apple's iPad, and Sony's eReaders. A price war erupted in June of 2009 when each company began cutting its prices on their respective digital devices. Despite all price cuts, the biggest competitive threat to Barnes & Noble's Nook is Apple's $499 iPad. Each of the above companies has beefed up the software that accompanies its product in the hopes of drawing customers away from the iPad. Barnes & Noble faces major competition in the digital industry and more specifically in the area of eReaders.

- ***Threat 2***- The market for physical books is declining due to increased demand for eBooks and digital eReader devices. Although physical books currently account for a large portion of Barnes & Noble's sales, future predictions show a $21 billion contract in 2009 being reduced to a $19 billion contract by 2014. Reductions in the demand for physical books have weakened this segment of Barnes & Noble's business, which has caused several stores to close. Low sales growth being paired with rising costs has caused the company to be put up for sale. Barnes & Noble faces an unknown future with the demand for physical books dropping.

- ***Threat 3***- Recent economic events have caused states to decrease funding to state supported educational institutions throughout the United States. Colleges must reduce enrollment numbers in order to deal with deep budget cuts. Budget cuts have trickled down into tuition increases, faculty cuts and courses being eliminated. Directly related to college enrollment is the college textbook market. Because fewer students will be purchasing textbooks, Barnes & Noble will see decreased growth in its college textbook segment.

- ***Threat 4***- "Disagreements continue between the top shareholder of Barnes & Noble, Leonard Riggio, and supermarket giant, Ron Burkle. The struggling bookstore chain, currently up for sale, has its two main players involved in a back-biting, mudslinging contest. [O]" With the holiday season fast approaching and competitors paying attention to everything, differences need to be set aside or the struggling company will have more to worry about. With a recent decline in sales, the focus needs to be on keeping Barnes & Noble in business and in the profit column.

- ***Threat 5***- "In November 2009, Barnes & Noble reported a quarterly loss and predicted lower full-year earnings for 2009 [P]." Barnes & Noble expects retail holiday traffic in its stores to be noticeably lower than in years past. Current economic conditions coupled with strong competition have caused Barnes & Noble to lower its yearly earnings expectations.

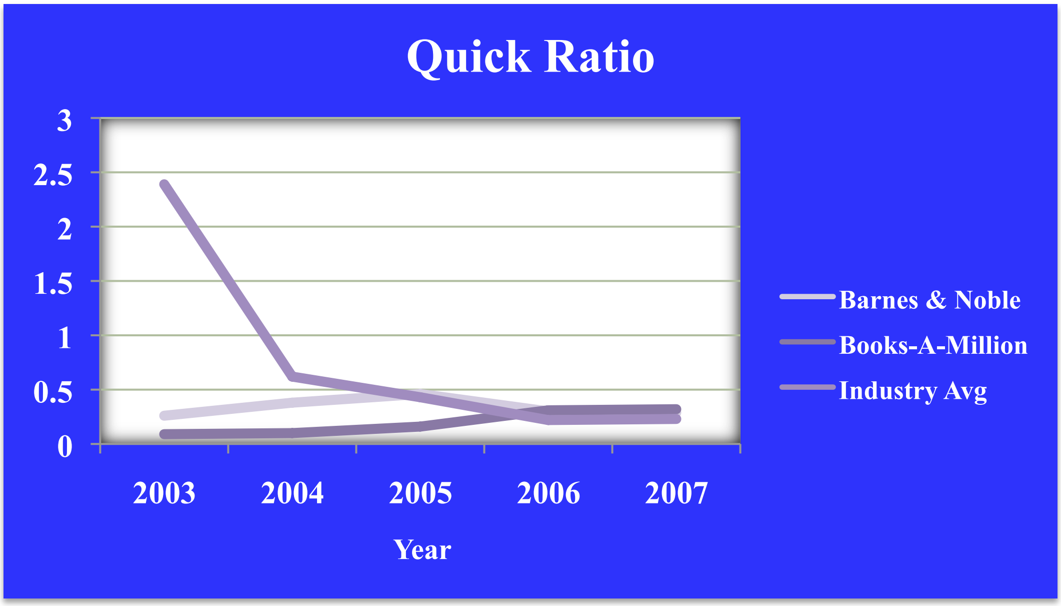
Competitive Strategy

A Focused Low-Cost Strategy is in place for this company. There are numerous ways in which the original prices of books and other products are cut. Hardcover best sellers can be purchased at a price 30% less than its retail value, while select children and computer books can be bought at a 20% discount. Additional discounts are provided with in store purchases through joining the Barnes and Noble Member program at a $25 yearly fee. This includes 40% off of Hardcover best sellers, 25% off adult books, and 10% off of almost any other merchandise in their bookstores. BarnesandNoble.com has an "everyday low pricing" model that provides a single low price to both members and non-members that decide to purchase from the site. However, members have an advantage with free shipping on select items on the site. Another benefit of being a member is receiving ads and discounts through the mail. The company's low pricing strategy is partly due to it competing against other companies that sale books and other products at low prices, such as Amazon.com and Wal-Mart.

Financial Analysis

Quick Ratio

5 Year Trend Analysis



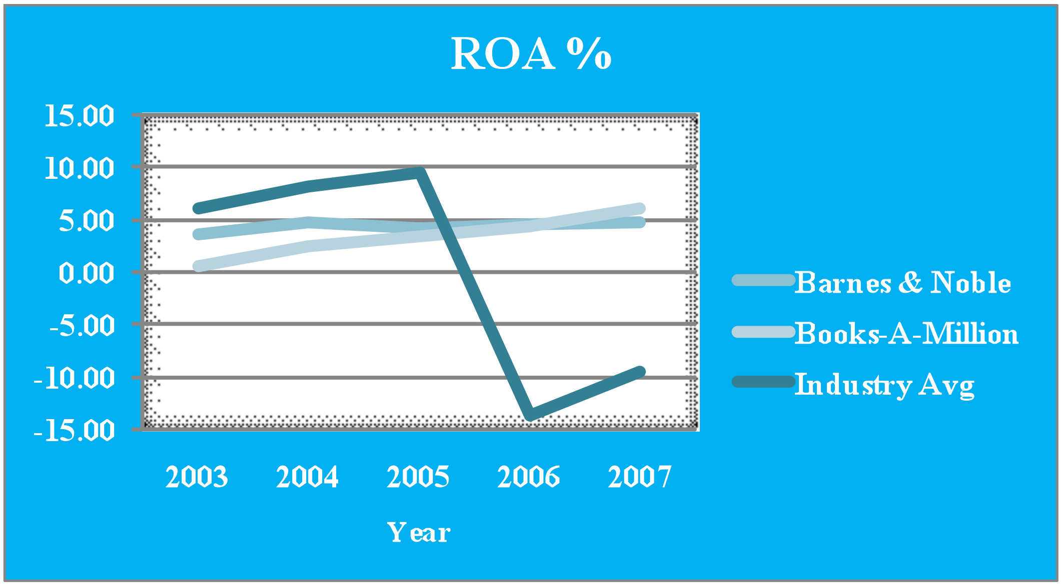
Quick Ratio					
	2003	2004	2005	2006	2007
Barnes & Noble	0.26	0.38	0.46	0.3	0.29
Books-A-Million	0.09	0.1	0.16	0.31	0.32
Industry Avg	2.39	0.62	0.43	0.22	0.23

The quick ratio "shows a firm's ability to pay current liabilities without relying on the sale of its inventories. [B]" The quick ratio is calculated by subtracting inventory from current assets and dividing that number by all current liabilities.

The quick ratio for the industry average shows a dramatic decrease from 2003 to 2007. This indicates that companies where struggling with the ability to cover liabilities without selling inventory. As for Barnes and Noble, it appears that the company experienced higher than industry averages for 2005-2007. Books-A-Million has experienced a dramatic, steady increase from 2003-2007.

ROA %

5 Year Trend Analysis



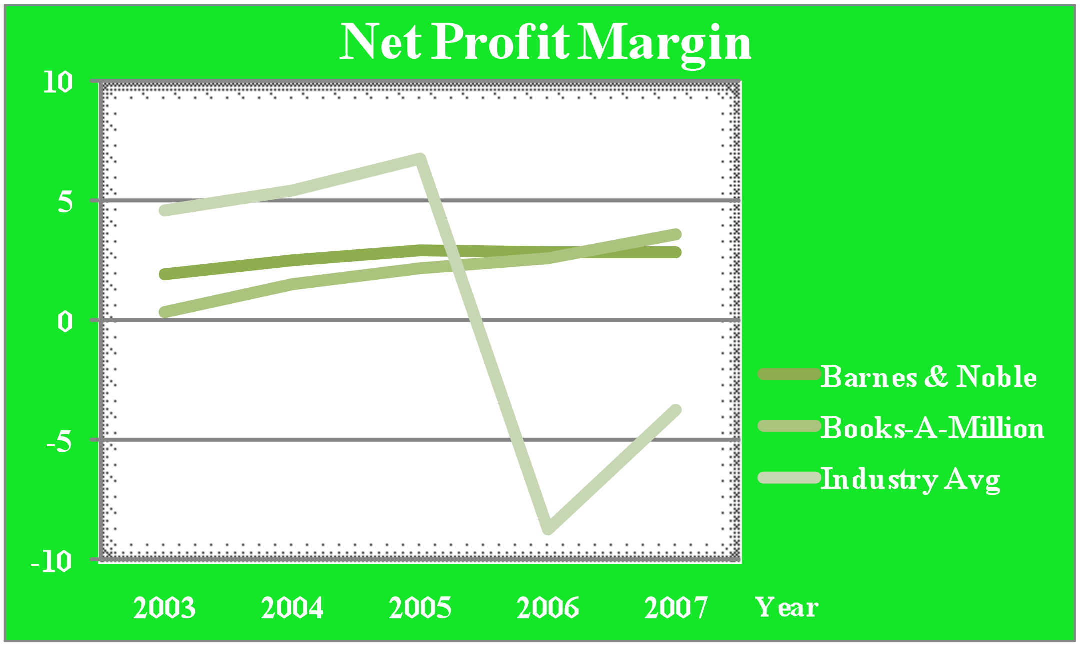
ROA %					
	2003	2004	2005	2006	2007
Barnes & Noble	3.57	4.68	4.22	4.55	4.66
Books-A-Million	0.47	2.43	3.49	4.28	6.04
Industry Avg	6.11	8.19	9.48	-13.6	-9.48

Return on total assets (ROA) is a "measure of the total investment in the enterprise. [F]" A company's ROA should always show an upward trend. The higher the ROA ratio an organization has the better.

The industry ROA average was strong from 2003 through 2005. However, the industry average dramatically plummeted into negative numbers in 2006-2007. Books-A-Million experienced a steady increase in ROA from 2003-2007. When compared to Barnes & Noble, Books-A-Million experienced a lower ROA from 2003-2006. In 2007 Books-A-Million was able to beat Barnes & Noble's ROA. Overall, Barnes & Noble has experienced a fairly steady average ROA from 2003-2007.

Net Profit Margin

5 Year Trend Analysis



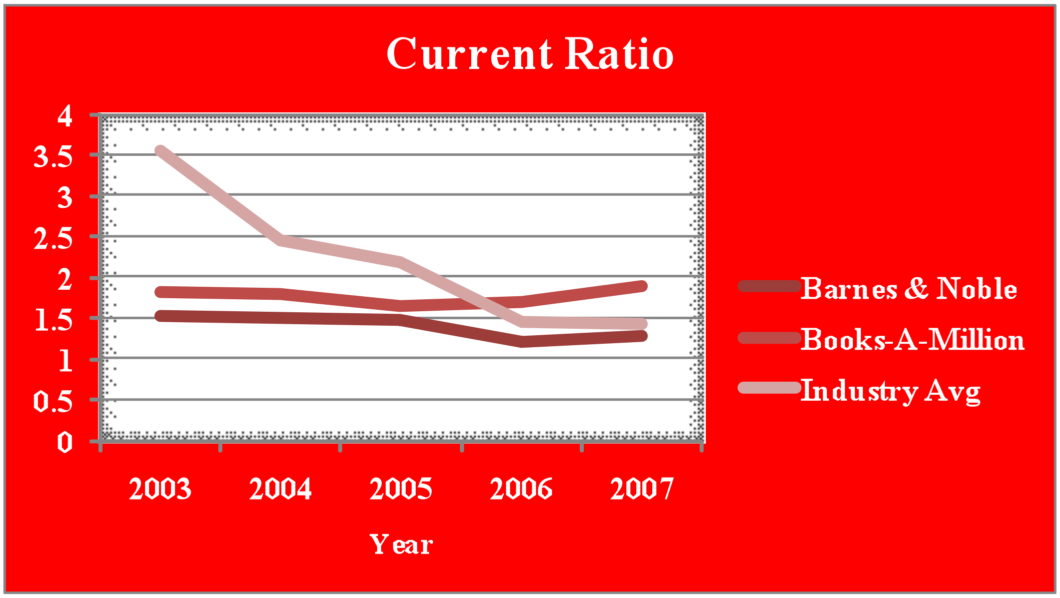
Net Profit Margin					
	2003	2004	2005	2006	2007
Barnes & Noble	1.9	2.55	2.94	2.87	2.86
Books-A-Million	0.32	1.56	2.15	2.59	3.63
Industry Avg	4.62	5.42	6.75	-8.73	-3.73

The net profit margin "shows after-tax profits per dollar of sales. [B]" A company or industry's net profit margin should show an upward trend. The higher the ratio amount the better.

The industry average net profit margin has decreased dramatically since 2003. While the industry average was descending, Barnes & Noble and Books-A-Million where experiencing a steady incline.

Current Ratio

5 Year Trend Analysis



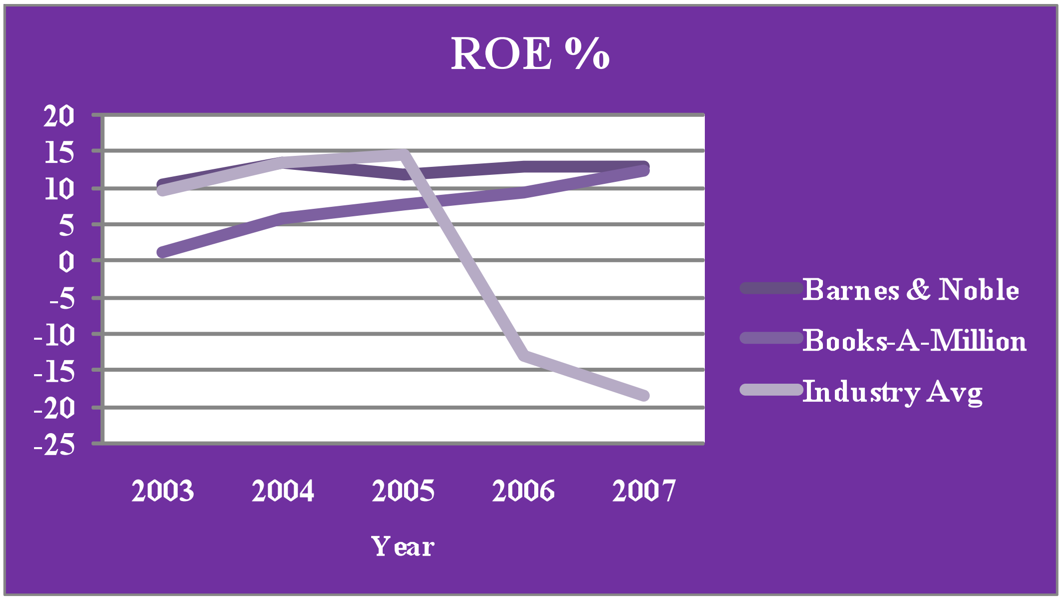
Current Ratio					
	2003	2004	2005	2006	2007
Barnes & Noble	1.53	1.52	1.49	1.23	1.28
Books-A-Million	1.83	1.8	1.65	1.71	1.9
Industry Avg	3.57	2.46	2.19	1.46	1.44

The current ratio shows a "firm's ability to pay current liabilities using assets that can be converted to cash in near term. [B]" A good ratio should be higher than 1.0, the higher the ratio the better.

The graph shows that the industry average held a strong ratio, a ratio greater than 1.0, from 2003-2007. While the average has remained above a 1.0, the industry average has been steadily decline over the five year trend analysis. Barnes & Noble experienced the same decline as the industry average from 2003-2007. Books-A-Million experienced a ratio decline from 2003-2005, with small increases in the years 2006-2007.

ROE %

5 Year Trend Analysis



ROE %					
	2003	2004	2005	2006	2007
Barnes & Noble	10.46	13.31	11.85	12.89	12.99
Books-A-Million	1.15	5.68	7.69	9.36	12.3
Industry Avg	9.62	13.43	14.61	-12.89	-18.55

ROE is the return on stockholder's equity. This is the return stockholders are earning on their investment in the company. "A return in the 12-15 percent range is average, and the trend should be upward. [B]"

The industry average was lower than it should be in 2003 but managed to gain ground in 2004 and 2005. Unfortunately, this did not last long and the industry average plummeted into negative percentages in 2006 and 2007. Since 2003, Books-A-Million have had a steady upward trend in its return on stockholders' equity. Despite the steady rise, the company had only achieved above the average percent for ROE in 2007. Overall, Barnes and Noble have done considerably better than the industry average and Books-A-Million from 2003-2007. The company experienced a lower than average percentage in 2003, came up with a higher than average percentage in 2004, only to dip back down (slightly) below the average line in 2005. From 2006 to 2007 the company had a good return on stockholders' equity that was above the minimum average percent of 12.

Analysis of Major Issues

Issue 1- The first major issue that Barnes & Noble needs to address is the company's lack of effective leadership in its effort to sell the company. One example of this is the division in their boardroom. "There has been division between supermarket billionaire Ron Burkle and its founder and top shareholder, Leonard Riggio.[O]" These two executives have had quarrels and issue with each other for some time. This is a crucial issue for this struggling company that is looking for a buyer.

The reason this issue is so important is because it effects more than just this company. The results of their decision on selling this company will greatly impact the commercial real estate business. With more than "700 stores nationwide, it is feared that a new owner may decide to downsize in an effort to sustain the company. [O]" This may be an effective move for the company, but it could have a significant effect on the commercial real estate industry.

A. ***Alternative 1***: The first alternative is for the company to attempt to handle the sale of the company in-house. They could assign a neutral individual or group of individuals to mediate between the two disagreeing parties. This would create a buffer between the two disagreeing parties and may provide an effective method to come to a conclusion on the issues at hand.

a) Pros – Would be less expensive than having to hire a consulting firm, would remove the two controversial parties from having as much direct contact with one another, and provide results and progress in an effort to sell the company.

b) Cons – Slower results than a third party consultant, consumes company time and resources, could still have some bias to one party or another, may still prove to be ineffective.

B. ***Alternative 2:*** Another option to resolve this dissonance in the boardroom is hire a third party consultant to handle the sale of this company. With a split boardroom, it will be very hard for the company to resolve this issues that will arise from the sale of a company. This could prolong the sale of the company and frustrate the buyer. Having a third party consultant that both sides of the boardroom agree upon would provide a non-bias result in a timely manner. This will provide the company with a result that is well suited for the company and is in the best interest of all the shareholders.

a) Pros – non-bias interpretation of problem; best interest of all the shareholders; issues can be solved in a more timely manner; effective results more possible; hiring a consultant can increase shareholder confidence.

b) Cons – Costly to hire a professional consultant; can be vulnerable to outside company access to competencies; can be difficult for board members to agree on consultant company.

C. ***Recommendations:*** We recommend the second alternative. This recommendation is the result of the companies need for decisions to be made in a timely manner. With the company being in a fragile state, it is important the decisions be made quickly before the situation becomes worse than it is. With each day, Barnes and Noble's financial situation becomes worse and the company loses value. This alternative will also provide stability for the company. If the shareholders see stability in the company, it will restore their confidence and increase the value of the company.

Issue 2- The second issue that Barnes & Noble faces is the reduction in profit margins. This is caused by an increase in competition with major competitors such as Amazon. Also, government regulation is increasing in the on-line retail sector. This will increase the cost of on-line sales which is a major part of their business.

A. ***Alternative 1***: The first alternative for issue 2 is to increase product differentiation. Currently, Barnes & Noble is facing major competition from Amazon.com. This is due to the similarity in products and the increasing popularity of on-line commerce.

a) Pros- Barnes and Noble would benefit from setting themselves apart from amazon.com to try to increase profit margins. The company needs to utilize its current assets to keep consumers interested. One of the main assets of Barnes & Noble is its stores. Consumers can go to a physical location and have one-on-one interactions with store employees. This is something consumers do not receive when ordering off of Amazon.com (or barnesandnoble.com).

b) Cons- Because of changing consumer preferences it may be hard from Barnes & Noble to come up with something that will truly set it apart in the marketplace. The company is currently trying to compete with Amazon.com by introducing a new product, The Nook, which is similar to the Kindle offered by Amazon.

B. ***Alternative 2***: The second alternative for issue 2 is for Barnes and Noble to market eBooks and eReaders inside its bookstores. Some people see no need in a bookstore when they can sit at home and read a book on their computer. Others enjoy the experience of a trip to the bookstore. By selling both paperback and e-readers at the bookstore Barnes and Noble can capitalize on both markets of people. An individual may take a trip to the bookstore, get a cup of coffee from starbucks and sit down and read a book with their e-reader they purchased from inside the store.

a) Pros- People that are still reading paperback books will shop at Barnes and Nobles. It is likely that this person either just enjoys physically flipping through hardcover books or is unaware of the e-book service available. Barnes and Nobles needs to market its e-book and e-reader services inside its bookstores extensively to spread its awareness. One of the best ways the company can promote its new eReaders is to have employees available, specifically, to show customers the product and its features. This gives Barnes and Noble a competitive advantage over Amazon.com because they can offer a one-on-one experience to demonstrate its products.

b) Cons- This strategy may lead even more customers away from hardcover books. If eBooks are what everyone is eventually moving towards, then marketing Barnes and Noble's eBook service inside its bookstores might ultimately lead to its physical stores being obsolete. Of course, there will always be people who prefer traditional books over the eReaders, the question is whether or not that population of people will be able to support the company's bottom line.

C. *Recommendations*: Our recommendation for Barnes and Noble is alternative 1. The company should highly differentiate its products from competitors to make them more appealing in the marketplace. The company has started this process by introducing its NOOK in a color version. This technological advancement will help the company attract more customers to gain more share of the eReader market.

Issue 3- The third major issue that Barnes & Noble faces is its decline of physical book sales. New technology has driven many consumers to purchase digital books instead of physical books. There has also been a decrease in government funding for college students in addition to the rising cost of tuition paid by college students. Eric Gorski with the Associated Press reports, "At public four-year schools, many of them ravaged by state budget cuts, average in-state tuition and fees this fall rose 7.9 percent, or $555, to $7,605...[Q]" This has caused college enrollment to decrease which has also affected the sales of physical books. If the company does not keep up with the emerging technologies in the industry, they could lose a significant market share.

A. ***Alternative 1***: The first alternative is to expand the company's eBook sales with select and exclusive products. With a large portion of their current market converting to Electronic readers Barnes & Noble should focus keeping up to date with emerging technologies as well as expanding their current eReader market. By offering new products for the eReaders Barnes & Noble can set themselves apart from its competition. This could easily be done by offering eBooks that are unique to what competitors are offering. They could also expand their electronic product mix by carrying an extensive database of eMagazines and eBooks that appeal to niche markets.

a) Pros- This strategy has the potential to build a loyal customer group with those who are trying to find eBooks and magazines that are not offered by other retailers.

b) Cons- Licenses or rights have to be acquired in order for Barnes & Noble to convert physical print books and magazine to an electronic version. Using this strategy could cost Barnes & Noble a decent amount of money to initially get its physical books in the electronic form. Also, the increasing popularity of electronic media may cause physical Barnes and Noble locations to become obsolete.

B. ***Alternative 2***: The second alternative is to create special offers for college students. The college textbook marketplace has been an area of important growth for Banes & Noble. Most of this growth is aimed at new college enrollments. With major decreases in state funding, declines in tax revenues and deep budget cuts, many public colleges and universities across the US have to cut enrollments despite the increasing amount of applicants. Barnes & Noble expects this decline in enrollments to directly affect the potential growth in this segment. The decrease in enrollment should not avert Barnes & Noble from focusing on growth in this segment. With the extensive offering of eBooks Barnes & Noble could offer new enrollments special offers or package deals on its Nook or NookStudy that support eTextbooks. The popularity of eReaders is growing fast with young audiences which could help Barnes & Noble with the introduction and implementation of its Nook products to new college students.

a) Pros- By offering eReaders to new enrollments B&N would also be able to sell the complimentary eTextbooks to the same group. This group would have continuous purchases of the eBooks throughout their college career, potentially creating a new revenue stream, if the idea was to catch on. This could also be seen as a way for Barnes & Noble to keep brand presence in a market of important growth. This strategy could also be offered to those who are currently students using printed books. Many middle and high school are already using eReaders in their classes, so it would be a good idea to offer them the same service at the college level. If this strategy is chosen a college could even rent out eReaders or offer incentive programs to buy back eReaders from graduates.

b) Cons- This strategy could possibly decrease sales of printed textbooks, although those who want to buy printed textbooks would still be able to do so. It would simply give new enrollments another option when acquiring their college text books. Many students prefer to carry physical text books so they can highlight, make notes, and mark pages to reference data of importance. Many of the eReaders features do not generate the same stimulation as using a textbook and highlighter and would make then unattractive to those who prefer the “original” method.

C. ***Recommendations***: Our recommendation is for Barnes & Noble to choose the first alternative. The reason for choosing this alternative is because by increasing select and exclusive content for the company’s eBook (the Nook) it will increase customer loyalty and increase brand recognition for the Nook. This is very important to the company due to the high level of competition with Amazons Kindle. By increasing brand recognition and customer loyalty B&N may be able to beat Amazon for dominance over the industry market share.

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