IV. WRITTEN COMPREHENSION: *(sur 20 points)*

Readers Without Borders

What killed the big-box retailer? Hint: It wasn't the Internet.

Of course running a bookstore is a hard, hard business in the age of the Internet. Still, Borders' decision to liquidate, closing 399 stores and laying off 10,700 employees, seemed shocking. As George Mason economist Tyler Cowen observed poignantly: "Not one single investor, in the whole wide world, thought Borders had a real economic future."

The company itself gave three reasons for its demise in its corporate communication-cum-suicide note. "We were all working hard towards a different outcome," President Mike Edwards said. "[B]ut the headwinds we have been facing for quite some time, including the rapidly changing book industry, e-reader revolution and turbulent economy, have brought us to where we are now."

That is not a very satisfying answer. Other companies have adapted to the e-reader revolution, and even benefited from it. Other companies have changed to fit the new bookselling paradigm. And other companies are dealing with the drawn-out aftereffects of the recession. The better reason for its demise is that Borders had long lost its competitive edge on many fronts, from corporate strategy to coffee. It died by a thousand—OK, maybe just four or five—self-inflicted paper cuts.

First, Borders famously flubbed its relationship with the Internet. From 2001 until 2008, it outsourced its online sales to Amazon, essentially handing customers over to the bigger, better site during the formative years of e-commerce. How on earth did that happen? The company's 2000 annual report explains: "Our online investment will be channeled to support our in-store platform, while Borders.com will continue to be utilized as a convenience retail channel," the report reads. "We have targeted loss reduction as a major goal in this area."

Translation: Borders decided to channel its "online investment" not to its website but to its "in-store platform": Title Sleuth, "the innovative self-help computer stations in Borders stores." The next year, to get the "loss reduction" it sought—that is, in an effort to lose less money—Borders tossed the keys to its website to Jeff Bezos. The company finally got them back in May 2008.

Contrast that with Barnes & Noble's digital strategy, as outlined in its 2000 annual report. The company noted that its website might be eating away at its brick-and-mortar business. Still, it doubled down. "Our position has always been that if we pay a visit to our customers at home through Barnes & Noble.com, they will return the favor at our stores," the report says.

Second, Borders neglected e-books, fast becoming as popular as their paper cousins. The Amazon Kindle came out in November 2007. Barnes & Noble debuted its Nook, now sold in Walmart and Best Buy as well, in November 2009. Apple's iPad came out in April 2010. Borders' Kobo (ever heard of it?) came out last, just a year ago.

Though the Nook is less popular than the Kindle, it is competitive in the e-reader market, and moreover drives healthy e-book sales. Indeed, Barnes & Noble's share of the e-books market is bigger than its share of the paper books market in the United States. And the company loves touting its success.

Third, Borders did not diversify well. In the 2000s, it generated hundreds of millions of dollars in sales of CDs and DVDs, and it expanded those sections in its stores. By 2006, sales of music and video generated about one in five dollars for the company. But the same forces killing the bookstore also killed the record store and the video store. That revenue dropped off a cliff when iTunes, Netflix, and file-sharing networks became popular in the mid- to late aughts. Borders also failed to generate robust additional revenues through coffee shops or alcohol sales, the savior of many a bookstore. Barnes & Noble picked up the big, exclusive Starbucks contract. Borders got its cheaper subsidiary, Seattle's Best.

Fourth, Borders mishandled its big-box strategy. It opened far too many stores, including several overseas, despite lackluster sales. The stores tended to be too big and too expensive, in terms of overhead. The company cited its expansion strategy as problematic in its February 2011 bankruptcy filing. It noted that it had signed too many 15- to 20-year leases, making it harder to shed unprofitable locations. And there were many. The company "still [has] a sizeable core of profitable stores," it said. "However, in analyzing their cost structure, the Debtors have found that they also have a number of stores which are simply unprofitable and are substantially impacting the Debtor's overall performance and ability to pay their debts."

The justification for all those big stores proved faulty too: The Internet is far more adept at offering a huge selection of books. "The very large assortment size was an advantage early on before Amazon," says one former director of merchandise planning. "However, by its very nature the 'internet' was better at quickly and efficiently connecting customers with obscure titles and bringing the 'long tail' to market. Thus, competing on assortment size was especially vulnerable to internet retailing and Borders suffered disproportionately as the 'long tail' customers abandoned them."

In the end, you could blame the Internet for Borders' downfall. Retail has become a challenging, if not outright terrible, business, regardless of what you are selling. But, again, other companies adapted. Borders just didn't. Barnes & Noble may well not be around in five years. But at least it has built a business that recognizes the trends in bookselling—toward the Internet, toward e-readers, toward a more boutique retail experience, away from big-box stores. It is remarkably similar to the strategy Borders laid out in its bankruptcy filing. The company's management said it wants to "aggressively [grow] borders.com and eBook market share" and "[expand] the company's overall retail mix ... to improve profitability and offset the digital effect." Alas, that strategy came too late.

Annie Lowrey, http://www.slate.com, July 20, 2011

QUESTIONS:

1. Present this document and say what it deals with. Do not forget to comment on the title. ***(4 points)***
2. Why is the Internet a fierce competitor for bookstores and brick-and-mortar businesses at large? ***(6 points)***
3. Do you think diversifying out of books might be an apt solution for bookstores to survive? Justify your answer giving concrete examples if need be. ***(4 points)***
4. Would you be ready to succumb to the e-reader revolution? State the reasons why you would or would not. ***(6 points)***