BARNES & NOBLE
BOOKSELLERS

A Case Analysis of Barnes & Noble

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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

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

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]."

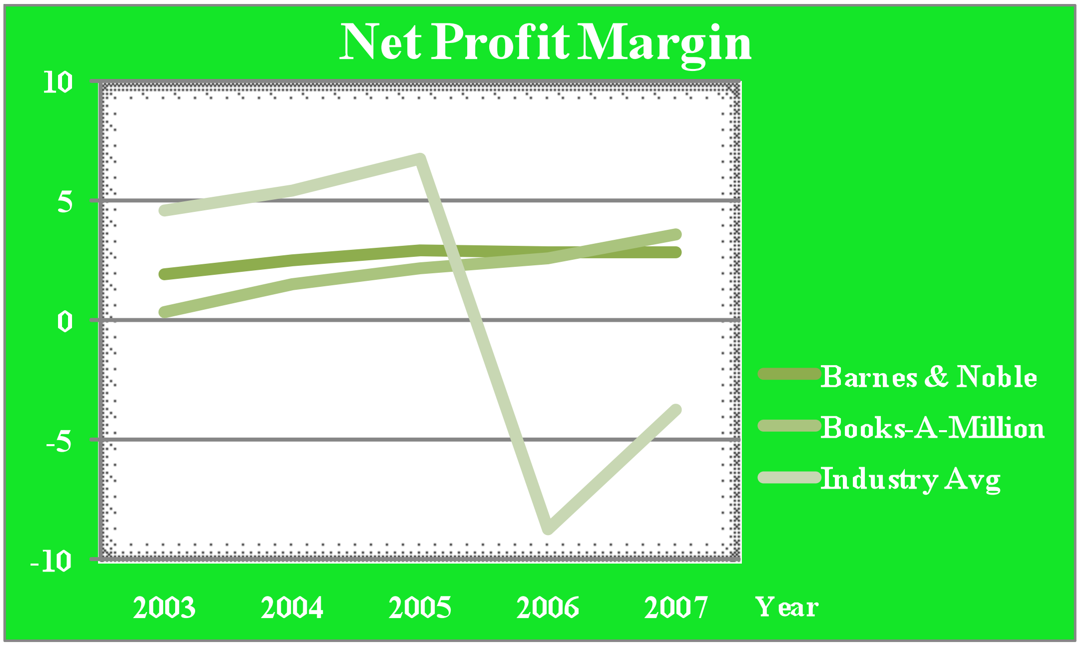
- Too keep reaching out to new online customers through the NOOK. "A quarter of NOOK owners are new to BN.COM [E]."

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

Skills and capability-related KSFs

Net Profit Margin

5 Year Trend Analysis



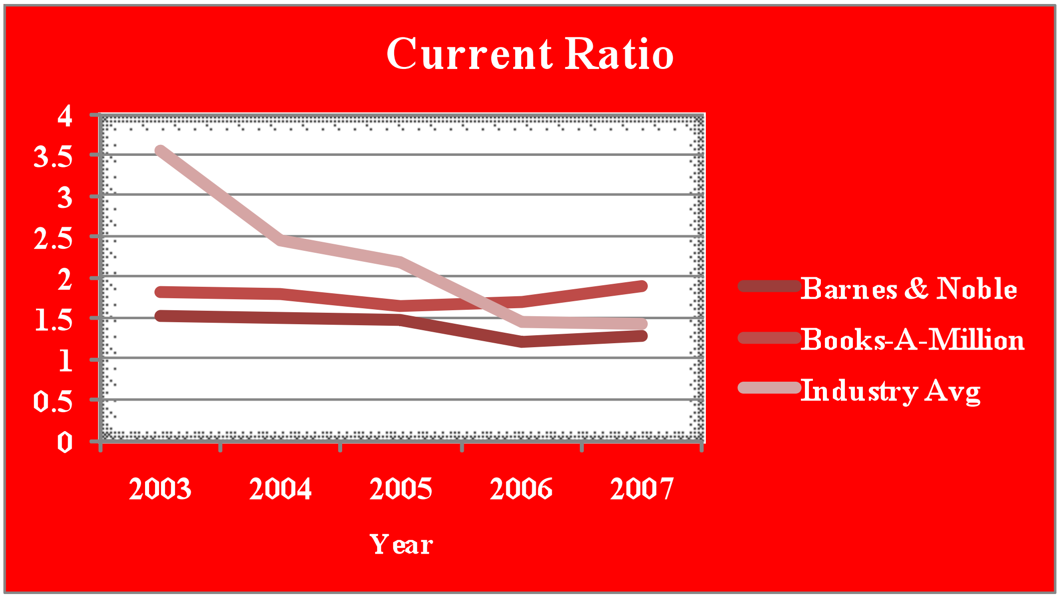
Net Profit Margin					
	2003	2004	2005	2006	2007
Barnes & Noble	1.9	2.55	2.94	2.87	2.86
Books-A-Million	0.32	1.56	2.15	2.59	3.63
Industry Avg	4.62	5.42	6.75	-8.73	-3.73

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

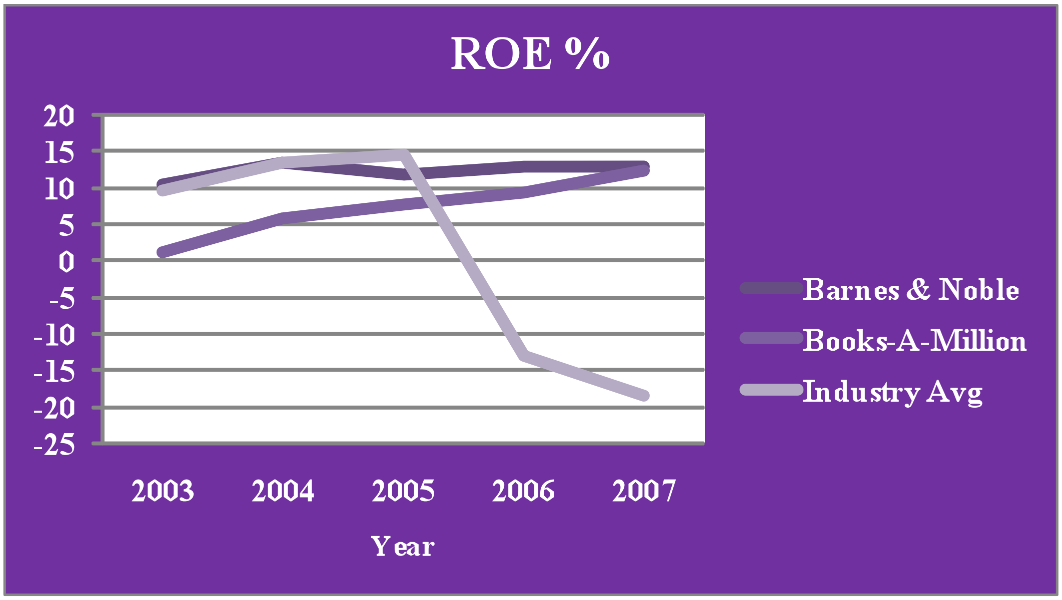


Current Ratio					
	2003	2004	2005	2006	2007
Barnes & Noble	1.53	1.52	1.49	1.23	1.28
Books-A-Million	1.83	1.8	1.65	1.71	1.9
Industry Avg	3.57	2.46	2.19	1.46	1.44

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.

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