



Written by [Bob Adelman](#) on January 9, 2012

First, Borders; Then, Kodak; Now, Barnes & Noble?

Its latest numbers, revised downward to between \$1.10 and \$1.40, shook investors who pushed shares to \$11, down from \$17 in early November. The one critical number which investors look at primarily, called EBITDA — earnings before interest, taxes, depreciation, and amortization — fell from \$281 million last year to \$163 million this year, a decline of more than 40 percent.



It's easy to say that technological change and market preferences are pushing Barnes & Noble to the edge of bankruptcy, but its position is vastly different from that of its former competitor, Borders, which [disappeared](#) in September. What's more accurate is to say that Barnes & Noble saw the change coming but waited before responding to it. Succeeding brilliantly in the 1990s by providing a vast array of discounted books, games, and accessories, it innovated by opening Starbucks cafes in its stores and providing its customers with comfortable chairs and couches in informal reading areas. In 1998, it anticipated the change from print to digital and purchased NuvoMedia, the maker of the Rocket eBook reader. But in 2003 it exited the digital business, concluding that there was no profit in it.

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Barnes & Noble realized its mistake, and in 2009, introduced its Nook e-reader. But it had allowed Amazon to gain a two-year advantage with its own Kindle e-reader, and then Amazon increased its advantage over Barnes & Noble by offering best sellers for \$9.99 or even less.

One major publisher estimates that e-books could grow to as much as 40 percent of total book sales by the end of 2012, putting Barnes & Noble at an increasingly competitive disadvantage: The major part of their business — retail book stores — is under severe pressure from digital media, and their Nook product, although well received technologically, is having to [cut its price](#) just to stay in the game.

The first version of Nook debuted in November 2009 at a retail price of \$259, offering built-in WiFi and 3G connectivity with free access to Barnes & Noble's online store. Six months later the company reduced Nook's price to \$199 when its second version was introduced. In May 2010, Nooks were selling for just \$169 when its Nook Simple was introduced. And by early 2011, the original Nook was phased



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out altogether.

The same rapid price-cutting was required on its revised Nook just to compete with Amazon (and now Apple with its own iPad and iPad2 e-readers), opening with a retail price of \$149 in June 2010, but being reduced further to \$119 in May of 2011 and then again to \$89 in September. Its new Nook Simple was released in June of 2011 with a retail price of \$139 but was [soon discounted](#), owing to market pressure, to \$79 in time for Black Friday.

All of which makes it increasingly difficult for Barnes & Noble to recoup any of its huge investment in the Nook. It also is making the company an increasingly attractive target for investors such as John Malone of Liberty Media who sees an opportunity to revive the company. Malone offered to buy the company last May, and negotiations ended with Malone buying one-sixth of the company for \$204 million and putting two Liberty Media people on its board.

But it's still touch-and-go for Barnes & Noble. The company's CEO, William Lynch, said that despite aggressive advertising, "we over-anticipated the demand [for the Nook Simple] for the holiday season." He added in passing that the company had plenty of cash to wait until the Nook turns a profit, as well as having access to a \$1 billion line of credit, if needed.

It just may be needed. Liberty Media's chief executive officer, Greg Maffei, said that Barnes & Noble is playing a "big-boy's game" now, engaging frontally both Amazon and Apple. He further intimated that additional strategic financial partners or a public offering of stock may be required to raise the capital needed to weather the storm and turn the corner on profitability.

Another approach being considered is the spinning off of the Nook business, either as a separate entity with its own management and board of directors but with close ties to its parent, or an outright sale. A sale might be viewed as selling the furniture to stay warm because the pressures on the retail part of the business are increasingly intense.

It is fascinating to watch how the free market continues to test the abilities of major players to stay current and provide products and services which customers are willing to pay for. The free market is remorseless. It takes no prisoners. Barnes & Noble, along with its former competitor Borders, and [Kodak](#), may not make it. On the other hand, if it does, it will be only because it has successfully navigated the treacherous shoals of changing market dynamics and fickle customer tastes, which reward the nimble and punish the inept.



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