Strategic Audit:
Barnes & Noble

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Strategic Analysis: Barnes & Noble
Executive Summary

Barnes & Noble is a key player in the Book Retail Industry. This mature industry has been experiencing slow growth over the last several years, much slower than overall retail sales. Barriers to entry into this industry are quite high, and suppliers have modest influence over booksellers. The introduction of the Internet has brought about many changes to this industry. It has increased rivalry, buyer power, and substitutes. Spending time "surfing the net" is one of many substitutes to reading books nowadays. Other technological advances, such as VCR's and video games, have replaced time otherwise spent reading. Buyers have greater influence over the industry, because they have more buying options and faster price comparison ability.

In order to remain competitive in the market, it is necessary to not only understand the book industry as a whole, but to know what your competitors objectives are in the market. Two of Barnes & Noble's largest competitors are Borders Group, Inc. and Amazon.com, whose strategies are profiled in the paper.

Barnes & Noble is the largest bookstore chain in the world. In 1997, they expanded their services to customers by launching their bn.com website. Barnes & Noble's brand name has superior brand recognition, which is a key factor in attracting customers to both their brick and mortar stores and their website. The Company leads book retailing with a "community store" concept that offers a comprehensive title base, a café, a children's section, a music department and ongoing events, such as author appearances and children's activities.

Barnes & Noble's current strategy is to increase its share of the consumer book market, as well as to increase the size of the market. In order to do this, the brick and mortar stores will continue to maintain close proximity to their customers. Visibility, access, parking, and high traffic areas are among the top priorities when choosing new locations. Its brick and mortar stores will continue to maintain close proximity to their customers through rigid location criteria. Continual efforts are planned for improvement to the design, layout and navigation of the bn.com website. Expanded product offerings for the website and strong alliances are also a key part of their strategy.

Recommendations for Barnes & Noble include leveraging their brand name and capitalization of its strength of distribution capabilities. Using the name and the physical stores may allow Barnes & Noble to align the brick and mortar business with its online business and ultimately create additional brand loyalty. In addition, relying on Barnes & Noble's core capability in distribution will allow for enhanced customer satisfaction through faster product delivery times.

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BOOK RETAIL INDUSTRY ANALYSIS

In order to analyze an industry, it is important to determine where it is in the industry life cycle. During the 1970's and 1980's, the book retail industry was expanding at a phenomenal rate. New stores were opening and growing into markets previously not served by any bookstore. Throughout this boom period, the number of new books published each year grew, new authors increasingly found their way into print, and profit for publishers rose in robust percentages.

In the mid-1990's, the book retail industry began evolving into the maturity stage of the industry life cycle. Increasing market saturation and slowing growth caused this evolution. By 1995, publishers' growth rates were down 2.1%, "the lowest growth in ten years." [1] According to data compiled by the American Booksellers Association, total bookstore sales for 1999 were modestly better than 1998. 1999 sales reached $13.7 billion, up only 3.7% over 1998. By comparison, overall retail sales increased by a strong 9 percent for this same period. Total bookstore sales for 1997 were $12.5 billion. Industry surveys indicate that the four largest chains accounted for approximately 45.2% of total sales in 1997. [2]

According to the 1997 Consumer Research Study on Book Purchasing, book purchases per U.S. household grew just 0.6 percent from 1996 to 1997. During the same period, the U.S. population grew approximately 1 percent. This statistic shows that the U.S. book market is growing slower than the population. [3]

The 1998 Consumer Research Study on Book Purchasing found that as the American economy thrives and sets impressive new growth records, growth in book sales continues to slow. This survey found that it was the upper income (>$75,000) professional households, also the heaviest book buyers, who are most responsible for the drop in unit sales. According to the Book Industry Study Group, the study suggests that "the book industry appears to react counter-cyclically to the overall economy. In good times, consumers may spend their disposable income on other forms of entertainment or on more expensive durable goods." This study also revealed that 1.9 percent of total book sales for 1998 could be attributed to Internet purchases. This 1.9 percent does not include children's books, textbooks, or other online sales to college students.[4] The American Bookseller Association's CEO, Mark Domnitz, predicts that Internet book purchases will grow exponentially over the next few years and have a major impact on bricks and mortar retailing.[5]

Porter's Five Forces of Competition framework can be a valuable tool in analyzing an industry. Porter's five forces of competition include: competition from substitutes, entrants, rivals, supplier power, and buyer power. We will now analyze the retail book industry according to Porter's Five Forces.

Substitutes

A 1999 Gallup Organization poll on reading habits found that most Americans continue to read as frequently as they have for the past 20 years.[6] Reading has even become a social event with book clubs starting all over the country. Substitutes for reading include watching television, going to movies, renting movies, listening to CD's, tapes, or the radio, playing computer or video games, talking on the telephone, surfing the Internet, playing sports, exercising, etc. Competition for leisure time and dollars are intense among adults and teenagers. Since some of these substitute leisure activities do not directly cost the consumer (i.e. watching television or making local phone calls), booksellers must be conscious of their prices. Conflicting results came from a 1999 study conducted by The NPD Group, Inc., which revealed "people don't read as much as they used to in the U.S." The NPD study did, however, indicate that the older age groups read more than younger ones. Older Americans age 55-64 years old read an average of 53 minutes a day compared to only 24 minutes per day for 25-29 year olds.[7]

Entry

The book retail industry has very high barriers to entry. The capital requirements necessary to establish a bricks and mortar bookstore would be virtually impossible for a newcomer. The large chains, such as Barnes & Noble and Borders, and the giant non-bookstore retailers like Wal-Mart and Costco, are situated in prime locations providing them an advantage. An internet-only bookseller would have less capital costs, but at this point established firms, such as Amazon.com, have the first mover advantage. Consumers know the big name players. High product awareness and large marketing budgets make it very difficult for new entrants to enter into this industry. In fact, sales at independent bookstores and small chains have been steadily declining since the early 1990's. Therefore, this is not an attractive industry for new entrants.

Rivalry

As mentioned earlier, industry survey results indicate that the four largest chains accounted for approximately 45.2% of total sales in 1997.[8] Product differentiation is low in the sense that a particular book is exactly the same whether you buy it from one bookseller or another. Looking at the entire book retail industry, competition is quite diverse. A consumer could purchase books from a bricks and mortar store, which could be a large chain, a non-book retail store, or a small independent store. A consumer could also choose to buy their books on-line. With the onset of Internet bookstores, price is even more of a factor in consumer book purchasing. The lack of state sales tax on e-commerce is an issue that is deeply affecting locally owned bricks and mortar stores. Until the government changes this fact, rivalry will continue to be fierce between bricks and mortars and Internet booksellers. The large chain bricks and mortars have established Internet e-commerce sites to satisfy all the needs of their consumers. In an effort to remain competitive in the industry, more than 1,000 independent bricks and mortar bookstores have banned together to establish BookSense.com.[9] This site will allow consumers to continue to buy from their favorite independents, but will now have the option of making these purchases on-line.

Buyer Power

Buyer power in the book retail industry is very high. This fact can be directly associated with the significant amount of substitutes and intense rivalry in the industry. As mentioned earlier, if a consumer is looking to purchase a book he/she has many options. The amount of buyer power ultimately depends on the need or desire for the book. For example, suppose a consumer wants to read about traveling to a certain destination. If they only want a general overview, they may decide to save money on a book purchase and surf the net to find the information. However, if this consumer would like to have a book to refer to when traveling, an online bookstore may serve the purpose. And if this consumer is leaving tonight for their traveling adventure and can not wait for an e-commerce bookstore to mail it, then he/she could go to a bricks and mortar store.

Supplier Power

Supplier power in the book retail industry would be considered moderate. Book retailers can purchase books from over 1,700 publishers as well as wholesale distributors. Publishers have control over the distribution of titles (through copyright protection), the list price and the retailers' cost price. These limitations do afford the publishers some supplier power over the book retailers. However, these same publishers rely on the marketing and distribution channels of the retailers in order to sell their books. The significant purchasing volume of the larger book retailers, such as Barnes & Noble and Amazon, provide an advantage in negotiating with suppliers.

COMPETITOR ANALYSIS

In order to remain competitive in the market, it is necessary to not only understand the book industry as a whole, but to know what your competitors objectives are in the market. Two of Barnes & Noble's largest competitors are Borders Group, Inc. and Amazon.com. We have provided a profile of each of these companies including their strategies and their current position in the market.

BORDERS GROUP, INC..

Borders Group, Inc. (BGP on NYSE) is the second largest operator of book and music superstores based on sales and number of stores. Its subsidiaries include Borders, Inc., Walden Book Company, Inc., Books etc., and it also operates an e-commerce site under the name of Borders.com. As of March 21, 1999, there were 256 stores operated under the Borders name, including three in the United Kingdom, one in Singapore, and one in Australia. There are 885 mall-based bookstores mostly under the name of Waldenbooks and 26 bookstores in the United Kingdom under the name Books etc. Sales for the year 1999 were $2,590.4 million, which was an increase of 14% over 1998's sales of $2266 million. This growth was due to both the number of Borders' superstores as well as the 3.5% comparable store sales increase.[10]

Borders.com offers customers over 650,000 titles and 10 million book, music and video items in stock and ready for immediate shipping from Border's distribution center. Borders.com opened in May of 1998 and has received high rankings from Internet and industry experts in several surveys of the Internet's best websites. Borders Group, Inc. believes that sales on the Internet have negatively affected the company's sales and are expected to continue in this direction, but the impact cannot be quantified.[11] In order to prevent this from occurring further, they are working on a way to integrate Borders.com with its stores. They are doing this by providing kiosks in the stores where consumers can order books, music, and videos as well as find out information about these items.

Borders Group, Inc. is a dynamic group of retail companies with one common goal: To sell books, music, video and other information and entertainment products profitably by making the experience of shopping easy, enticing, enjoyable, and enriching. With a complete understanding of our customers' needs, Borders Group offers an experience like no other. From the destination shopping environment of our Borders Books, Music, Video, and Café stores around the globe, to the quick convenience of our Waldenbooks and books etc. shops, or the ultimate in online access through Borders.com, Borders Group is continually evolving to meet the various needs of our customers.[12] This is Borders mission statement that exemplifies their dedication to the customer experience in their stores as well as their focus on the consumer.

Border's Strategy & Objectives

Borders group has one very important strategic goal in its business strategy - to continue its growth and increase profitability. They plan on doing this in several ways including the continued expansion and refinement of its superstore operation in the United States and internationally and the continued focus on key store openings in its mall-based bookstore operations and expansion of its kiosk operations.[13] Another way to achieve their goal is through web-based technologies that will enhance the customer experience both online and in their stores as well as realizing the economies of scale that occur through the combination of some of its book and music operations.

Borders Industry Assumptions

Borders believes that they offer superior selection and service to their customers in comparison to their competitors. Each superstore offers a wide variety of books, excellent customer service, value pricing and an inviting and comfortable environment designed to encourage browsing. By offering activities, a café, and comfortable seating they hope to increase their sales and invite more customers into their stores.

Borders direct competition from other superstores includes Barnes & Noble, Books-A-Million, Crown Books and Media Plax. About 85% of Borders stores face competition from one of the above retailers. Borders also competes with one of its own, Waldenbooks. Another form of competition includes specialty stores that offer books in a particular area of specialty, independent single store operators, variety discounters, drug stores, warehouse clubs, mail order clubs and mass merchandisers.[14] Borders also faces competition within its music and video businesses. Their direct competitors here are Tower Records, Musicland, Media Play, Blockbuster, and Suncoast Motion Picture Company.[15]

Borders Resources & Capabilities

Borders Group believes it has the most sophisticated inventory management system in the retail book industry. This system has a centrally controlled expert system that uses artificial intelligence and is able to forecast sales and recommend inventory levels for each book in each store. The system also allows Borders to have higher in-stock positions, a broader selection of book titles, and increased sales per store and sales per square foot, while effectively managing inventory investment to provide Borders stores with a more productive inventory assortment. As a result, management believes this proprietary system has been a principal reason for Borders' superior performance, and that in the long run it will enable them to offer a more productive assortment of inventory throughout its operations.[16]

AMAZON.COM

Realizing the immense potential of setting up a retailing business on the web, Jeff Bezos was faced with the following dilemma: Out of the endless items that could be sold on the internet, which item would give him the most profitable business opportunity? Although Jeff had no previous experience in book retail, he decided on selling books because of the following factors:

- There is a broad field of book publishers and too many books to be carried by any single bookstore.
- Books may be classified as "search" goods as opposed to "experience" goods, which must be experienced before they are bought. This characteristic of books makes them amenable to sell over the Internet.
- There is plenty of room for bringing down margins, i.e. offering customers deep discounts.

Jeff started Amazon.com, Inc. in 1994 in his garage in a Seattle suburb, wrapping orders and then delivering them to the post office in the family car. The company opened its virtual doors in July 1995 and went public on May 15, 1997 (The IPO price was $18.00, $1.50 adjusted for the 2-for-1 stock split payable on September 1, 1999). Jeff Bezos and his family own over 50% of Amazon.com. Amazon.com is listed on the NASDAQ as AMZN.

Amazon.com's Strategy & Objectives

Amazon.com has identified the following as key success factors (KSF) in its business model[17]

- A strong brand position.
- Providing customers with outstanding value and a superior shopping experience.
- Massive sales volume.
- Realizing economies of scale and scope.

Amazon.com's long-term strategy is very tightly woven around these KSFs. Jeff Bezos named his company Amazon.com after the Amazon River, which also supported his (at the time) vision of making his company "the earth's biggest bookstore". According to Media Metrix, Amazon.com is the only bookseller in the world's top 500 websites. According to one analyst report, Amazon.com is estimated to have over 80% of the online bookstore market. However, with time, Jeff's vision for Amazon has evolved much further than just being the earth's biggest bookstore. The vision is to be the world's biggest one place-shopping stop for online shoppers; to become a premier general online retailer by leveraging its existing brand and business model**.** [18] Amazon.com has most recently made news with the following in support of its long-term strategy:

- Amazon.com has bought a stake in Living.com and is using the store to set up a house wares (furniture, beds, home textiles, etc.) e-commerce section on its site.
- Amazon.com has made a deal in the online car industry boosting the fortunes of a new player -- Greenlight.com -- while laying the foundation for the addition of its own car "tab" by year's (2000) end. These moves will further entrench the model of direct auto sales over the Internet.
- Amazon.com has expanded its stake in Drugstore.com (it now owns nearly 28 percent of the firm), and has given Drugstore.com a "tab" on the Amazon site.
- In 1999, Amazon.com opened up stores selling software, video games and home improvement products.

Amazon's long-term strategy appears to be in harmony with its resources and capabilities. As Amazon.com realizes its long-term strategy and solidifies its brand even further, Amazon.com hopes that e-commerce sites that sell only books and music, such as Barnesandnoble.com will face increased challenges to lure people to come to their site to buy books and music, as opposed to going to Amazon.com for a more complete shopping experience.

<u>Amazon.com's Industry Assumptions</u>

Amazon.com's entire business is based on selling over the web. So, one of the fundamental assumptions made by Amazon.com is that people will not only continue to buy over the web, but that this will continue to increase with time. Another assumption made by Amazon is that more consumer loyalty can be gained by diversifying into selling more than just books over the web i.e. by providing a one-place shopping mall to online consumers. Finally, Amazon.com assumes that government (both domestic and international) regulations will continue to be favorable to online-retail.

Amazon.com's Resources And Capabilities

Over the course of its life, Amazon.com has experienced tremendous growth each year. Net sales for the fourth quarter of 1999 were $676 million, an increase of 167 percent over net sales of $253 million for the fourth quarter of 1998. Pro forma operating loss for the fourth quarter of 1999 was $175 million, compared to a pro forma operating loss of $18 million in the fourth quarter of 1998. Fourth-quarter pro forma net loss was $185 million, or $0.55 per share, compared with a pro forma net loss of $22 million, or $0.07 per share, in the fourth quarter of 1998. This increase in net sales was mainly fueled by strong sales in its new consumer electronics store. Although Amazon.com's books are still in the red, analysts expect Amazon to have positive operating profits by the year 2002. This ability to inspire analyst confidence and create investor excitement is one of Amazon.com's biggest capabilities that has allowed Amazon.com access to huge capital required for fueling its growth. Amazon.com has a very strong brand name presence in the online-retail market, which is primarily due to their successful exploitation of their "first-mover" advantage. Amazon.com should be able to leverage this brand name as it realizes its plans for expansion in the future. Jeff Bezos, who is well respected and considered an exceptional visionary in the online-retailing industry, is yet another important resource for Amazon.com. Amazon.com has strived hard to create a work environment that is conducive to the fast-pace and dynamic nature of their industry. Amazon.com's work culture, as stated by Jeff Bezos, can be summarized as follows

"Work Hard, Have Fun, Make History."

It would be impossible to produce results in an environment as dynamic as the Internet without extraordinary people. According to Jeff, setting the bar high in Amazon.com's approach to hiring has been, and will continue to be, the single most important element of their success. Probably, Amazon.com's most important capability is their "knack" to sell over the internet and create an environment that facilitates even novice users of the web to very easily buy over the web. In essence, they have taken the first step to revolutionize the online buying experience for consumers.

BARNES & NOBLE, INC.

In 1996 Barnes & Noble became the largest bookstore chain in the world. From its fledgling beginning of one store in 1971 Barnes & Noble acquired and ran several mall based bookstore chains including B. Dalton Bookseller, Doubleday Book Shops and Scribner's Bookstores. Ultimately they developed superstores, which carry a range of 60,000 to 175,000 titles. The superstores accounted for 85% of operating income by 1997. The Company reached $3 billion in sales in 1998, a 7.5% increase from 1997, which registered approximately $2.7 billion in sales. In addition to retail operations, Barnes & Noble maintained its catalog operation and its publishing business. In 1997, Barnes & Noble once again expanded its operations to make books available to customers through the Internet. The decision to go online was motivated by the desire to allow more consumers to connect to the expertise of Barnes & Noble, a company with an established reputation for knowing books and providing information and content in ways that are most convenient to the customer. Barnes & Noble became the exclusive bookseller on America Online's (AOL's) Marketplace in March of 1997 and launched its own site on the World Wide Web in May[19].

The website, which is located at www.bn.com, is a leading online retailer of books and complementary information, entertainment and intellectual property-based products. Since opening its initial online store, bn.com has sold products to over 1.7 million customers in 181 countries. bn.com's online stores are anchored by its online bookstore but also include software, magazines, and music and video offerings. The bn.com website has the largest in-stock position of books and provides customers with not only discounts and fast delivery but also offers rich editorial content and a unique community experience.

Barnes & Noble's Resources

Over its operating history Barnes & Noble has developed some reputable resources. The first, logically, is the Barnes & Noble brand name, which has superior brand recognition and serves as a strong motivating factor in attracting customers. Consumer perceptions are positive regarding Barnes & Noble stores and related offerings. The extensive experience in bookselling is also quite valuable. The Company has been operating for over 30 years and has established a culture, which breeds outgoing, helpful and knowledgeable booksellers. Finally, Barnes & Noble's strong management provides the appropriate leadership and direction for the business.

Barnes & Noble also maintains strong relationships that allow for cross-marketing, co-promotion and customer acquisition programs including AOL, MSN and Bertelsmann, a German media giant. For example, its relationship with Bertelsmann provides access to millions of established book buyers and an opportunity to directly promote its online store. This access is crucial to Barnes & Noble's success since estimates provided by Euromonitor indicate that worldwide book sales are expected to grow to $93 billion by 2003. Demand for U.S. published books abroad is quite large and relatively untapped[20].

In addition, Barnes & Noble has developed information technology related resources through systems that support store operations, merchandising and finance. For example, BookMaster, its inventory management system, utilizes a proprietary data-warehouse-based replenishment inventory management system that enhances communications and real-time access to the network of stores, distribution center and wholesalers. Barnes & Noble also maintains a database, which includes catalogued sales rankings of over 750,000 titles in over 150 subjects. The web site currently maintains a state of the art interactive e-commerce platform and the Company plans to continue to invest in improvements.

Barnes & Noble's Capabilities

The resources combine to provide a number of capabilities on which Barnes & Noble can base a competitive advantage. Barnes & Noble has positioned itself to sustain growth and attractiveness to customers through dedicated brick and mortar expansion efforts and through its recent online development. The online venture creates synergies that may be shared. Using Barnes & Noble's core knowledge and existing resources, the web site can offer diverse sales opportunities and allow customers ultimate flexibility in how they desire to buy merchandise.

Additionally, Barnes & Noble has depth in their inventory and a capability to ensure quality of distribution. The Company has garnered strength in procurement and logistics. Both online and traditional businesses rely on a concentrated distribution center in New Jersey. The facility's operations allow for "in-stock" titles to be shipped the same day that they are ordered which in many cases surpasses competitor delivery times. Other systems, like the extensive bookstore database were developed for the traditional business, but have been instrumental in the online business as well. This database can be searched electronically and can provide real-time queries for inventory checks with book suppliers as well as provide weekly updates to the B&N.com servers[21].

Barnes & Noble's Competitive Advantage

Barnes & Noble appears to maintain several competitive advantages. First, the Barnes & Noble name has strong brand recognition. As the largest operator of book "super" stores in the United States and extensive bookselling experience, Barnes & Noble has established its name and presence. The Company leads book retailing with a "community store" concept that offers a comprehensive title base, a cafe, a children's section, a music department and ongoing events, including author appearances and children's activities. The title selection is diverse and reflects local interests. Barnes & Noble emphasizes books published by small and independent publishers and university presses. The tremendous selection, including many otherwise hard-to-find titles, builds customer loyalty. Through bn.com, Barnes & Noble actively serves customers via the Internet. The web site has been developed to extend the same extraordinary services. The Barnes & Noble name serves as a strong motivating factor in attracting customers, especially with regards to consumers who have yet to make an online purchase. With over 2 million Web sites, brands are going to matter more.

In addition, the store design and ambiance has become somewhat of a trademark. They are designed to provide comfortable surroundings, which often include ample public space, reading chairs and even a cafe that features Starbucks Coffee. The stores also feature a children's section, a music department and ongoing events, including author appearances and children's activities. The physical stores have a reputation for offering convenience and personal service and now the web site compliments the stores by providing flexibility for customers without sacrificing expertise and service. The web site is designed to extend the ambiance and provide a familiar environment in which customers are willing to make purchases. Efforts are being made to continually expand the large selection of product offerings within its online stores and enhance the user experience, as well as increase delivery speed.

A second advantage for Barnes & Noble is its core competency in operations. The infrastructure entails business know-how related to publishers and wholesalers and the appropriate information systems. Implementation of just-in-time replenishment of books has resulted in higher in-stock positions and the BookMaster system has yielded better productivity at the store level through efficiencies in receiving, cashiering and returns processing. Increased use of its distribution center enables Barnes & Noble to maximize available discounts and enhance its ability to create customized marketing programs with many of its vendors. It has also allowed for increased direct buying from publishers rather than wholesalers. Synergies are achieved by sharing the expertise. The online business has been able to leverage these existing "back end" operations and avert extraordinary start-up investment. The distribution network also provides a significant competitive advantage for B&N.com. By stocking nearly 750,000 titles, they are currently in a position to provide overnight delivery service to online customers at gross margins, which allow B&N.com to offer very deep discounts[22].

Barnes & Noble's Strategy

The Company's strategy is to increase its share of the consumer book market, as well as to increase the size of the market. The operating strategy is focused on increasing its customer base and rapidly extending its brand. Maintaining proximity to customers is still a chief concern though. Internal real estate professionals search out the most desirable store locations. Visibility, access, parking and high traffic areas are among top concerns for locations. However, Barnes & Noble stores are also designed to be strategically located near compatible tenants and routinely offer extended shopping hours.

The Company has also committed to making every aspect of browsing and shopping in its online stores an easy and pleasurable experience. B&N.com has pursued a strategy of focusing on the sale of a broad range of knowledge, information, education and entertainment related products. Continual efforts are planned for improvement to the design, layout and navigation of the site, as well as competitive performance metrics, especially with regard to page download times and the speed of all search functions[23]. To be consistent with the goal to be recognized as the most innovative and customer-focused of e-commerce merchants, the web site has been designed for simplicity and to reflect the completeness of its product selection while providing personal and gratifying experiences for customers.

In addition, meticulous efforts are directed at strengthening and expanding strategic alliances with third-party websites and content providers to attract users to its online stores. Marketing agreements with major Web portals and content sites, such as America Online ("AOL"), Microsoft and Lycos, have extended brand and consumer exposure to its online stores. Using the network of over 500 Barnes & Noble retail superstores and its relationship with Bertelsmann, one of the largest integrated media companies in the world, will help bn.com gain a significant advantage in cross-marketing and co-promotion programs, as well as, negotiating with online portals, distribution partners and media companies[24].

Recently, Barnes & Noble has pursued innovative marketing strategies that anticipate additional selling opportunities. For example, an innovative deal was reached with MBNA, the world's largest independent credit card lender, which is expected to leverage the power of the multi-channel network. MBNA will get access to market the card to Barnes & Noble's huge customer base. Barnes & Noble can offer millions of MBNA customers a rewards program, which would give them great reasons to come back and shop repeatedly[25].

CONCLUSION

By fully addressing book-retailing channels, Barnes & Noble has created an enviable position. The click and mortar business model incorporates a sense of complete customer orientation through its efforts to reach and satisfy them throughout all potential channels. For customers new to e-commerce, seeing familiar brands in cyberspace is immensely reassuring and studies have shown that they prefer to buy online from retailers they already know in the physical world. Shoppers are likely to flock to names they know. According to the Internet consulting firm Nexgenix Inc., there is an incredible concentration of traffic on a relatively small number of sites and that top 10 Web sites, for instance, account for 60 percent of all customer traffic[26].

As the company looks to boost its 16% market share, Barnes & Noble will continue to open new stores, with between 40 to 45 slated for 2000[27]. The strategy entails continued efforts to add offerings in its cafe, music and gift areas without straying too far from its core business. Efforts to keep pace online demonstrate the belief that growth for both the stores and the Internet will yield continued gains market share. Compared to online competitor Amazon, bn.com has a less ambitious strategy, but one that is likely to generate a greater return for shareholders over the near to immediate future.

RECOMMENDATIONS

Now that Barnes & Noble has pursued efforts to compete online it must further develop its branding strategy. Book retailing is a $24 billion industry and currently 2.5% is from online sales. However, by 2003 online sales are expected to increase to 10% to 15% of the total market. It is imperative that Barnes & Noble be poised to tap into the growing sales. Barnes & Noble maintains the resources and capabilities needed to capitalize on consumer needs. The recommended strategy is to treat online and offline customers the same and to truly establish the customer oriented book retailer that will provide customers with the same great selection and service in whichever means is more convenient. With no distinction between customers there is an increased likelihood in getting problems solved, achieving correct orders and delivering on promises.

There are several risks like competition, poor online shopping experiences from botched orders and late deliveries and even advertising challenges that face e-commerce businesses. Barnes & Noble has a distinct advantage as it already knows its audience and has the ability to reach them through their stores. As a result, Barnes & Noble in its brick and mortar form will likely spend much smaller percentage of its revenue on marketing and advertising than pure-play online competitors like Amazon. In the long run an e-commerce retailer's demographics and money may not be a match for brand cachet. According to Forrester research, the majority of shoppers are more comfortable with traditional brands in an online store.

The first component is leveraging and exploiting Barnes & Noble's recognized name and renowned service. The goal is to expand options for traditional customers and to prevent losing those customers that are leaning towards e-commerce. Traditional merchants and catalog companies have the advantage of experience and knowledge for targeting customers over pure-play online retailers. It is essential for Barnes & Noble to notify its current customer base that the web site exists and encourage them to use it. Too often Barnes & Noble store customers are using a competitor's website. By integrating their online business and offline stores, shoppers have more choices and more opportunities are presented for brand building. One strategy is to use the stores for advertising, including banners and emblazoning the bn.com logo on shopping bags and receipts. Additionally, special promotions and coupons could be issued to drive additional website visits or purchases. The combination of businesses offers a seamless approach to order taking and would provide for customer flexibility. For example, if there's ever a problem with an online order, customers can return a product to a store or exchange it on the spot rather than wait at the post office.

Another facet of the strategy comes from name unification of all Barnes & Noble operated stores. By changing the names of B. Dalton Bookstores, Scribner's and Chapters to Barnes & Noble, the Company would be solidifying a greater customer base and would be able to further extend its name recognition. Currently, B. Dalton Bookstores is the second largest operator of mall bookstores in the United States. During fiscal 1998, B. Dalton generated revenues of approximately $468.4 million, or 15.6% of Barnes & Noble Inc.'s total revenues. Despite efforts to execute a strategy to maximize returns from its B. Dalton stores, the chain is experiencing declining sales which are mainly attributable to superstore competition and weaker overall consumer traffic in shopping malls. Part of the Company's strategy has been to close stores who were not performing satisfactorily. However, these stores could potentially contribute additional value if operated under the Barnes & Noble name. Currently, each B. Dalton store carries a solid selection of core titles in a variety of subject categories such as new releases, bestsellers and specially selected titles to meet local demand. Operating as a Barnes & Noble store would allow for book buyers to experience a small scale Barnes & Noble in their local mall. This is an untapped market for Barnes & Noble since they usually target busy locations. These mall stores, however, would still offer placement consistent with site location strategy in that they are near to related stores. In addition, it would further their name extension and provide greater possibilities for web advertisement and customer retention.

The last component of brand name leverage arises from strategic alliances. As mentioned previously, Barnes & Noble has developed relationships with several web portals. However, another avenue for alliances may be with large Corporations. For example, with exclusive relationships with large employers like the Big 5 consulting firms, Barnes & Noble could have access to hundreds of thousands of customers through a link on the corporate

Intranet. In return, Barnes & Noble could provide savings for both employer and employees. In addition, Barnes & Noble also maintains an equity investment in Chapters, Inc., an Ontario corporation and Calendar Club L.L.C., an operator of seasonal calendar kiosks both in the United States and internationally. Chapters is the largest book retailer in Canada and the third largest in North America, operating 327 bookstores, including 52 superstores. Barnes & Noble could pursue co-marketing arrangements through these investments, particularly for the web site. A partnership should be developed to affiliate these outlets with the Barnes & Noble name and provide incentives for customers to use the web site if they plan to shop online.

The second part is full utilizing Barnes & Noble's distribution expertise. By providing the immediacy of delivery to online customers that you do for store customers Barnes & Noble could really satisfy the serious book buyer. Historically, Barnes & Noble has been able to meet consumer needs in the stores by providing goods immediately. Using its competitive advantage in distribution Barnes & Noble could offer the same time sensitive delivery for its online customers. For example, since Barnes & Noble maintains such depth with its in stock titles, the response time for orders should be reduced. It could offer 24 hour delivery or even same day deliveries. It may even be possible for Barnes & Noble to use existing stores as distribution centers and promote the concept of same day delivery in almost every major city in the U.S. Perhaps, for even faster gratification, web site purchases could be redeemed at the nearest Barnes & Noble bookstore. By leveraging the stores, which are already located in prime locations, Barnes & Noble could create a competitive advantage that would not only be hard for pure-play online sellers such as Amazon.com to replicate but would be difficult for other brick and mortar competitors as well.

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