

Failure to Adapt to Changing Times: An Analysis of Barnes & Noble's Corporate-Level and Business-Level Strategy

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Barnes & Noble's sales are consistently declining as the online retail giant Amazon has overtaken it as the cost leader of bookselling. However, this is not simply a case of brick-and-mortar bookstores becoming outdated. While Barnes & Noble's sales have dropped, the number of independent bookstores continues to rise, suggesting that there is something fundamentally flawed with Barnes & Noble's business model and strategy. Simply put, Barnes & Noble has not adjusted to changing times. To survive in the age of digital retail, brick-and-mortar bookstores must pursue a strategy of differentiation and make themselves into a high quality, destination shopping experience. Unfortunately, Barnes & Noble's history as a cost leader has not given it the capabilities it needs to pursue a differentiation strategy, and it continues to make notable missteps, such as investing heavily in creating the Nook, an e-reading device, to compete with Amazon when technology development and manufacturing is so utterly outside its experience as a retail chain. If Barnes & Noble is going to survive, it must narrow its target market, diversify its product offerings, and bring its digital capabilities into 2018.

This paper aims to analyze Barnes & Noble, the overall bookselling industry, and Barnes & Noble's place within it while ultimately proposing methods by which the company could adjust its strategy to better meet the needs of the marketplace. The theoretical framework of this paper derives from Robert M. Grant's *Contemporary Strategy Analysis*, which breaks organizational strategy down into business-level and corporate-level¹ Industry-level analysis uses Porter's Five Forces² to present an overview of the bookselling industry and a conclusion on whether or not it is a profitable area for a firm to operate within. I then applied these frameworks to analyze data originating from sources such as Barnes & Noble's SEC filings, the SEC filings of competitors, industry sources such as *Publisher's Weekly*, and credible news

outlets such as *The New York Times*. This case study is written for academic purposes, but it has relevance stretching beyond Barnes & Noble. Barnes & Noble is a case study of how a company responds (or fails to respond) to technological changes impacting the retail market. The take-aways for Barnes & Noble, which largely revolve around pursuing a strategy of differentiation, are highly relevant for other retail outlets and relate to the general struggles of physical retail versus digital retail. Secondly, Barnes & Noble plays a key role in the overall health of the American book industry, as within the bookselling industry it is the only large-scale competitor to Amazon. If Barnes & Noble fails, Amazon will have a practical monopoly over the bookselling industry, so it behooves consumers and suppliers to pay attention to the state of Barnes & Noble. Outsiders often cite the dominance of Amazon as proof that physical bookstores are doomed, but in this paper, I argue that bookstores such as the Barnes & Noble chain are not doomed. While Barnes & Noble faces steep difficulties and may lack the leadership and resources to necessary to change, it can increase its chance of survival by narrowing its target market, diversifying its product offerings, and bringing its digital capabilities into 2018.

Background and Context

Although Barnes & Noble's roots go back to 1873, the company, as it is now, began in 1971 with its purchase by Leonard Riggio, the owner of a

1. Business-level strategy concerns itself with two areas. The first is whether the company follows a cost-leadership model (having a lower price than its competitors) or a differentiation model (having a higher quality than its competitors). Secondly, it looks at the relationship between what the company is supplying and what consumers are demanding. Corporate level strategy looks at the level of diversification within the firm and the level of vertical integration. Diversification can be thought of a lateral move (for example, Barnes & Noble deciding to sell toys as well as books), while vertical integration is moving along the supply chain (for example, Barnes and Noble buying a publishing house).

2. Porter's Five Forces is a widely used framework invented by Michael E. Porter. The five forces are competition within the industry, the threat of new entry, the power of suppliers, the power of customers, and the threat of substitution.

small chain of college bookstores. Under the oversight of Riggio, Barnes & Noble became one of the first superstore-sized (or big box) bookstores and was able to dominate the market with its large floor-spaces and discount prices. Although big-box stores such as Barnes & Noble and Borders reigned in the 1980s and 1990s, digital technology and the introduction of online retail has shifted the context of the market and fundamentally altered bookselling.

Amazon and online sales have had a massive impact on the bookselling industry, but the resurgence of independent stores shows that consumers still have a need for brick-and-mortar bookstores. In 1994, Jeff Bezos founded Amazon, an Internet-based bookseller. Bezos was primarily interested in bookselling as a means of developing a platform for online sales of all sorts.³ Bezos chose bookselling to start the platform as books are essentially a commodity. Amazon and the rising digital tide contributed to Borders closing its doors in 2011. However, while the big-box retailers may struggle, independent bookstores are resurging. While they decreased in number during the '80s and '90s due to competition from the big-box stores, the American Booksellers Association reports that the number of independent bookstores in the United States has almost doubled since 2009, moving from 1,651 stores to 2,470⁴, proving that the public still has a need for bookstores. How consumers acquire and read books may have changed, but the US book market continues to hold steady at around \$28.1 billion in revenues with a growth rate of 1.2%.⁵

Barnes & Noble struggles to adjust to a changing world where its business model is increasingly irrelevant. While it has made attempts to respond to these changes, these attempts have never been fully successful. Two years after Amazon created the Kindle, Barnes & Noble launched the Nook, its own brand of e-reader. The Nook was at a similar price point, and Barnes & Noble was able to leverage its 600-odd stores as showrooms. Barnes & Noble poured massive amounts of money into developing the Nook, but the bookstore chain had little experience developing hardware. For a while, it looked as if the Nook would

be a serious contender to the Kindle, but that did not last. On the surface, moving into e-readers and ebooks made sense. Barnes & Noble already provided physical books, why not sell ebooks and the means to read them too? A second look reveals that the Nook requires a radically different knowledge basis — developing and manufacturing hardware and software, skills Barnes & Noble had no experience with. In 2013, CEO William Lynch resigned, signaling Amazon's victory in the e-reader market.⁶ Since then, Nook revenues and market share continue to decline. Today, the Nook has only 2.1% of the e-reader market compared to the Kindle's 84%.⁷ According to Barnes & Noble's 2018 annual report, sales in the NOOK segment (which include the Nook e-reader itself as well as compatible ebooks) made up only 3% of Barnes & Noble's total sales.⁸ When customers buy an e-reader, they commit to a specific ebook "ecosystem," meaning that they will mostly be getting ebooks through the same retailer. For example, someone who owns a Kindle will most likely be buying ebooks through Amazon. The different e-readers use different file formats, .epub for Nook and .mobi for Kindle. The .mobi format is proprietary and owned by Amazon. Someone who owns a Kindle, therefore, cannot buy Kindle-compatible books through Barnes & Noble, as Barnes & Noble does not have the rights to Amazon's .mobi format. Thus, the success of the Nook and the success of Barnes & Noble's ebook sales are tightly integrated, perhaps partly explaining why Barnes & Noble struggles with both. Losing out on the e-reader market also cost Barnes & Noble the ebook market.

Although Barnes & Noble has largely ceded the e-reader and ebook ground to Amazon, it continues to face declining sales. Since 2012, Barnes & Noble's sales have consistently fallen. Hoovers reports Barnes & Noble's 2012 sales to be 7,129,200 million,⁹ and Barnes & Noble's own 2018 annual report shows those numbers to have fallen to 3,662,280.¹⁰ Gross profits

3. Mark Hall, "Amazon.com," Encyclopædia Britannica. Last modified August 23, 2018, <https://www.britannica.com/topic/Amazoncom>

4. Alexandra Alter and Tiffany Hsu, "As Barnes & Noble Struggles to Find Footing, Founder Takes Heat," *New York Times*, Aug. 12, 2018.

5. MarketLine, "Books in the United States," Market-Research.com, April 2018.

6. Peter Smith, "The War Between Nook & Kindle Is Over and Amazon Has Carried the Day," *Itworld*, July 10, 2013, <https://www.itworld.com/article/2706913/the-war-between-nook-kindle-is-over-and-amazon-has-carried-the-day.html>

7. Andria Cheng, "Barnes & Noble's Problem Is No Longer Just Amazon," *Forbes*, Sep. 6, 2018, <https://www.forbes.com/sites/andriacheng/2018/09/06/barnes-nobles-problem-is-no-longer-about-amazon/#4e92b90e44d0>

8. Barnes & Noble, INC. 2018 Annual Report, June 21, 2018, p. 52.

9. "Barnes & Noble, Inc. Profile," Hoovers Company Reports, 2017.

10. Barnes & Noble, INC. 2018 Annual Report, p. 4.

have likewise fallen, decreasing from \$1,418,949 in 2014 to \$1,111,203 in 2018. Most recently, book sales have fallen by 4.0%,¹¹ partly due to the lack of any big blockbuster book releases in 2018. Meanwhile, non-book sales have fallen by 7.0%, primarily on “Gift, Music, and DVD, partially offset by increases in Toys & Games.”¹² Nook products fared worst of all, decreasing by 33.6% due to fewer sales and lower prices.¹³ Within the past decade, Barnes & Noble has closed more than 150 stores.¹⁴ In February, Barnes & Noble laid off 1,800 employees to savings of \$40 million.¹⁵ However, such layoffs also impact the company’s functionality. Critics cite the laying off of shipping receivers and the resultingly bare shelves as at fault for Barnes & Noble’s lackluster holiday sales in 2017.¹⁶

High turnover extends to the corporate side of Barnes & Noble. Over the last five years, Barnes & Noble has had four first-time CEOs. The most recent, Demos Parneros, is suing Barnes & Noble for unlawful termination while Barnes & Noble is counter-suing. While Riggio is no longer the CEO, the seventy-seven-year-old remains involved as the chairman and largest stockholder. According to Riggio, Barnes & Noble will not be bringing in a new CEO until after the 2018 holiday season.¹⁷ While the turnover in executives may make it difficult for Barnes & Noble to maintain a consistent strategy, Riggio disagrees: “Demos and the other CEOs reported to me. In that regard, nothing has changed.”¹⁸ The lawsuits have revealed allegations that Parneros purposefully sabotaged a proposed sale of Barnes & Noble, describing it to the potential buyer as an “ugly mess”¹⁹ and that Riggio is “erratic” and plotted the ousting of Parneros and the other CEOs.²⁰ Other industry insiders

11. *Ibid.*, p. 9.

12. *Ibid.*, p. 9.

13. *Ibid.*, p. 9.

14. Alter and Hsu, “Founder Takes Heat.”

15. John Biggs, “Barnes & Noble is Killing Itself,” *Techcrunch*, Feb. 16, 2018, <https://techcrunch.com/2018/02/16/barnes-noble-is-killing-itself/>

16. *Ibid.*

17. Jim Milliot, “Len Riggio Says He’s Ready to Lead B&N Through the Holidays,” *Publishers Weekly*, Sep. 28, 2018, <https://www.publishersweekly.com/pw/by-topic/industry-news/bookselling/article/78177-len-riggio-says-he-s-ready-to-lead-b-n-through-the-holidays.html>

18. Jeffrey A. Trachtenberg, “Publishers Are Tiring of a Revolving Door in Barnes & Noble’s C-Suite.” *Wall Street Journal*, August 10, 2018.

19. Andrew Albanese, “In Counterclaim, B&N Says Former CEO ‘Sabotaged’ Sale; Sexually Harassed Multiple Women.” *Publishers Weekly*, October 30, 2018.

20. Corinne Ruff, “Can Barnes & Noble Be Saved?” *Retail Dive*, September 17, 2018.

have also referred to Riggio as a “micromanager who doesn’t give his chief executives room to operate.”²¹ Overall, Barnes & Noble is without strong leadership.

Barnes & Noble struggles to adjust to the age of online retail. If Barnes & Noble is going to continue to survive in the 21st century, it needs to improve its digital capabilities. Riggio admits that Barnes & Noble has “a problem integrating the retail stores and the online business”²², but Barnes & Noble’s digital woes go beyond problems with integration. It waited until 2018 to introduce online ordering for in-store pickup²³, and the Barnesandnoble.com app in the iStore has an average of two stars and a plethora of negative reviews. Barnesandnoble.com’s net sales were \$202 million in 2017²⁴ out of \$3,894 million total sales²⁵, meaning that its online store accounts for only about 5% of its total sales. Simply put, Barnes & Noble has not fully adapted to the digital world and it will need to radically improve if it is to survive as a company.

Since the failure of the Nook became apparent, Barnes & Noble has made several attempts to set itself on the right path, which includes experimenting with in-store restaurants, improving merchandising, turning its stores into community spaces, returning its focus to books, and building smaller stores. The in-store restaurants were part of Barnes & Noble’s “new concept” stores, where Barnes & Noble experiments with reworking its standard format. These in-store restaurants, Barnes & Noble Kitchens, offer food and beverages including wine and beer. While Barnes & Noble has not closed down the current restaurants, it has realized that “[its] core competency is not full-service restaurants”²⁶ and that it has “no experience in the hospitality area like controlling food and payroll costs.”²⁷ As with the Nook and electronic devices, Barnes & Noble was ill-equipped to move into the restaurant business. Additionally, restaurants do not fit clearly within Barnes & Noble’s primary business model, since while customers may come to Barnes & Noble stores to study or read, such activities do not fit with the more social nature of restaurants.²⁸

21. Alter and Hsu, “Founder Takes Heat.”

22. Nathaniel Meyersohn, “Barnes & Noble Is Overrun with Problems.”

23. Cheng, “Barnes & Noble’s Problem.”

24. “Retail: Sports, Hobbies, Books & Music in the U.S. 2018.” *Statista*, 2018, pp. 33.

25. Barnes & Noble, INC. 2018 Annual Report, pp. 4.

26. Amanda Yeager, “Barnes & Noble Brings New Concept to Columbia — Sans the Bar and Restaurant,” *Baltimore Business Journal*, Sept. 18, 2018.

27. Cheng, “Barnes & Noble’s Problem.”

28. Jonathan Maze, “Why Barnes & Noble’s Restaurant

While the restaurant experiment has been a failure, Barnes & Noble continues to open new concept stores, sans-restaurants. These newer stores are smaller than the 25,000 square-foot average footprint of Barnes & Noble,²⁹ and Riggio has said that stores in high-rent, urban areas will be around 14,000 to 17,000 square feet.³⁰ The goal is for these smaller stores to be located in areas with higher foot traffic,³¹ which should hopefully translate to more customers in the door. One of these new concept stores, located in Columbia, MD, has a 17,000 sq. ft footprint, 35,000 titles, warm oak shelves, employees equipped with tablet computers, self-service kiosks where customers can look up books, as well as vinyls, games, and gifts.³² The Columbia store also has the bookstore cafe integrated with the rest of the store instead of fenced off into its own separate area.³³ In addition to the smaller footprint, the Columbia store exemplifies another of Barnes & Noble's new strategies: improved merchandising. Merchandising encompasses how the products are displayed, promoted and priced, and Barnes & Noble is clearly trying to update its merchandising strategies to the 21st century by incorporating new technologies such as tablet computers and self-service kiosks. It has also created a mobile app which provides customers with a digital layout of the store and the means to request assistance from booksellers.³⁴ In turn, this new technology aligns with Barnes & Noble's plan to "enhance the overall shopping experience."³⁵

Industry Analysis

Rivalry Between Existing Firms

The rivalry between existing US bookselling firms is intense as established firms jockey for market share in an industry where effective differentiation of products is next to impossible. Looking specifically at

Experiment is Struggling," *Restaurant Business*, Sept. 11, 2018, <https://www.restaurantbusinessonline.com/financing/why-barnes-nobles-restaurant-experiment-struggling>

29. Cheng, "Barnes & Noble's Problem."

30. Milliot, "Len Riggio Says He's Ready."

31. David Sax, "What Barnes and Noble Doesn't Get About Bookstores," *New Yorker*, Oct. 21, 2016, <https://www.newyorker.com/business/currency/what-barnes-noble-doesnt-get-about-bookstores>

32. Ed Nawotka, "B&N Opens New Prototype Store in Maryland," *Publishers Weekly*, Sept. 19, 2018, <https://www.publishersweekly.com/pw/by-topic/industry-news/bookselling/article/78068-b-n-opens-prototype-store-in-maryland.html>

33. Yeager, "New Concept to Columbia."

34. "Heritage," *Barnes & Noble, Inc.*, <http://www.barnesandnobleinc.com/about-bn/heritage/>

35. Barnes & Noble, INC. 2018 Annual Report, p. 8.

brick-and-mortar chains, Barnes & Noble is the largest with 630 bookstores. The second-largest remaining brick-and-mortar bookstore, Books-a-Million, has 260 stores. Additionally, Amazon has moved into the brick-and-mortar bookstore business, and it is now the fifth largest bookstore chain in the United States.³⁶ More generally, Amazon dominates the book market with about forty to fifty percent of all print book sales, depending on whether or not its self-publishing, print-on-demand books are included as part of the market.³⁷ Meanwhile, Barnes & Noble sells roughly 23% of all books in the United States.³⁸ Remaining market shares are accounted for by smaller bookstore chains such as Books-a-Million, mass merchandisers such as Walmart, independent stores, and sales directly from publishers. The ebook market is even more concentrated, with 83% of all ebooks being sold through Amazon.³⁹ Product differentiation is next to nonexistent. Venues such as Amazon may strike up deals where it is the sole seller of a certain book, but such instances are rare and usually limited to self-published authors. Barnes & Noble attempts to differentiate its books by creating "Barnes & Noble Special Editions," which may be high-quality hardcovers or exclusive versions of popular novels such as *The Hate U Give* by Angie Thomas which boast of special covers, notes from the authors, or bonus chapters. While these exclusive editions may appeal to a small segment of readers, for the majority a copy of *The Hate U Give* from Amazon is as good as the Barnes & Noble exclusive. Overall, differentiation of products is difficult, and all booksellers have roughly the same products available.

Although most business models hold that when a few companies dominate, price competition will be low, the bookselling industry proves that every model has an exception. Amazon is intensively price-competitive. From its beginnings, Amazon has taken a loss on books to promote consumer reliance on Amazon as a general electronics store. Amazon is able to make up the loss it incurs on physical books through selling these other products. No other player in the bookselling industry, including Barnes & Noble, can price compete with Amazon, and Amazon's intense price competition drives down the overall profitability of the US book market.

36. Jim Milliot, "Amazon Books Will Be the Nation's Fifth-Largest Bookstore Chain." *Publishers Weekly*, June 5, 2017.

37. Shatzkin, "A Changing Book Business"

38. Ibid.

39. Ibid.

Threat of New Entry

The US book market is highly susceptible to threat of new entry. Although any one small, independent book store has a negligible effect on the overall book market, the collective rise in the number of independent stores is impactful. Indigo Books and Music, the largest Canadian bookstore chain, has just opened its first American store and it has more on the way.⁴⁰ Meanwhile, Amazon continues to expand its physical bookstores and has recently opened its nineteenth store in Marina del Rey, California.⁴¹ The threat of new entrants is even higher when it comes to online sales and ebooks. It is easy to start selling books online as barriers to entry are low and the products are essentially commodities. As previously mentioned, Amazon chose to start developing its all-encompassing sales with books for exactly these reasons. In fact, the retail giant Walmart has just entered the e-book market this summer through a partnership with Kobo, which was formerly Indigo's digital division. Walmart is also now selling an audiobook subscription service with a price lower than the rival Audible (an audiobook streaming service owned by Amazon), hoping to undercut some of Amazon's sales.⁴² Overall, the book market is experiencing changes in how books are produced, purchased, and consumed, translating into potential for new entrants and threats to existing firms.

Buyer Power

Buyers in the book market consist of everyday US consumers with a high amount of buyer power. These customers are price sensitive and easily able to price compare thanks to digital technology and the undifferentiated nature of books. Bookstores face the problem of becoming mere showrooms for cheaper online books, as customers have no qualms about browsing in-store and ordering online. Additionally, book buyers are usually shopping for personal reading material,⁴³ and they do not have a pressing need that might let them tolerate high prices.

Supplier Power

The bookselling industry's profitability is ham-

pered by relatively powerful suppliers. The largest US publishers are known colloquially as "The Big Five." They consist of HarperCollins, Simon and Schuster, Penguin Random House, Macmillan, and the Hachette Group. In 2007, the largest four publishing companies made up 33.4% of the entire industry.⁴⁴ Any company in the bookselling market needs to deal with all five of the major suppliers to meet with consumer demand for popular titles. The Big Five are also able to vertically integrate, as digital technology and ebooks have made it easy for them to sell copies of their titles on their own websites. Indeed, most publishing houses do so, although none have the reach or market penetration of Amazon. Supplier power is limited by the concentration of the bookselling market. If publishers want their books to reach readers, then they have to deal with Amazon and Barnes & Noble. Withdrawing books from either would be a devastating and unprecedented move. In the largest and most public dispute between a retailer (Amazon) and a publisher (Hachette), Hachette won out in its wish for an ebook pricing scheme, even if it endured months of harsh retaliation from Amazon, which artificially delayed the shipping of Hachette books, refused to carry preorders, and reduced its discounts on Hachette titles.⁴⁵ As the *Hachette v. Amazon* case shows, when the stakes are high enough, publishers are willing to go head-to-head with their major retailers.

Threat of Substitutes

For books as a whole, the threat of substitution is moderate. Other entertainment media, such as film or television, serves as a potential substitute for books. The surge in quality TV shows and streaming services has been pointed to as a potential reason for declining fiction sales. The deputy publisher of Pegasus Books, Jessica Case, theorizes that "the itch people have for addictive storytelling has been scratched to a large degree by TV series binge watching instead of books in recent years."⁴⁶ But film and television are not close substitutes to books, and it is unlikely that they have a large effect on the book market. However, the book market can be defined in many different ways, and more narrow definitions lead to different potential substitutes. Looking only at the

40. Unlike Barnes and Noble, Indigo's profits are increasing. It will be discussed more in-depth under the recommendations section.

41. Jim Milliot, "Amazon Profits Soar Again, Despite Disappointing Sales."

42. Andrea Cheng, "Why Walmart Is Pushing Into E-Books, A Business on the Decline." *Forbes*, August 22, 2018. <https://www.forbes.com/sites/andriacheng/2018/08/22/walmart-introduces-ebooks-in-its-latest-loud-display-of-intense-fight-against-amazon/#30b40dd97b28>

43. "Book Market in the U.S." Statista, 2017, p.34.

44. "Market Concentration in the U.S. Book Publishing Industry 2007." Statista, November 2010.

45. Hannah Ellis-Petersen, "Amazon and Publisher Hachette End Dispute Over Online Book Sales." *Guardian*, November 13, 2014.

46. Jim Milliot and Rachel Deahl, "What's the Matter with Fiction Sales?" *Publishers Weekly*, October 26, 2018.

market for new, physical books, the threat of substitutes is high. For example, in the last couple of decades, the ebook market has emerged, and ebooks are an easy substitute for print books. Similarly, audiobooks can substitute for either ebooks or print books.

Ebooks as a Substitute for Print Books

The ebook format traces back to the 1970s, but it began to take off in the early 2000s. The year 2000 saw Stephen King's novel *Riding the Bullet* published exclusively as an ebook which sold 500,000 copies in forty-eight hours.⁴⁷ In 2007, Amazon released its first e-reader, the Kindle, which continues to be the most popular e-reading device.⁴⁸ Although many analysts speculated that ebooks and e-readers would make print books obsolete, that has yet to happen. The overall growth of the ebook market has leveled out at about 1% a year,⁴⁹ and ebooks make up 17 to 25% of all books sold.⁵⁰ On one hand, the majority of consumers love the feel of print books and like having books on a shelf. On the other, 55% also agree that ebooks are more convenient and 68% say that ebooks are more modern and environmentally friendly.⁵¹ So while consumers may not see ebooks a perfect substitute for print, their convenience and potentially lower prices make them a powerful substitute for print books. In regard to Barnes & Noble, ebooks are a particularly dangerous substitute as Barnes & Noble relies mainly on print sales.

Audiobooks as a Substitute for Print Books

Meanwhile, the market for audio books has grown over the last few years. In 2018, 18% of US consumers listened to an audiobook,⁵² and audiobook sales now make up 5.6% of the entire book market.⁵³ While this may appear insignificant, that is more than double the market share since 2012.⁵⁴ As with all other segments of the book market, Amazon dominates audiobook sales through its subsidiary Audible, which accounts for about 41% of the audiobook market,⁵⁵ and it works directly with authors to buy and produce

the audio rights to books, making content exclusive to its platform. Barnes & Noble is not a significant player in the audiobook market, as it sells audiobooks only as CDs in an age where that technology is increasingly outdated. Audiobooks growing popularity signals the rise of another potential substitute for print books.

Industry Analysis Verdict

In brief, the US book market possesses a high amount of rivalry between existing firms, a high threat of new entry, a high amount of buyer power, a mixed amount of supplier power, and a mixed threat of substitutes, as the threat of substitutes depends on how the market is defined. All of this suggests that profitability will be low, and the profit margins of Barnes & Noble and Indigo Books proves that to be true. With the inability to differentiate their products and the intense price competition of Amazon, booksellers often struggle to stay afloat. Overall, the US book market is an unattractive area for a corporation to operate in, and bookselling companies such as Barnes & Noble would be wise to diversify their holdings and move into more profitable areas of operation.

Resources, Capabilities, and Competencies

Barnes & Noble's most significant resource is its 630 bookstores, which in turn provides it with several capabilities. These bookstores are located in every state in America⁵⁶ and are an average of 25,000-square-foot floor space.⁵⁷ This extensive amount of store space gives Barnes & Noble the capability to turn itself into community centers, a strategy it is currently pursuing by increasing the number of in-store events. In turn, in-store events drive traffic, potentially leading to more sales. Yet, Barnes & Noble has been slow to take full advantage of its ability to become a community space, and it has been criticized for waiting until this year to start its first in-store book club.⁵⁸ In addition, the Barnes & Noble store space gives it the capability to make deals with other companies to host its products in the Barnes & Noble space. Barnes & Noble's most notable corporate partnership is with Starbucks, as the Barnes & Noble in-store cafes share the Starbucks' brand and sell Starbucks' products. The Barnes & Noble deal with Star-

47. Alison Flood, "Stephen King Writes Ebook Horror Story for New Kindle," *Guardian*, Feb. 10, 2009, <https://www.theguardian.com/books/2009/feb/10/stephen-king-kindle-ur>

48. "E-Readers," Statista, 2018.

49. Mathew Ingram, "No, E-book Sales Are Not Falling, Despite What Publishers Say," *Fortune*, Sep. 24, 2015, <http://fortune.com/2015/09/24/ebook-sales/>

50. "Audiobooks in the U.S.," p.9.

51. "E-Readers." Statista, 2018, p.24.

52. "Audiobooks in the U.S.," p.17.

53. *Ibid.*, p.9.

54. *Ibid.*, p.9.

55. Jeffrey A. Trachtenberg, "Amazon Shakes Up Audiobooks." *Wall Street Journal*, February 6, 2018.

56. "Quick Facts." *Barnes & Noble, Inc.*

57. Cheng, "Barnes & Noble's Problem."

58. Barbara Thau, "Death by Inertia? How Barnes & Noble Has Squandered Its Opportunities," *Forbes*, August 27, 2018. <https://www.forbes.com/sites/barbarathau/2018/08/27/slow-death-by-inertia-barnes-and-nobles-squandered-opportunities/#7f46d0065cc7>

bucks is exclusive, and Starbucks coffee is not sold at any other bookstore.⁵⁹ However, Barnes & Noble's ability to form these partnerships and capitalize on its floorspace is underutilized. I will discuss further ways Barnes & Noble could more effectively use its floor space in the recommendations section of this paper.

Barnes & Noble's 630 stores are tightly related to another of its key resources: its strong relationships with suppliers. Traditional publishing companies, especially the Big Five, have a vested interest in Barnes & Noble's continued success. Publishers want to get their books to customers, and in-store browsing is key to getting readers hooked on new authors, especially when it comes to fiction sales.⁶⁰ Physical stores are about 20% more successful at leading customers to new books.⁶¹ Thus, for publishers, Barnes & Noble's 630 stores are a powerful way to have consumers discover their products. Additionally, the Big Five have a tumultuous and strained relationship with Amazon, as evidenced by the earlier mentioned dust-up between Amazon and Hachette. Publishing insiders have "indicated that they have a strong interest in Barnes & Noble running a healthy and stable business, to counteract the clout of Amazon.com Inc in book retailing."⁶² The combined effect of the 630 stores and this strong relationship with the Big Five is that Barnes & Noble has notable bargaining power, which it is able to use to achieve its discounts and special editions. Independent bookstores do not possess this capability, as publishers will not discuss pricing or discounts with the association for independent booksellers.⁶³

Barnes & Noble's core competencies are its ability to act as a community space through hosting in-store events, its ability to make partnerships with other companies who want to use its floor space, and its ability to bargain effectively with the large publishing houses. Unfortunately, these core competencies are either underutilized or are not a source of a sustainable competitive advantage. The lack of competitive advantage is clearest with its ability to bargain with the large publishing houses, as even with discounts from publishers, Amazon is still able to provide lower prices. While Barnes & Noble is capable of hosting events, it is only beginning to pursue the strategy of

becoming a community space, and it still struggles with how to monetize the community strategy. Besides that, Barnes & Noble does not have a competitive advantage when it comes to event hosting — that belongs to independent stores, as will be discussed in more detail in the section on Business-Level Strategy. While Barnes & Noble has worked with Starbucks to create in-store cafes, it has not explored similar uses of floor space. Instead, space is wasted on music and DVDs, which occupy roughly a fourth of the store and have most recently declined 7% in sales.⁶⁴ Barnes & Noble could take that floor space and either dedicate it to its community strategy or form partnerships with other companies and pursue a "store-within-a-store" approach. Activist investor Rick Schottenfeld, who has recently invested in Barnes & Noble, suggests that it considers leasing some of its floor space to online retailers, who would use the space to showcase their own products.⁶⁵ Regardless, it is clear that Barnes & Noble's current core competencies are not providing it with a sustainable competitive advantage.

Business Level Strategy

Cost Leadership v. Differentiation

Amazon's price cutting forces Barnes & Noble to move towards a strategy of differentiation, but Barnes & Noble has another group of competitors who are vastly more successful at differentiation: independent bookstores. Even as Barnes and Noble struggles, independent stores thrive. Professor Ryan Raffaelli of the Harvard Business School studies how businesses reinvent themselves during technological disruptions, and he says the success of small, independent bookstores has been due to three things: "community, curation, and convening."⁶⁶ Independent bookstores have successfully integrated themselves into the local communities, becoming part of the "buy local" movement and creating unique niches impossible for Amazon to replicate.⁶⁷ Curation refers to how independent stores do not try to be everything to everyone; independent bookstores often focus on a particular genre and audi-

64. Barnes & Noble, INC. 2018 Annual Report, p. 9.

65. Andrew Bary, "Why Barnes & Noble Has Untapped Potential."

66. Carmen Noble, "How Independent Bookstores Have Thrived in Spite of Amazon.com." *Harvard Business School*, November 20, 2017. <https://hbswk.hbs.edu/item/why-independent-bookstores-haved-thrived-in-spite-of-amazon-com>

67. Dave Roos, "Indie Bookstores Defied Amazon. Who's Next?" *HowStuffWorks*. May 23, 2018. <https://money.howstuffworks.com/indie-bookstores-defied-amazon-whos-next.htm>

59. "Heritage," *Barnes & Noble, Inc.*

60. Milliot and Deahl, "What's the Matter with Fiction Sales?"

61. "How Do You Find New Books?" *Statista*

62. Trachtenberg, "Publishers Are Tiring."

63. Jonathan Platt, "Why Are Book Margins Stuck in the 1990s?"

ence and then work to serve that very specific target market.⁶⁸ For example, Houston, TX has two independent bookstores, Murder by the Book and Brazos Bookstore, right across the street from each other, but one focuses on mystery novels while the other focuses on art books and non-fiction. By segmenting the market, the two stores provide high value to their specific subset of customers and avoid direct competition with each other. In addition, indie stores highlight books that are not necessarily bestsellers, and they develop personal and ongoing relationships with customers. Many independent stores will contain hand-written recommendations taped to shelves; Barnes & Noble is beginning to try and imitate this with less personal, typed print-outs. Finally, Professor Raffaelli's "convening" refers to how independent stores bring customers together for activities and events such as "lectures, book signings, game nights, children's story times, young adult reading groups, even birthday parties."⁶⁹ While Barnes & Noble has its own in-store events, it does not have the same connections and relationships with authors as the independent stores. Independent stores are not just fulfilling customer needs for a physical product; they are also fulfilling needs for community and social identity. At the moment, Barnes & Noble is trying to mimic the success of independent stores and they do host more than 100,000 events annually,⁷⁰ including story time for children and book signings, but the standardized Barnes & Noble chain cannot be more different from flexible and personal independent bookstores. Investing in a community-based strategy is also costly, as Barnes & Noble would have to invest heavily in talented booksellers and event programmers in each of its 600 odd stores.⁷¹ Such a strategy looks at odds with the massive layoffs in February and Barnes & Noble's overall cost-cutting. Barnes & Noble is just not as capable at this sort of differentiation as independent stores.

If Amazon has lower prices and independents are more differentiated, what is left for Barnes & Noble? Essentially, Barnes & Noble is what Harvard Business Professor Michael E. Porter refers to as, "stuck in the middle."⁷² While many companies have found

68. Ibid.

69. Noble, "Independent Bookstores Have Thrived"

70. "Our Stores and Communities," *Barnes & Noble, Inc.*, <http://www.barnesandnobleinc.com/our-stores-communities/>

71. "How Can Barnes and Noble Avoid Borders' Fate?" *Wharton*, December 18, 2015. <http://knowledge.wharton.upenn.edu/article/can-barnes-noble-avoid-borders-fate/>

72. Robert M. Grant, *Contemporary Strategy Analysis* (West Sussex: Wiley, 2016), 108.

a profitable balance between cost leadership and differentiation, Barnes & Noble flounders in between, "a giant saddled with hundreds of huge stores, and an image of corporate sameness in a market that has increasingly come to treasure defiantly independent bookstores."⁷³ If Barnes & Noble is going to find success, it needs to discover what it can do better than either Amazon or independent bookstores.

Supply and Demand

Barnes & Noble's supplies standardized stores, complementary services, and the Nook e-reader and related online retailing. Although independent book stores may focus on a particular subset of books, Barnes & Noble provides a broad selection that encompasses all types of fiction and nonfiction. Each Barnes & Noble includes an in-store cafe that serves Starbucks-branded coffee. Although Barnes & Noble is experimenting with different layouts with its new concept stores (how the cafe is integrated into the store for instance), they are still similar to the standard model. This highly standardized model is what allowed Barnes & Noble to gain success as a cost leader, but as previously discussed, it is attempting to move towards a differentiation model and to keep up with a changing technological landscape. Enter the complementary services and the NOOK retail segment. Barnes & Noble hosts in-store events designed to get more foot traffic through the stores, many of which are geared towards the family market, such as story times for children. Yet critics contend that Barnes & Noble could improve its in-store events and question why it waited until recently to start its first in-store book club.⁷⁴ A recent investor in Barnes & Noble, Rick Shottenfeld, calls its stores "underused" and suggest it host events like children's birthday parties.⁷⁵ Diverging from its focus on physical retail, Barnes & Noble also continues to sell the Nook. Unfortunately, everything the Nook can do, the Kindle can do too. Oftentimes, the Kindle can do it better, and it is cheaper as well. Although Barnes & Noble needs to differentiate itself, its supply is highly standardized and of debatable quality while unfortunately also possessing a higher price than its main competitor.

Barnes & Noble's standardized stores are designed to appeal to everyone, but its standardization is at odds with the diverse needs of its customers. Most Americans read only a handful of books a year;

73. Sax, "What Barnes and Noble Doesn't Get."

74. Thau, "Death by Inertia?"

75. Bary, "Untapped Potential."

the median American reads four books annually⁷⁶ and in that same time spends an average of \$30 on books.⁷⁷ Only 7% of American consumers buy more than twenty books a year.⁷⁸ However, the more a consumer reads, the more likely they are to be purchasing books online.⁷⁹ For example, one of the most popular fiction genres, romance, sees almost 90% of its sales coming through digital channels.⁸⁰ Online retailers simply offer larger selections than a brick-and-mortar store could hope to achieve and at lower prices. If you read close to two hundred science fiction and fantasy novels a year, the single aisle of shelves at Barnes & Noble quickly loses its appeal. On the other hand, some types of books do better in print and are more resistant to online sales. Any book where pictures or illustrations are the focal points tends to do better in print, and children and their parents tend to buy more print books than e-books.⁸¹ Children and teens tend to share physical copies with each other and many children have never read on a digital platform,⁸² explaining the popularity of print for their demographics. Given these facts, Barnes & Noble might consider changing its supply to focus less on genres heading online and more on books for children and teens.

Corporate Level Strategy

Vertical Integration

Barnes & Noble is only lightly vertically integrated, a good choice for the field it operates in. Barnes & Noble handles retail and distribution; producing its own supply of books requires a very different skill set, as publishing is primarily an industry of talent acquisition. That said, in 2003 Barnes & Noble purchased Sterling Publishing for approximately \$115 million.⁸³ Sterling Publishing focuses mostly on non-fiction and illustrated books, including books on health and wellness, music and popular culture, food and wine, history, and children's books. When Barnes & Noble bought Sterling, it acquired the rights to Sterling's 15,000 titles.⁸⁴ Since its acquisition by Barnes & No-

76. Andrew Perrin, "Book Reading 2016." *Pew Research Center*, September 1, 2016.

77. "Book Market in the U.S.," pp. 41.

78. *Ibid.*, pp. 23.

79. Shatzkin, "A Changing Book Business"

80. *Ibid.*

81. "For Kids, Print Books Are the Thing." *Publishers Weekly*, January 25, 2016.

82. *Ibid.*

83. "Barnes & Noble Completes Acquisition of Sterling Publishing." *Business Wire*, January 22, 2003.

84. Barnes & Noble, INC. 2018 Annual Report. June 21, 2018, pp. 7.

ble, Sterling has started publishing Barnes & Noble exclusive collectors' editions of classic books, which are always prominently displayed in Barnes & Noble stores. Sterling also distributes 1,300 titles for other publishers, and it is the distribution service which has seen a large growth of sales — \$3.8 million, or 10.6%, more than last year.⁸⁵ Barnes & Noble owns two distribution centers, one in New Jersey and one in Nevada, that total around 1,745,000 square feet of capacity.⁸⁶ Again, Barnes & Noble's distribution system in no way comes close to competing with Amazon, which has a massive and technologically-advanced distribution system. Sterling, with its focus on illustrated books, is a good fit for a brick-and-mortar bookseller, and by handling its own distribution and selling its distributing services to others, Barnes & Noble is able to increase its profits. Still, the capacities required by publishing are different than those Barnes & Noble is familiar with (retail), and I would recommend that Barnes & Noble not pursue vertical integration any further.

Diversification

After the failed diversification attempt of the Nook, Barnes & Noble has decided to refocus on books. Riggio remains committed to Barnes & Noble's role as a bookseller. While nonbook items are important to Barnes & Noble's sales, Riggio said: "he doesn't want to do anything that will take away from the company's reputation as a premier bookseller."⁸⁷ Thus Barnes & Noble will not be exploring alternate areas of operation or expanding its selection of nonbook items. Potentially in line with the decision to refocus, in 2015 Barnes & Noble spun off Barnes & Noble College, the college bookstore segment of the company. Barnes & Noble College is now an independent and publicly traded corporation. Although the spin off can be seen as a decision to refocus, the rationale is shaky and the spin-off was more likely an attempt to raise cash than a careful consideration of long-term strategy. In the 2012 annual report, Barnes & Noble said that the college bookstore business was "well positioned to be a growth business for us as colleges and universities increasingly outsource their distribution of campus material."⁸⁸ Given the potential for growth, the decision to spin off the college book store business is even more questionable.

Refocusing is the wrong move. As previously discussed, the bookselling industry is unattractive

85. *Ibid.*, pp. 7.

86. "Barnes & Noble, INC. Profile." Reuters.

87. Milliot, "Len Riggio Says He's Ready."

88. Barnes & Noble, INC. 2012 Annual Report, pp. 3.

for investment and Amazon is undercutting prices. Barnes & Noble needs to find a new strategy to achieve a profit, and that will not come from simply doubling down on what it has always done. While I do not recommend moving outside of the nonbook areas it currently operates in, Barnes & Noble can expand its selection of some of these items and better integrate them into the store. Currently, toys and gifts are scattered throughout the store with no clear organization or integration. To understand how a bookstore chain can successfully diversify into other product lines, Barnes & Noble should study the business model of Indigo, a Canadian bookstore chain.

Lessons from Indigo

The bookstore chain Indigo has found success by moving away from being a cut-and-dried bookstore and into being a “cultural department store for book-lovers.”⁸⁹ About 41% of Indigo’s sales come from non-book items and 55% from print books,⁹⁰ making it fairly diversified. Within Indigo stores, “[b]ooks are the main attraction, but they are often complemented with products that tell a story around a book category. The Wellness Shop, for example, displays books on meditation, mindfulness, self-help and other related topics along with scent diffusers and candles.”⁹¹ Indigo has recently entered the United States with a location in New Jersey and more on the way.⁹² Indigo also has a partnership with the American Girl doll company where six Indigo stores carry American Girl doll boutiques, an example of the company’s aggressive expansion into toys.⁹³ Attracting children with upscale toys ensures that as the children linger, “their parents will be wandering the aisles as well.”⁹⁴ By narrowing its target market, partnering with toy companies, and diversifying with an eye to overall integration, Indigo has found success. Indigo’s revenues have been increasing since 2015,⁹⁵ displaying double-digit growth in the general merchandise business,⁹⁶ while Barnes & Noble’s revenues have been shrinking during the same

period. Yet, Riggio rejects any suggestion of Barnes & Noble following a similar model to Indigo, saying that move would be “not in [Barnes & Noble’s] DNA.”⁹⁷ This lack of flexibility could spell doom for Barnes & Noble. Faced with intense financial difficulties, it needs to innovate and try new things, including taking a hard look at what makes other bookselling chains successful and taking some pages out of their books.

Recommendations

By trying to please everyone with a broad selection, Barnes & Noble is pleasing no one. Barnes & Noble needs to narrow its target market, and the family market would be the perfect fit. Barnes & Noble already targets parents and children, but it could increase its attention to this market and further customize its stores and product offerings to meet this market’s needs. Children’s books do better in print, which aligns with Barnes & Noble’s strengths. Additionally, parents and children both view reading as an important skill. In a study by Scholastic, both parents and children listed readings skills as the most important for a child.⁹⁸ In the survey, 45% of parents said it was “extremely important” that their children read for fun, and a further 41% said it was “very important.”⁹⁹ This belief is reflected in parents book buying habits; the average household with a child under seventeen reports owning 104 children’s books.¹⁰⁰ This target market has a clear and pressing need, and Barnes & Noble can do more to meet it. Barnes & Noble can increase the number of children’s events the host and expand its selections of children’s and young adult books. It can make room for the increase in children’s books by decreasing its stock of book genres that sell better digitally and make up a smaller percentage of Barnes & Noble’s overall sales. Meanwhile, Barnes & Noble will need to increase its employee training so that its employees are knowledgeable about the products they are selling and able to organize and run the events. The constant, across the board layoffs decrease the quality of the in-store experience, which is exactly what Barnes & Noble says it is trying to improve.

To support the focus on the family market, Barnes & Noble should increase its toy sales and improve the way it sells toys. Currently, Barnes & Noble’s toy sales are actually increasing, offsetting decreases in

89. Indigo Books and Music, INC. 2018 Annual Report, pp.7.

90. Ibid., pp.7.

91. Marianne Wilson, “First Look: Canada’s Indigo Books and Music Makes U.S Debut.” *Chain Store Age*, October 8, 2018.

92. Ibid.

93. James Cowan, “How Indigo Got Its Retail Groove Back.” *Canadian Business* 89, no. 3 (2016): p.4.

94. Ibid.

95. Indigo Books and Music, INC. 2018 Annual Report, pp.3.

96. Hollie Shaw, “As Retail Rivals Retreat, Indigo Books Plans Five U.S. Stores in Next Two Years.” *Financial Post*, November 2, 2017.

97. Milliot “Len Riggio Says He’s Ready.”

98. “Kids and Family Reading Report.” *Scholastic*, 2016.

99. Ibid.

100. Ibid.

gifts, music, and DVDs.¹⁰¹ With Toys “R” Us going out of business earlier this year, Barnes & Noble has an opportunity to claim some of its market shares. Barnes & Noble already stocks educational toys, but it can increase its focus on educational toys to fit with the strategy of promoting childhood literacy and education to gain sales. By focusing on educational toys, Barnes & Noble would have an advantage over general retailers such as Target or Walmart, and it could train its employees to be more knowledgeable about toys than general retailers. Barnes & Noble should also consider partnering with specific toy companies to make a “store-within-a-store” experience, similar to Indigo’s partnership with the American Girl company. While expanding its toy selection, Barnes & Noble needs to remain mindful of how it integrates products into its stores. If a customer visits a Barnes & Noble store right now, they will find haphazardly organized toys on partially empty shelves. That must change. Barnes & Noble should create a new section that combines both children’s books and toys, and it can find the floor space by removing its music and DVD section, which takes up a large percentage of its current space but which is unlikely to generate many sales. It can include dedicated event space and play space. Barnes & Noble is already moving in this direction with some of its new concept stores by including Lego tables in the children’s section.¹⁰² It can go further. The longer children spend in the store, the more likely their parents are to buy something. The more likely a customer is to buy something, the more likely Barnes & Noble will make a profit.

While narrowing its target market and raising the quality of its in-store experience will be vital to Barnes & Noble’s future success, it also desperately needs to improve its digital capabilities. While the Kindle dominates the e-reader market, “most people don’t own dedicated e-readers.”¹⁰³ Meanwhile, the “share of e-book readers on tablets has more than tripled since 2011 and the number of readers on phones has more than doubled over that time, while the shared reading on e-book reading devices has not changed.”¹⁰⁴ Amazon may have won the market for dedicated e-readers, but how relevant is that market compared to people reading on tablets and smartphones? Barnes & Noble should scale back its physical e-readers and focus on

the Nook app for phones and tablets. It could use its experience with co-branding and corporate partnerships to partner with a tech company to create the app, as Barnes & Noble is clearly failing at creating a functional app by itself. Barnes & Noble should also capitalize on the asset that Amazon does not have — a team of experienced booksellers. Barnes & Noble can have its best booksellers create curated “Nook” lists to give the app a more personal feel. Additionally, it can improve its data-mining capabilities. If it had Nook customers input a list of its favorite books, that would provide valuable data and let the Barnes & Noble find similar books to sell to those customers. Amazon already has this ability through its buyout of Goodreads,¹⁰⁵ so Barnes & Noble is lagging behind. When making improvements to its app, Barnes & Noble should consider integrating audiobooks, as those are increasing in popularity and publishers would likely be thrilled to have a competitor to Amazon’s Audible. Finally, Barnes & Noble needs to enable in-app purchases to increase the chance of impulse buy.

Conclusion

Barnes & Noble’s future is precarious, due to its mismanagement and inability to adapt to changing times, but there are steps it could take to improve its situation. Barnes & Noble’s history as a cost leader and developer of the big box bookstore format has left it with six hundred large stores, all of which have floor-space that could be put to better use. Barnes & Noble’s partnership with Starbucks to create in-store cafes is a business model it could pursue further, perhaps forming partnerships with online retailers or toy companies. Barnes & Noble also needs to narrow its target market to highly satisfy a select group of customers rather than try to meet minimum satisfaction for a broad range. The family market is the perfect fit for Barnes & Noble, and it can diversify its product offerings to better meet the needs of this market. In addition, Barnes & Noble needs to adjust to the realities of retail in 2018. With the advent of streaming, CDs and DVDs are practically obsolete, yet they remain a major section of Barnes & Noble’s stores. Similarly, Barnes & Noble must improve its online store and integrate its digital experience with their brick-and-mortar experience. While Barnes & Noble recognizes that it

101. Barnes & Noble, INC. 2018 Annual Report, pp. 9.

102. Corinne Ruff, “Is Barnes & Noble’s New Concept Store the Answer to Its Woes?” *Retail Dive*, October 12, 2018.

103. “Mobile Fact Sheet.” *Pew*, February 5, 2018.

104. Perrin, “Book Reading 2016.”

105. Goodreads is a website for book readers that has them track what they read, upload reviews, and create a library of all the books they have read. Amazon gained access to a treasure trove of book market data by purchasing Goodreads in 2013.

needs to pursue a strategy of differentiation, its actions are often at odds with the necessities of differentiation. It has not capitalized on its floor space, and the massive layoffs last February severely hamper its ability to provide high-quality customer service and offer community events. All of these problems are compounded by the excessive turnover of CEOs and the influence of Leonard Riggio, who does not appear to understand the problems with Barnes & Noble's current business model or what makes its competitors more successful. I suggest Barnes & Noble narrow its target market, better utilize its floor space, and improve its digital capabilities. All of these steps are possible, and Barnes & Noble might just be able to right itself and find a means to survive... if it can find the leadership and vision it so desperately needs. Book lovers can only hope that Barnes & Noble finds its way, as the chain may be all that stands between Amazon and a complete monopoly over the US bookselling industry.♦

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