Barnes and Noble Advertising Research Project

Bill Kelso

Intro to Advertising Research

ADV1141-Research Project

Barnes and Noble at one point was America's largest retail bookseller, but today this is no longer the case with the change from traditional to online shopping. Even after a series of mergers and bankruptcies in the American bookstore industry since the 1990s, Barnes & Noble stands as America's last remaining national bookstore chain. (DePillis). The problem is that Barnes and Noble is having trouble competing with Amazon when it comes to customers because of their dominance in their market structure. Barnes and Nobles is a publically traded company with almost 700 bookstores in the 50 states of the United States. Barnes and Noble is the largest retail bookstore in shopping malls, colleges and universities, and major strip centers plus being on the web provides a strong market structure for them. In economic theory there are four different markets; perfect competition, monopoly, monopolistic competition, and oligopoly (Colander). The goal for Barnes and Noble was to monopolize the book retail market; but could not succeed due to its competitors.

In 2010 Barnes and Noble’s biggest competitors Borders, made the bid to engage in a horizontal merger, and Borders purchased them for $960 Million. According to Friedman, “the merger would allow Borders to slash its number of stores and Barnes & Noble to fend off one less competitor: You have two troubled companies in a troubled industry in a country where the consumer is troubled, and this is in the best interest for the future of both companies” (Friedman). Although, the merger appeared to do the opposite, driving the market away from both companies right to Amazon. Amazon became the clear favorite for book retail due to its lowering prices on books, convenience of order online, and stronger brand recognition.

Barnes and Noble has many problems within the company that are allowing Amazon to dominate them in the book retailing market, but it is not too difficult for them to gain an edge on Amazon. After discovering Barnes and Nobles problems, figuring out what the consumers want, and realizing how to make a proper change to the company; Barnes and Nobles can be right back to the top the book retailing market with some simple changes.

Barnes and Noble have three main issues of concerns, which is why Amazon has surpassed them as the top book retailing company. The first issue is unable to find sufficient leadership in its boardroom. With poor leadership the company will begin to fade like other book retailers and Amazon will monopolize the book retail market. The second issue of main concern is that profit margins are decreasing for Barnes and Noble. Competitors such as Amazon are currently stealing market share causing profits to fall. Increased government regulation on the online retail sector of books is also driving up the cost of online sales. The third issue being faced is the decline in physical book sales. Technology has created the eBook and eReader enabling readers to download books online. Also, current government funding has decreased for college students causing colleges to cut back on the amount of students they enroll. As a result the sale of college textbooks for Barnes and Noble has decreased (Best, Zeigler, Smith, & Cornwell).

Amazon's entry into the bookselling market posed strategic questions for brick and mortar sellers like Barnes & Noble. The choice made by these firms and consumers response to them, actions driven by the changes in the market fundamentals wrought by the diffusion of e-commerce technologies into bookselling changed the structure of the market. As we now know, Amazon is the largest single bookseller. Barnes and Noble, while still large, have seen its market share diminish markedly. There are also many fewer bricks-and-mortar specialty bookshops in the industry. Prices are lower. (Lieber & Syverson). The first entity we looked at when it comes to why Amazon has been dominating Barnes and Nobles in the book retailing market is the consumers.

When researching consumers we had to find who are the people most likely to purchase books and how they are likely to purchase them. We use data from the 2005 Forrester Research Technographics survey, a representative survey of North Americans that asks about respondents’ attitudes toward and use of technology, to form an image of what online shoppers look like. We first look at who uses the Internet in any regular capacity not necessarily to shop. We run a probit regression of an indicator for Internet use by the respondent during the previous year on a number of demographic variables. By the time of the 2005 survey, more than 75 percent of the sample reported being online, so the results do not simply reflect the attributes of a small number of technologically savvy early adopters. Internet users are higher income, more educated, and younger. The coefficients on the indicators for the survey’s household income categories imply that having annual income below $20,000 is associated with a 22 percentage point smaller probability of being online than being in a household with an income over $125,000, the excluded group in the regression. Internet use increases monotonically with income until the $70,000-$90,000 range. Additional income seems to have little role in explaining Internet use after that threshold. Education is a sizeable determinant of who is online, even controlling for income. (Lieber & Syverson).

Relative to having a high school degree the excluded category, not having graduated from high school reduces the probability of using the Internet by 8 to 9 percentage points we include categorical education variables for both the female and male household heads, while having a college degree raises it by 6 to 8 points. Not surprisingly, the propensity to be online declines with age. The coefficient on the square of age is negative and significant, so the marginal effect grows slightly with age. For example, a 35-year-old is 5.5 percentage points less likely to be online than a 25-year-old, while a 60-year-old is 6.8 percentages pointless likely than a 50-year-old to use the Internet. (Lieber & Syverson).

Race also explains some variation in Internet use controlling for these other factors, though the size of the marginal effect is modest. African American are about 4 percentage point less likely to be online than Whites, while Asians are 3 percentage points more likely. Hispanics are online at the same rate as whites. Gender does not seem to be a factor in explaining Internet use. (Lieber & Syverson).

There are many things which Barnes and Noble is currently doing to try and build solid relationships with customers and loyalty towards their brand.  Some of these things include: free ebooks and free ebook trial periods, the use of various social media platforms, contests on the main Barnes and Noble website as well as through social media, interviews with professional novelists, hosting book signings, community engagement through various events, and the opening of Barnes and Noble College bookstores.  These things are extremely important, and it is what separates Barnes and Noble from competitors such as Amazon and Border.

        When it comes to younger generations, it is especially important for Barnes and Noble to connect with them on an interactive and convenient level.  Social media is one great platform that allows people to stay connected and updated on the most current Barnes and Noble news and events, as well as being able to enter contests which helps keep people interactive with the company.  This can offer valuable feedback, letting the company know what people prefer and what some of their complaints may be.  Also, Barnes and Noble are currently opening college bookstores on campuses all across America.  “Marketing to students provides some of the greatest opportunities for our partners to begin a dialogue with potential lifelong customers” (Merkin).  As we’ve mentioned, college students prefer to use printed books, so having a Barnes and Noble bookstore right on campus is a great way to keep up with demand.

        Another thing that is extremely beneficial in Barnes and Noble’s case is that it has brick and mortar stores, physical store locations where people can go to purchase what they need. Barnes and Noble competitors do not offer physical stores, so therefore; they are not able to fulfill their customer’s immediate needs.  Whenever someone needs a book within a day’s notice, they can visit one of Barnes and Noble’s approximately 700 locations. This is by far one of Barnes and Noble’s biggest benefits.

There are many articles today that basically say Barnes and Noble are doomed just because Nook sales didn’t go too well. Barnes & Noble did have huge success with the Nook in 2011 and 2012, producing more than $690 million and $900 million in revenue, respectively, so there was potential for the Nook. however, things weren’t so great in 2015 when they only generated a little over $260 million in revenue (Reuters). This relates to the above issue stating Barnes $ Noble’s lack of leadership since their CEO, William Lynch, who was hired in 2010 to help develop an eReader that would compete with Amazon, left the company in 2013 a few days after Barnes & Noble lost 34% of revenue in its Nook business (Reuters). But just because Barnes and Noble’s Ebook platform isn’t as popular as other brands such as the Kindle, the iPad, or Google Nexus, doesn’t mean the whole company is doomed to sink. Barnes & Noble plans to still make black and white eReaders despite discontinuing their tablet production. Overall, Barnes and Noble is a reasonably stable company which generates plenty of revenue from the sale of physical books, especially when it comes to academics.  Plus, most publishers today like to stick traditionally with printed books.

There are many reasons why physical books are still popular, but one of the main reasons is that bookstores offer an environment to discover new things.  This entices people  to continue going to brick and mortar bookstores where they can explore the isles and skim through books they find interesting before even having to buy them.  People even go to bookstores just to kill time, looking at books and sometimes making impulse buys on books they thought they would never find interesting.  This is the advantage of physical bookstores.  Also, as mentioned earlier, bookstores can meet the immediate demands of customers.

We found that many people these days still prefer to read print books rather than e-books. That may be surprising but actually an astounding 92% of college students prefer a physical copy of a book rather than a digital copy. Pew research studies show that the highest print readership rates are those ages 18 to 29. According to The Washington Post only 9% of textbook sales to college students during the 2014 fall semester were Ebook textbooks. Printed books are still popular among college students as well as publishers. This means that Barnes and Nobles is not company that is going away, but a company that should remodel their style. As stated in our market analysis Barnes and Nobles has to correct the three problems of sufficient leadership, profit margins, and keeping up with technology.

Our recommendations for action for Barnes and Noble would be to first attack the three main issues from our market analysis head on. The first issue is sufficient leadership for the company; the only way to change this is to get new leadership to change the direction of the company to be structured more like Amazon. Another idea Barnes and Noble could do is bring in a third party consultant to mediate the issue, this way it would not have to change it’s leader. With a third party involved Barnes and Noble can make a decision quick because the company is fragile and each day value is lost. A consultant will provide much needed stability to the company, which will increase confidence for interested buyers. (Best, Zeigler, Smith, & Cornwell). The second issue we would like to solve is the profit margins between Barnes and Noble and Amazon. To solve this issue Barnes and Noble needs to realize that its stores can be a key asset to the company. Amazon does not have any stores and is unable to provide face-to-face interaction. Barnes and Noble should use its bookstores to market its eBook to consumers. Employees inside the store should be able to demonstrate the Nook thoroughly to give customers a clear understanding of the products capabilities. By marketing these products inside current stores, Barnes and Noble will reach a diverse customer group. Ultimately this will allow the company to gain a competitive advantage over rivals such as Amazon. This competitive advantage will most likely stabilize or even increase current profit margins. (Best, Zeigler, Smith, & Cornwell). The third issue we would like to solve is keeping up with technologies of the book industry. The only solution to beating technological advances is to flow with them. Offering new differentiating products for eBooks and eReaders could set Barnes and Noble apart from competitors. Developing exclusive eMagazines and eBooks that appeal to niche markets is crucial for success in this new technological age. The textbook issue should be resolved by packaging deals on the Nook and NookStudy that offer eTextbooks. If this idea were actualized, a new niche market would be created among college students. Current students using college textbooks could also be a target market that could create substantial revenues. Electronic textbooks can offer kids enrolling for college an alternative to purchasing physical textbooks. These issues must be promptly addressed to guarantee the future success of Barnes and Noble. Currently, the main objective of the company is to be sold in an agreeable manner. Until the company is sold it is important to stabilize or improve these important business issues. (Best, Zeigler, Smith, & Cornwell).

Other recommendations for action for Barnes and Noble would be to start advertising based off our audience analysis. Barnes and Noble should makes advertisements on YouTube and other Social Media websites that direct buying book to college students who according to our research prefer real books to online versions. The generations of people who are in college right now are the generation that uses the internet and Social Media the most, which means Barnes and Noble should use those sites to advertise books that are read the most by college students. As well as showing that it would be cheaper and easier to go to there local Barnes and Noble stores to purchase these books or to order them online from the Barnes and Noble’s website. Barnes and Nobles needs to advertise that their books are cheaper and easier to get than books on Amazon. as stated above, Barnes and Noble has something that Amazon doesn’t have, and that’s a store where customers can go to have a face-to-face interaction with the employees. Barnes and Noble needs to take advantage a market their stores to let customers know that it is a friendly environment. They have already done a few things to attract customers to come to their stores by offering Starbucks and free Wi-Fi, but it’s only in selected stores. I believe if they made it available in all stores and college campuses, they would gain more customers. Barnes and Noble can also create a lounge in their bookstore, make it a comfortable and quiet environment so that their customers can read or work on their laptop and gain assistance from employees. They could also offer a free bagel or half off/one price any size coffee from Starbucks for midterm and finals week to give their college student customers, just have to show their college id, more of a reason to go to a Barnes and Noble stores. By doing this Barnes and Noble can gain an upper hand on Amazon and once again become America's largest retail bookseller.

To summarize our findings for Barnes and Noble based off of our market analysis we were able to discover that the problems of Barnes and Noble comes from within the company. This starts with the leadership, and based on our findings bringing in a third party consultant to mediate the issue. We believe this will work because it has worked in the past, “In 2014 18th Annual Third Party Logistic Study, survey results showed the continuing, positive overall nature of shipper-3PL relationships. Both parties viewed them as being successful, and shippers are seeing positive results again this year: an average logistics cost reduction of 11%, average inventory cost reduction of 6%, and an average fixed logistics cost reduction of 23%.” (Capgemini.com Staff). The next problem we plan to solve was the profit margins between Barnes and Noble and Amazon. We plan to solve this by using the stores can be a key asset to the company and using interaction with workers as a key part in the book buying experience. “After interviewing many customers in the book store I got this response from Nancy NeSmith, she said I thought it was really kid friendly. I really enjoyed walking through the different sections and reading books. They have a lot of hands on stuff for the kids and it was a great atmosphere. All the employees were really knowledgeable about the books and they pointed us in the right directions. They knew exactly where to go and they always picked out really good book for us.” (Freestyle). The last problem is keeping up with technologies of the book industry. Our solution to beating technological advances is to flow with them. This would be successful because Barnes and Noble and Amazon can both sell Nooks or Kindles, but Barnes and Nobles must manufacture more than Amazon. As well as sell them at a cheaper price, so people are willing go to the book and buy them. A Successful promotion such as a buy one get one free or coupons can drive customers away from Amazon and to Barnes and Noble.

We also recommended that Barnes and Noble to start advertising on Social Media sites. We believe this would work for Barnes and Noble because the most popular group of people who buys books is college students. We think this would work because “Social media sites vary widely with respect to how much they contribute to a consumer’s path to purchase. This is made abundantly clear by dissecting social channels by where they fall in the sales funnel. In our analysis, YouTube appeared to be the strongest of the social networks at introducing new products (18%) and driving conversions (14%). This is a good indication that video is an important format for advertising to potential customers.” (Admin.)

To conclude based off of our findings we think that Barnes and Noble could return back to becoming America's largest retail bookseller if they follow our recommendations because based off of our research we know these strategies have worked in the past and continue to still work today. It all starts with new leadership and a third party consultant if Barnes and Noble plan to retake its rightful place atop the bookstore market. With the new leadership sending Barnes and Noble on the right path, it’ll likely attract more investors to partner up with them if they plan to expand. Microsoft and Pearson hopped on board before with the Nook eReader, until Barnes and Noble had to buy out Microsoft’s share in the company after the Nook dropped in revenue. Barnes and Noble plans to make a Nook spin-off, which will be a traditional black and white eBook, but with the new leadership taking Barnes and Noble in the right direction, they could try to compete with iPad and Kindle again with a new eReader/tablet. Maybe then, Microsoft would want to rejoin them and make a better tablet. It is a domino effect and leadership is the first domino that needs to fall. Once that is settled, the windows and doors will open up for bigger and better opportunities. Barnes and Noble has a lot of potential to become America’s largest retail bookstore, they just have to follow our recommendations. If they can manage that, then sky’s the limit.

Works Cited

Admin, Steve. "Customer Engagement." Do Social Media Ads Work? N.p., 9 Sept. 2014. Web. 05 Oct. 2015.

Best, Sidney, Jack Zeigler, Charlie Smith, and Josh Cornwell. "A Case Analysis of Barnes & Noble." *A Case Analysis of Barnes & Noble* (2010): 2-29. *Robert Daigle.com*. 17 Nov. 2010. Web. 15 "2014 Third-Party Logistics Study." 2014

Capemini.com Staff. THIRD-PARTY LOGISTICS STUDY (n.d.): n. pag. Capgemini.com. Mar. 2014. Web. Sept. 2015.

Colander, D. C. (2010). Economics (8th ed.). New York, NY: McGraw-Hill.

"Why Are Local Bookstores so Important?" Why Are Local Bookstores so Important? (n.d.): n. pag. Freestlye.com. 2 Mar. 2013. Web. 4 Oct. 2015.

Friedman, Urn. (December 07, 2010.) Borders-Barnes & Noble Merger Idea: Brilliant or

Desperate?. The Atlantic Wire. Retrieved from website

http://www.theatlanticwire.com/business/2010/12/borders-barnes-noble-merger- idea-brilliant-

or-desperate/21995/

DePillis, Lydia. "Yes, Barnes & Noble Is in Trouble." *Political Algebra*. N.p., 10 July 2013. Web. 30 Sept. 2015.

Lieber, Ethan, and Chad Syverson. "Online Advertising vs. Offline Advertising." *Online Advertising and Promotion Modern Technologies for Marketing* (2012): 44-70. *UChicago.edu*. Jan. 2011. Web. 15 Sept. 2015.

“6 incredible Marketing Lessons to Learn from Barnes & Noble.” *Wishpond Simple Marketing Software*. 1 Feb. 2013. Web. 4 Oct. 2015.

“Building an Authentic Brand Relationship with Millennials.” *Barnes Noble College Marketing.* 9 Apr. 2015. Web. 4 Oct. 2015.

DePillis, Lydia. “Barnes & Noble’s Troubles Don’t Show Why Bookstores Are Doomed. They Show How They’ll Survive.” *Washington Post.* The Washington Post, 10 July 2013. Web. 4 Oct. 2015.

Wahba, Phil. (2013). Analysis: Departure of Barnes & Noble CEO may put focus on retail. Reuters. Retrieved from http://www.reuters.com/article/2013/07/09/us-barnesandnoble-retail- idUSBRE96818620130709