



Barnesandnoble.com (B)

If we don't have your book, nobody does.

—Barnesandnoble.com advertising slogan,
year-end 1998

During 1998—barnesandnoble.com's first full year since the launch of its Web site in May 1997—the company's senior management had taken steps to solidify its claim as being the "World's Largest Bookseller Online." With Barnes & Noble already the world's largest bookseller in the physical world, with over 500 Barnes & Noble Superstores nationwide at the end of 1998, during the past 12 months, barnesandnoble.com — the joint online bookselling venture of Barnes & Noble and Bertelsmann AG — had increased the number of titles available in its database to 8 million, expanded the number of titles available in its inventory to 750,000 for overnight delivery, and added two new distribution centers to shorten delivery times to customers. These steps, together with a redesigned Web site (see **Exhibits 1, 2, and 3**) and an aggressive in-print and on-air media campaign, helped increase the number of barnesandnoble.com customers from 250,000 at year-end 1997 to 1.4 million at year-end 1998—including the addition of 475,000 new customers in the fourth quarter of 1998.¹ Reflecting the five-fold increase in its customer base, barnesandnoble.com had moved into the top 25 most-visited sites on the Web, as measured by Media Metrix, after being among the top 250 Web sites during the early part of 1998. Operating revenue for barnesandnoble.com showed a similar gain, increasing from \$14.4 million for 1997 to \$61.8 million for 1998 (editor's note: the amount of \$61.8 million for 1998 revenue was restated from \$58.8 million).²

Despite these successes, however, barnesandnoble.com still found itself in second place behind Amazon.com, an upstart, Seattle-based rival who continued to dominate this segment of the book retailing industry at the end of 1998. Continuing its tit-for-tat battle (see **Exhibit 4**) with barnesandnoble.com across several fronts in the online bookselling wars—in addition to moving into new product categories such as CDs and videocassettes—Amazon.com had 6.2 million customers by year-end 1998 and operating revenue of \$610 million, a four-fold increase from the prior year. Despite Amazon.com's early success, executives at Barnes & Noble felt that they would ultimately

¹ Press releases, Barnes & Noble, "Barnes & Noble Retail Business EPS More than Doubles in Third Quarter," November 19, 1998, and barnesandnoble.com, February 8, 2000.

² Reuters, "Barnes & Noble Sees Full Year Below Views," February 22, 1999.

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win the online bookselling war. “The biggest piece of the market is still ahead of us,” observed Barnes & Noble’s Vice Chairman Stephen Riggio.³ Forrester Research, a Cambridge, Massachusetts-based research group predicted that the online bookselling market would grow from \$630 million in 1998 to \$3 billion in 2003,⁴ an indication that the online market for this category still had plenty of room to grow and that it was still too early to declare a dominant player.

The Battle of the Online Booksellers, 1998

With the pricing policies at both barnesandnoble.com and Amazon.com remaining largely unchanged—30% off of most hardbacks and 40% off of selected titles — during 1998, barnesandnoble.com attempted to differentiate itself from its Amazon.com in three key areas: selection, service, and scope.

Selection By the end of 1998, barnesandnoble.com increased the number of titles available in its online database to 8 million and the number of titles available in its inventory to 750,000 (see **Exhibits 5, 6, and 7**), which included books from thousands of small independent publishers and university presses.⁵ By comparison, Amazon.com reportedly only had 4.7 million titles in its database and 300,000 titles in its inventory at year-end. Steve Riggio commented on the company’s strategy to expand its book selection and on-line inventory:

In little over a year, we have achieved our goal of providing visitors to our site with the largest number of book titles that can be quickly delivered of any online bookseller. Our online inventory continues to grow, almost daily. The unlimited shelf space of our Web site enables us to offer and promote an increasing number of titles that are not widely available. It’s truly amazing the kinds of books you can now find on barnesandnoble.com.⁶

With the increased inventory stock, barnesandnoble.com management believed that it had the ability to ship a wider selection of books to customers within a 24-hour period than any other bookseller, thus providing it with a long-term competitive advantage.

Service In addition to increasing the number of book titles available on hand, Barnes & Noble also added two new distribution centers in Fall 1998—one in Atlanta, Georgia and other in Reno, Nevada. Together with Barnes & Noble’s main book distribution center in New Jersey, these two additional centers—350,000 square-foot each — would help shorten the delivery time of books to barnesandnoble.com online customers by one-to-two days as well as servicing Barnes & Noble retail stores in the southeast and western states. Alan Kahn, chief operating officer of Barnes & Noble, observed:

These new facilities will build upon the success of our present distribution and transportation hub in New Jersey. We expect them to produce additional reductions in the time to market and cost efficiencies in handling the logistical needs

³ Robert D. Hof, Ellen Neuborne, and Heather Green, “Amazon.com: The Wild World of E-Commerce,” *Business Week*, December 14, 1998.

⁴ Franklin Paul, “How High Can Amazon.com fly?,” Reuters News Service, December 18, 1998.

⁵ Press Release, “Barnesandnoble.com Now offers online the World’s Largest Standing Inventory of Book Titles; 600,000 Titles available to be shipped within 24 hours,” barnesandnoble.com, April 28, 1998.

⁶ Ibid.

of our growing number of retail and e-commerce customers across the country and abroad.⁷

In November 1998, Barnes & Noble also announced the proposed acquisition of the Ingram Book Group, the nation's leading supplier of books, for \$600 million— \$200 million in cash and \$400 million in stock.⁸ The vertical integration of Ingram into Barnes & Noble's retail and electronic bookselling operations – which was still under review at year-end 1998 by the United States Department of Justice for anti-trust considerations—would provide the company with direct access to Ingram's 11 distribution centers nationwide and increase the operational efficiencies in the delivery of its book orders, with an estimated 80 percent of Barnes & Noble's online and retail customers living within the overnight delivery areas of one of the Ingram distribution centers.⁹

Scope Finally, in November 1998, barnesandnoble.com expanded the scope of its operations by selling 50% of the online subsidiary to the European media giant, Bertelsmann AG, who owned several publishing houses, including Bataam Books, Random House, and Dell. Amy Ryan, an analyst with Prudential Securities observed the benefits of the joint venture:

Given its joint venture agreement with Barnes & Noble, Bertelsmann has scrapped its plans to launch BooksOnline in the United States. Instead, barnesandnoble.com will feature a button for Books Online and Books Online will feature a button for barnesandnoble.com in order to make it easy for customers to find and order books in different languages. The sales will go to the respective online company; i.e., a barnesandnoble.com customer clicking into BooksOnline and placing an order for a German book will be a sale for BooksOnline. Note that Amazon.com currently does not have the capability to offer its customers access to the breadth of foreign books that barnesandnoble.com and BooksOnline will be able to offer.¹⁰

Conclusion

Looking ahead to 1999 – with the appointment of a new CEO, Jonathan Bulkeley in January 1999 — Wall Street analysts were projecting operating revenue for barnesandnoble.com might increase to \$200 million,¹¹ but other observers felt that with the increased marketing support from Bertelsmann AG, as a result of the joint venture, and with an infusion of cash from barnesandnoble.com's expected initial public offering in the latter part of 1999, barnesandnoble.com would only become a stronger player in its battle with Amazon.com going forward.

⁷ Press Release, "Barnes & Noble Announces Plans to Open Two New Distribution Centers in Reno and Atlanta," Barnes & Noble, September 30, 1998.

⁸ Scott Herhold, "The Battle of Shelf Defense," *San Jose Mercury News*, December 13, 1998.

⁹ Press Release, "Barnes & Noble, Inc. to Purchase Ingram Book Group," Barnes & Noble, November 6, 1998.

¹⁰ Amy E. Ryan, Barnes & Noble Company Update, Prudential Securities, 1998.

¹¹ Ibid.

Exhibit 1 Home Page



Source: barnesandnoble.com

Exhibit 2 Magazine Page



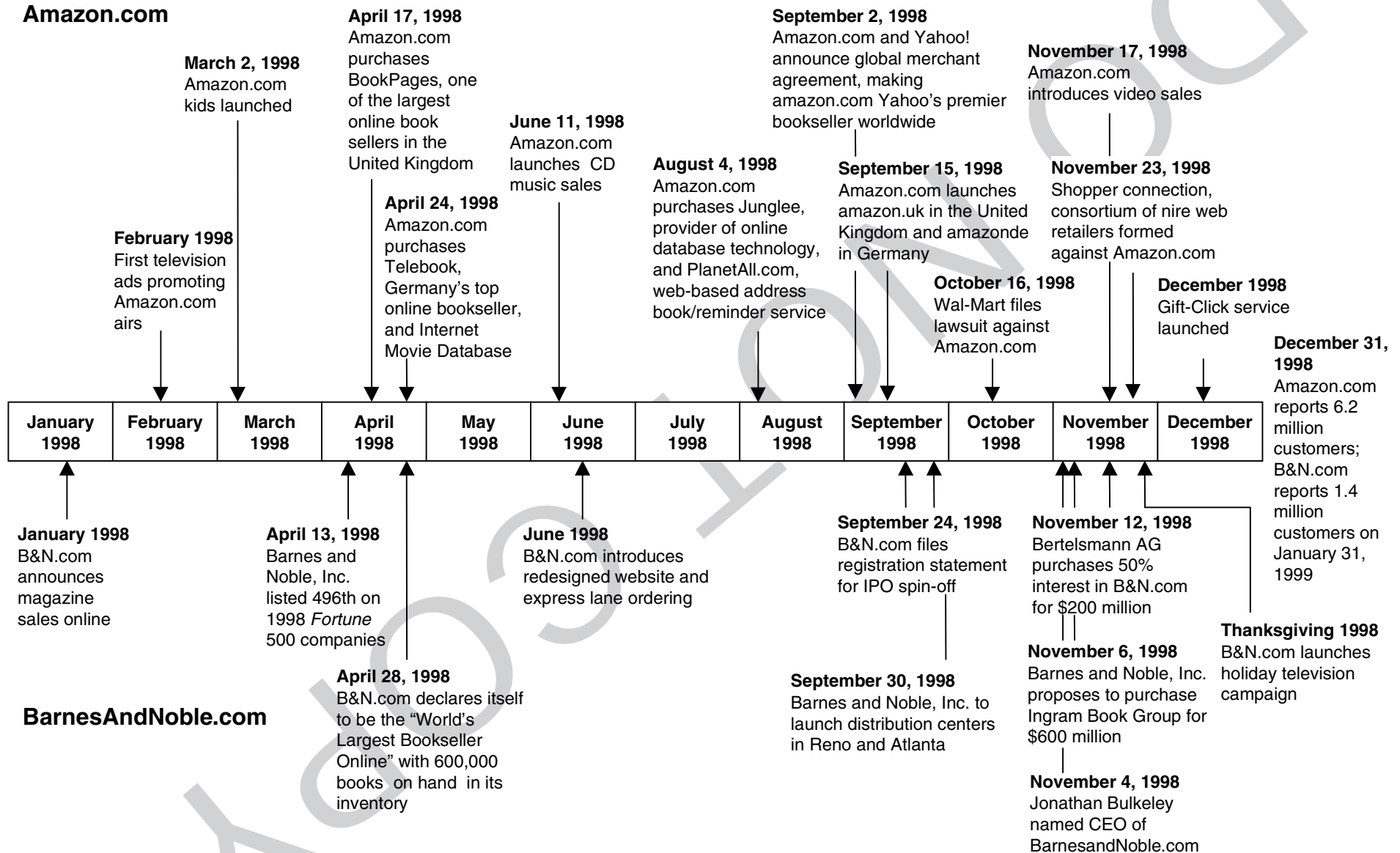
Source: barnesandnoble.com

Exhibit 3 Software Page



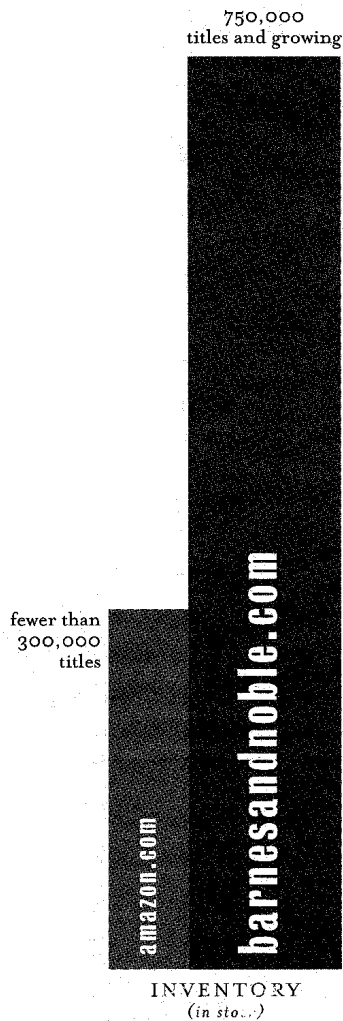
Source: barnesandnoble.com

Exhibit 4 Amazon.com vs. BN.com timeline



Source: Press Releases, Amazon.com and barnesandNoble.com

Exhibit 5 Barnesandnoble.com Advertising



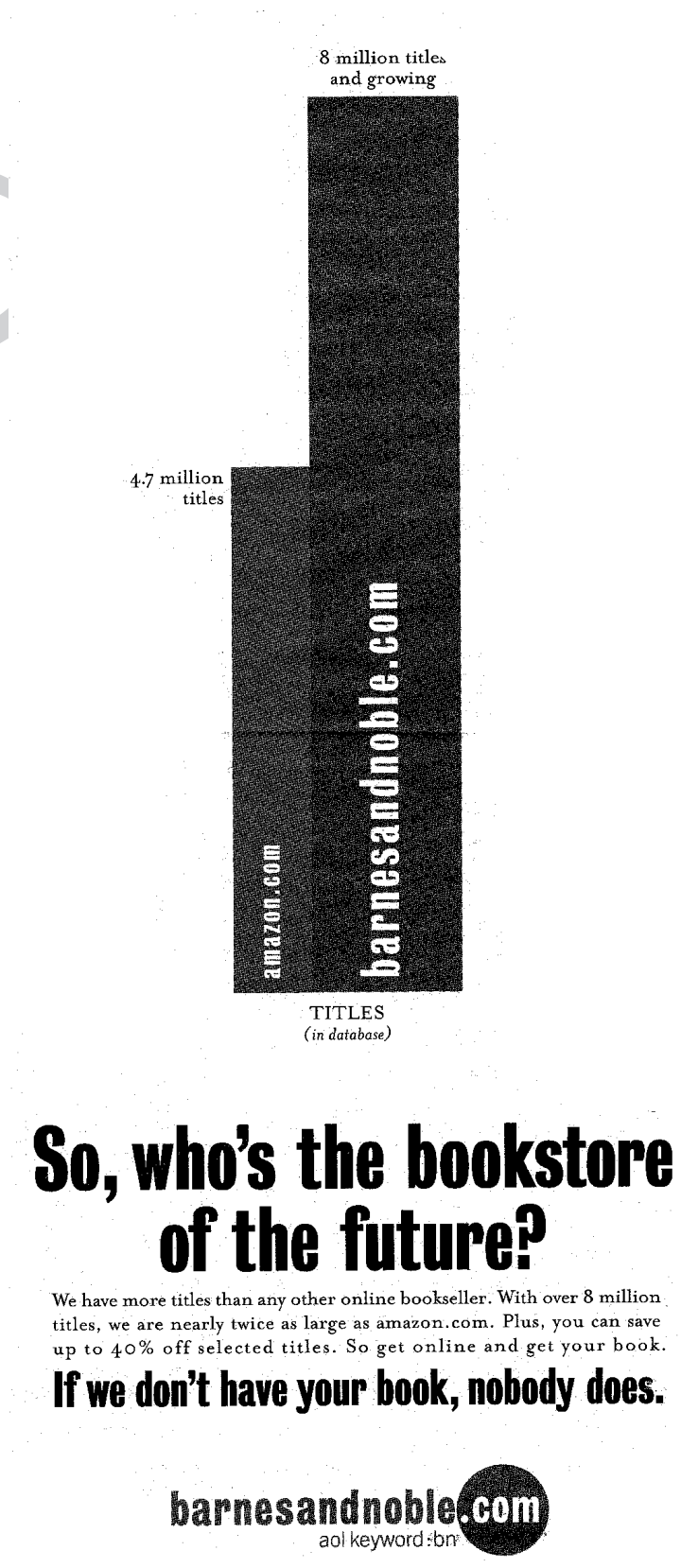
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So get online and get your book. If we don't have your book, nobody does.

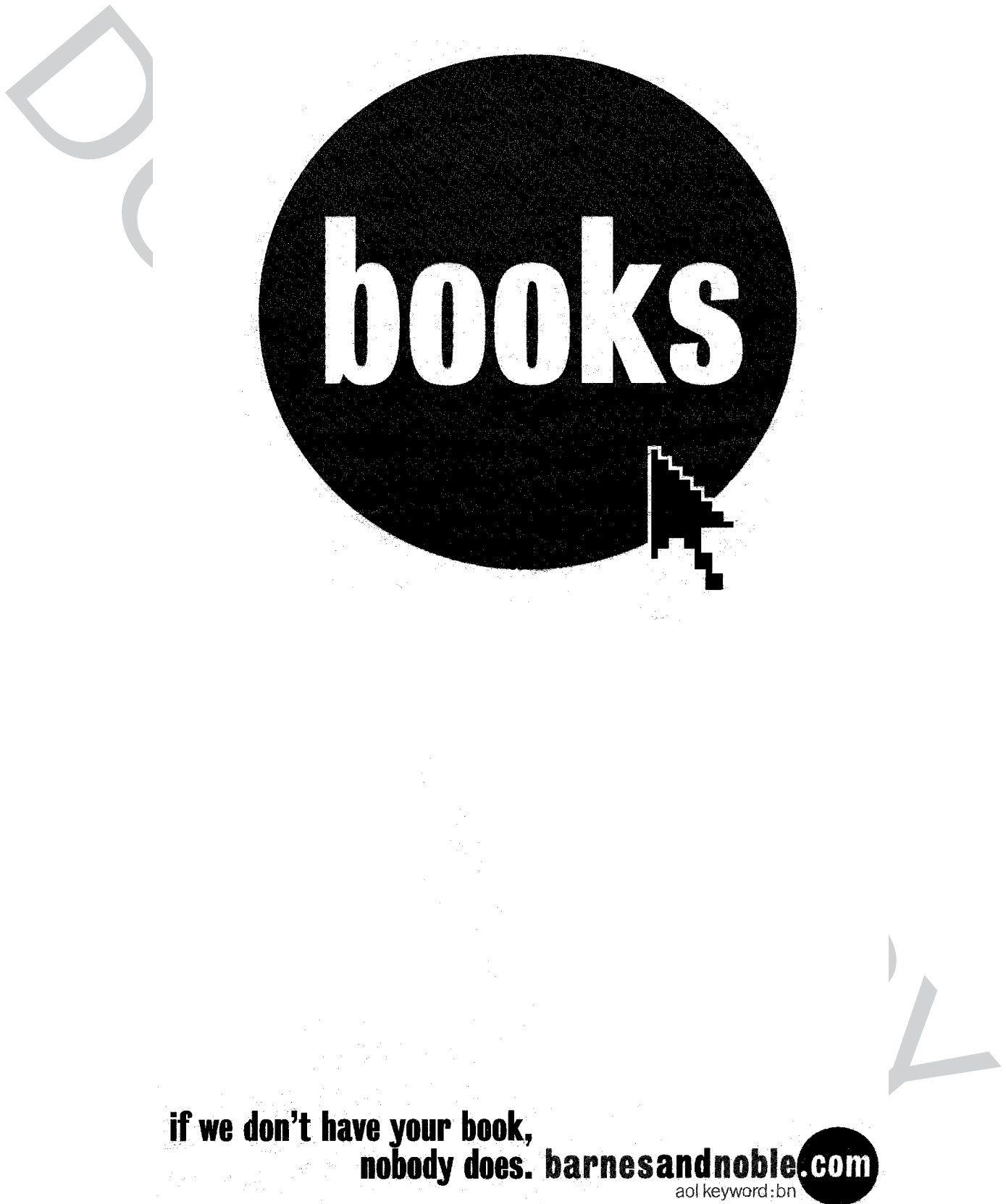
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aol keyword:bn

Exhibit 6 Barnesandnoble.com Advertising



Source: barnesandnoble.com.

Exhibit 7 Barnesandnoble.com Advertising



Source: barnesandnoble.com.