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### Barnes & Noble: Business Analysis

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Started in 1873 in the home of Charles M. Barnes, Barnes & Noble has grown to become one of the most successful book retailers. As of late 2017, the company operates 778 retail stores in all 50 states of the U.S., employing over 11,000 full-time employees<sup>1</sup>. The bookselling industry continuously saw bankruptcies and mergers in the 1990's, which has resulted in Barnes & Noble standing as the largest bookstore chain in the United States. With its large outlets, Barnes & Noble sells books, magazines, newspapers, DVDs, comics, gifts, games, toys, music, and digital tablets. In addition to its brick-and-mortar stores, Barnes & Noble operates an online service and sells e-books due to its Nook reader. In August 2015, Barnes & Noble announced the completion of its College business. Barnes & Noble Education, Inc., which is an independent public company, owns Barnes & Noble College. B&N College is a good strategy implementation for B&N, and encourages long-term brand loyalty. The company's current strategy is not working as effectively as it should and has room for improvement. Barnes & Noble has seen decreases in profit margins due to high competition and inability to thrive with their e-reading device. B&N currently captures approximately 17% of the market.

Barnes & Noble operates in the Specialty Retail industry, specifically in bookselling. Other major players in the brick-and-mortar bookselling industry include Books-A-Million, and several independent booksellers. Books-A-Million operates over 250 stores in 31 states<sup>2</sup>. In the late 1990's, there were approximately 12,400 bookstores in the U.S. Today, there are approximately 10,800 bookstores in total in the U.S.<sup>3</sup>. These numbers show a significant drop in bookstore outlets. With the growing popularity of online book sales, and the closing of Borders, the bookselling industry has seen a decline in sales. However, the bookselling industry is still a billion dollar industry with its major segment including 45-65 year old college graduates. According to Pricewaterhouse Coopers' Global Entertainment and Media Outlook, annual sales of books worldwide are roughly \$120 billion in early 2018<sup>4</sup>.

There are many external and internal threats for the bookselling industry. Risk of entry by potential competitors has been one of Barnes & Noble's biggest external threats. In 1995, Amazon entered into the bookselling industry with its online bookstore, and saw major growth in revenue for years following. With this new entry, B&N saw a major decrease in market share and profit. B&N lacks barriers to entry for other competitors, since it doesn't have high absolute cost advantages, and there are no switching costs. Barnes & Noble does offer a membership, but with a \$25 annual payment with very few benefits. Scarce readers do not have a strong incentive to shop at Barnes & Noble. The company has also seen external threats from Walmart, Target and Costco entering into the bookselling market. The flood of new entrants in this industry has created excess capacity. Another threat to Barnes & Noble is substitute products. While it does offer online sales and the Nook, there are many alternatives to choosing their stores or e-readers. Amazon offers the Kindle, which has seen much greater success than the Nook. The boom in the television industry has also been a threat to B&N, since TV is a substitute for reading. In addition, high bargaining power of buyers is also a threat. With buyers having a choice, low switching costs, and the dependence upon buyers for a large percentage of its total orders, the bargaining power of buyers in this industry is very high. Internal threats for the company are identified through B&N's SWOT analysis. Here the company has identified changing digital

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<sup>1</sup> <https://finance.yahoo.com/quote/BKS/profile?p=BKS>

<sup>2</sup> <https://www.thebalance.com/major-u-s-bricks-and-mortar-bookstores-2800139>

<sup>3</sup> <http://oedb.org/ilibrarian/12-stats-on-the-state-of-bookstores-in-america-today/>

<sup>4</sup> <http://www.firstresearch.com/Industry-Research/Bookstores.html>

content technology, heavy discounting by competitors, and the inability to operate at a loss<sup>5</sup>. With all of these threats, Barnes & Noble needs to find a strategy that has higher customer acquisition and retention.

Aside from the threats, Barnes & Noble also has external and internal opportunities. With the addition of Barnes & Noble Education, Inc., and Barnes & Noble College, B&N has increased its customer loyalty among college students<sup>6</sup>. Its strategy is to continuously advertise brand-name products and the company name in the hopes of retaining those customers in the long-term. This brand loyalty makes it more difficult for new entrants to take market share away from B&N. Another external opportunity for B&N is complementors. Offering coffee and cafes in the B&N stores draws customers in. A quiet café is a great complementor for Barnes & Noble. Unlike Amazon, B&N is able to offer an experience, rather than just the product. Through the company's SWOT analysis, B&N has identified internal opportunities. Some of these internal opportunities include its partnership with Microsoft, increased demand for digital content, and growth opportunities for B&N College.

There are many external and internal threats and opportunities within the bookselling industry. With constant changes in the industry and new entrants, keeping a solid strategy is key. Barnes & Noble has worked to maintain market share, and should continue to set itself apart and gain a competitive advantage. Continuing to achieve higher superior customer responsiveness, quality, innovation, and efficiency is important. B&N will likely continue to see changes and challenges in its industry. It will be interesting to see what new and old strategies the company implements.

Barnes & Noble has core distinctive competencies that allow the company to remain successful. Barnes & Noble states on the company website, "Our four key competencies are putting the book in the customer's hand, offering to order the book, offering a Membership, and fast cashiering."<sup>7</sup> The brick-and-mortar stores are B&N's main core competency, since unlike online competitors it offers customers a relaxing setting to sit and enjoy their reading experience. To make this experience the best it can be, B&N has added cafés and sitting areas for customers to enjoy their book and a coffee. These distinctive competencies are rooted in many of the company's resources.

Barnes & Noble also has important company resources that have allowed the company to succeed for a number of years. Barnes & Noble's main resources are process knowledge, buildings, and organizational architecture. Process knowledge is the knowledge of internal rules, routines, and procedures of the organization that managers can leverage to achieve organizational objectives<sup>8</sup>. As mentioned before, B&N's main competency is the experience offered at Barnes & Noble that is not offered from online stores or in other book retail stores. Through process knowledge, the employees at Barnes & Noble understand the importance of customer service, stocking inventory, and providing a calm and relaxing environment for the customers. Since process knowledge is often times tacit, it is clear that Barnes & Noble employees are learning by doing and are encouraged through the culture of the organization. Other main resources for Barnes & Noble are the company buildings. Since B&N owns nearly 800 stores in the U.S., its physical assets are an important resource for the company. A third main resource for this company is the organizational architecture. Through years of experience,

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<sup>5</sup> <https://kingbarnesandnoble.weebly.com/swot.html>

<sup>6</sup> <https://www.bncollege.com/>

<sup>7</sup> <https://www.barnesandnoble.com/>

<sup>8</sup> "Chapter 2." *Strategic Management: Theory*, by Charles W. L. Hill et al., Cengage Learning, 2017.

B&N has developed a strong organizational culture, and human-capital strategy. With over 11,000 employees, B&N offers insurance and retirement benefits and offers a vacation policy for the employees<sup>9</sup>. Additionally, other core resources for B&N include its large customer base and intellectual property. Over the years, B&N has grown in recognition with customers, and is a preferred retailer for several suppliers and publishers<sup>10</sup>.

Barnes & Noble's value proposition is clear: for book-readers in the U.S., B&N offers an array of book options and allows the customer to enjoy their reading experience. Barnes & Noble pushes for its target customers to be anyone in the U.S. who enjoys reading. They offer a wide selection from children's books to sophisticated books. The company encourages customers to join the membership, but also encourages one-time shoppers to stop in. To create the most value from the offering, B&N focuses on superior customer responsiveness above all else. The company has developed a competency in listening to the customers, focusing on the customers, and investigating and identifying customer needs. Additionally, B&N creates value through superior response time. This is achieved through proper staffing and training of employees<sup>11</sup>.

There are a few areas where Barnes & Noble has an advantage over its competitors. Since the closing of Borders, B&N's main competitor is Amazon. B&N's main competitive advantage over Amazon is the physical stores all around the nation. Through the physical stores, B&N is able to offer an experience where customers can pick up the book, read the summary, and go home with that book the same day<sup>12</sup>. By visiting the physical stores, customers are also able to browse through hundreds of books, grab a coffee at the in-store Starbucks, and receive top-of-the-line customer service and assistance. With a broad differentiation strategy, B&N is able to recognize different segments and offer an array of books, toys and digital content to all their customers. With B&N's growing brand loyalty through Barnes & Noble College, this differentiated company is increasing entry barriers and protecting their loyal customers from finding books elsewhere. Additionally, Barnes & Noble has gained a competitive advantage on their brick-and-mortar competitors through the use of chaining. Chaining has allowed Barnes & Noble to build a national brand, especially in the U.S. where people move and travel frequently. B&N has additionally been able to recognize many of the cost advantages that come from a large size, unlike mom-and-pop book retailers<sup>13</sup>.

Barnes & Noble's competencies, resources, value proposition, and competitive advantage rely heavily on their physical presence throughout the nation. Through the company's ability to offer an experience for shoppers, B&N has been able to remain successful and continue to capture market share in the industry. Though there is room for growth, B&N has strong competencies, resources, and competitive advantages to build upon.

Barnes & Noble has chosen and applied a broad differentiation strategy. A broad differentiation strategy is when a company differentiates its product in some way, such as by recognizing different segments or offering different products to each segment. Applying this strategy, B&N has been successful at recognizing its different segments and offering an array of books, toys and digital content to all of their customers. They offer a wide selection from children's books to sophisticated books and make its shopping experience enjoyable for all ages.

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<sup>9</sup> [https://www.glassdoor.com/Benefits/Barnes-and-Noble-US-Benefits-EI\\_IE2439.0,16\\_IL.17,19\\_IN1.htm](https://www.glassdoor.com/Benefits/Barnes-and-Noble-US-Benefits-EI_IE2439.0,16_IL.17,19_IN1.htm)

<sup>10</sup> <https://www.slideshare.net/MattHandwerk/strategic-analysis-on-barnes-and-noble>

<sup>11</sup> <http://careers.barnesandnoble.com/inside-b-n>

<sup>12</sup> <https://storify.com/mglen/barnes-noble-comparative>

<sup>13</sup> "Chapter 6." *Strategic Management: Theory*, by Charles W. L. Hill et al., Cengage Learning, 2017.

B&N encourages all customers to join the membership, but also appreciates one-time shoppers stopping in. Additionally, Barnes & Noble has maintained its strategy while recognizing that it cannot waver in its focus on efficiency, which is important to a differentiated company.

Properly executed, a well-chosen, well-crafted business-level strategy can give a company a competitive advantage over actual and potential competitors within the industry<sup>14</sup>. More precisely, it can put the company in an advantageous position relative to each of the competitive forces – risk of entry by potential competitors, rivalry among established companies, bargaining power of buyers, bargaining power of suppliers, substitute products and complementors. With B&N's nationally growing brand loyalty through the use of chaining and Barnes & Noble College, this broad differentiation strategy helps B&N increase entry barriers and protect their loyal customers from finding books elsewhere. This is important for Barnes & Noble, since the entry of Amazon in 1995. Additionally, because B&N markets its stores based on quality products and high customer responsiveness and service, it is less exposed to pricing pressure from powerful buyers. However, B&N must be careful not to rely solely on brand loyalty, since many B&N customers are also potential Amazon customers for other products. Furthermore, within the mature book-selling industry, B&N has made strategic commitments, or investments signaling its long-term commitment to the market. With the commitment to chaining the company, and investing in as many properties as possible, B&N has reduced the likelihood of entry by potential rivals. Although there is always room for improvement, B&N's overall business-level strategy has been successful within the bookselling industry within the United States.

Although Barnes & Noble is successful within the bookselling industry within the U.S. borders, B&N lacks international presence. With the broad differentiation strategy, Barnes & Noble is able to capitalize on offering a wide variety and offering a great experience to its shoppers. B&N ships internationally, which allows customer to receive their quality products<sup>15</sup>. However, with no physical stores internationally, B&N is unable to offer the B&N shopping experience, which is a major element of their broad differentiation strategy. As a result, Amazon has out performed Barnes & Noble based on convenience of shipping and partnering with international bricks-and-mortar stores abroad. Additionally, firms that operate internationally are able to expand the market for their products, realize location economics, realize greater cost economies, and earn a greater return. Since Barnes & Noble is not a multinational company, it is not in the position of being confronted with low cost pressures and low pressures for local responsiveness<sup>16</sup>. With all of this being said, B&N has a lot to gain internationally. B&N has the potential to scale up internationally, since this company cannot solely rely on physical stores as a vehicle for sale<sup>17</sup>. Partnering with bricks-and-mortar stores that share a similar business-level strategy, chaining internationally, and forming global strategic alliances are all international market entry strategies that B&N can chose from.

Although Barnes & Noble has a business-level strategy that is successful within the U.S., its international presence is lacking. As B&N looks to expand and capitalize on its broad differentiation strategy, it will be interesting to see the international strategies it selects. Barnes & Noble has seen many strengths, weaknesses, opportunities and threats throughout its 130+

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<sup>14</sup> "Chapter 5." *Strategic Management: Theory*, by Charles W. L. Hill et al., Cengage Learning, 2017.

<sup>15</sup> [http://www.borderlinx.com/brand/buy\\_barnesnoble](http://www.borderlinx.com/brand/buy_barnesnoble)

<sup>16</sup> "Chapter 8." *Strategic Management: Theory*, by Charles W. L. Hill et al., Cengage Learning, 2017.

<sup>17</sup> <https://www.forbes.com/sites/jeremygreenfield/2012/08/21/a-solution-to-barnes-nobles-international-problem/#63bc0ca41f30>

years of operation. For the sake of future profit and success, this company better strive for more strengths and opportunities.