STRATEGIC REPORT FOR
Barnes & Noble, Inc.

GOTHAM GLOBAL.

HUNTER PHILLIPS
ADAM HENRY
COREY VAN DER WAL

APRIL 18, 2007

TABLE OF CONTENTS

Executive Summary

Barnes & Noble is the largest bookseller in the United States, operating over 800 stores in 50 states in the US. It is principally engaged in the retail sale of trade books, mass-market paperbacks, children's books, bargain books, magazines and music. It sells almost 445 million books annually, while taking in more than 8 million customer orders per year and fulfilling more than 100,000 customer service requests every day. Barnes & Noble stores range in size from 10,000 to 60,000 square feet with an overall average store size of 25,000 square feet. Each store features a selection of books, ranging from 60,000 to 200,000 titles. The title selection is diverse and tailored to each store location to reflect local interests. In addition, the Barnes & Noble stores also offer books published by small, independent publishers and local university presses.

The music departments within Barnes & Noble stores range in size from 1,700 to 7,800 square feet and stock over 40,000 titles in classical music, opera, jazz, blues, and pop rock. In addition, the music departments feature RedDotNet, a listening station technology, which enables listening to any compact disc in the store, sampling up to 200,000 music titles using scanner technology. RedDotNet is connected to the company's online music catalog.

The company also is presently the only bookseller operating a multi-channel strategy with a secondary retail concept, B. Dalton Booksellers, and an online subsidiary, BarnesandNoble.com. B. Dalton bookstores offer a wide range of bestsellers and general-interest titles, ranging in size from 2,000 to 6,000 square feet. The company operates 118 B. Dalton bookstores in 37 states and the District of Columbia. BarnesandNoble.com offers books, music and movies, as well as used books, gifts, educational games and toys, and video games. Here consumers have access to nearly one million in-print titles, supplemented by access to more than 30 million listings from its nationwide network of out-of-print, rare and used book dealers. BarnesandNoble.com offers delivery to over 230 countries. The website also provides exclusive content features such as "Meet the Writers," “What America’s Reading,” audio and video author interviews, online reading groups, third-party reviews, first chapters and table of contents, and music clips and video trailers.

Barnes & Noble also owns and operates its own publishing program, which offers ‘books rarely found elsewhere at prices not matched anywhere.’ With the addition of Sterling Publishing, the company has publishing or distribution rights to nearly 10,000 titles.

In this report, Gotham Global is focusing its attention on two major strategic issues facing the company. We then offer preliminary solutions. The first issue is Barnes & Noble’s current method of supply chain management. With any retail company, inventory represents a massive cost, and with effective and efficient supply chain management Barnes & Noble can significantly cut their inventory costs. We examine two possible recommendations for improvement of the supply chain.

The second issue Gotham Global observes is the increased competition from Amazon.com, non-bookseller superstores such as Wal-Mart, and from traditional book superstores such as Borders. Gotham Global recommends a number of possible opportunities the company has, which could result in providing a high-quality value added product.

Company Background

Barnes and Noble’s origins can be traced back to 1873 when Charles M. Barnes opened a book business in his home in Wheaton, Illinois. Forty-four years later, his son, William Barnes, traveled to New York in order to join with G. Clifford Noble in founding Barnes & Noble. During the height of the Great Depression, Barnes & Noble opened what would later become its flagship store on Fifth Ave. at 18th Street in New York. This bookstore quickly developed a reputation for excellence by serving millions of customers with a comprehensive selection of general trade books, academic titles and textbooks, and medical books.

The company's current chairman, Leonard Riggio began his bookselling career in the early 1960's while attending New York University. Riggio, while working as a clerk in the university's bookstore, decided that he could do a better job serving the students, and opened a competing bookstore of his own. With a small investment, in 1965 Riggio succeeded in opening the Student Book Exchange in Manhattan's Greenwich Village, and quickly established itself as one of New York's finest bookstores, known for its knowledgeable staff, wide selection and great service.

In the 1970's, Mr. Riggio's thriving business allowed him to acquire the Barnes & Noble name and flagship store, which had fallen into decline since its founding in the Great Depression. Within a few years, Mr. Riggio transformed the Fifth Avenue store into "The World's Largest Bookstore," with 150,000 textbook and trade titles. Today, Barnes & Noble College Booksellers, a privately held company, still operates over 500 stores on college and university campuses across the United States and Canada.

During the 1970's and 80's, Barnes & Noble made a number of innovative and groundbreaking decisions, which helped to vault the company onto the national stage. In 1974, the company became the first bookseller to advertise on television, with advertisements that won awards and are still remembered by some customers to this day. In 1975, it took a very bold and audacious step forward by becoming the first bookseller in America to offer discounted prices for *New York Times* bestsellers at up to 40% off the list price. Barnes & Noble expanded on that idea by opening a 40,000-square-foot Sale Annex directly across from its flagship store. The company continued to expand in the New York and Boston areas by opening smaller discount bookstores and acquiring two local chains, BookMasters and Marboro Books. Initially these discount bookstores were very successful, but were later phased out in favor of the company's larger format bookstores.

With its acquisition of Marboro Books, Barnes & Noble gained a foothold in the growing mail-order business, which served as a platform to reach customers nationwide. This business served as a laboratory that revealed undercurrents of demand, prompting Barnes & Noble to begin publishing its own books for sale to its growing mail-order customer base. These titles were primarily out-of-print books, reissued in high quality, affordable editions.

Throughout the 1980's, Barnes & Nobles experimented with different formats and sizes in an attempt to develop a suburban superstore in the vein of the original flagship store. The company then made its largest acquisition by purchasing B. Dalton Bookseller from Dayton Hudson, in 1987. By acquiring these 797 retail bookstores, the company vaulted onto the national scene, becoming a nationwide retailer and the second-largest bookseller in America. The company also acquired Doubleday Book Shops and the rights to Scribner's bookstore trade name. In 1989, Barnes & Noble purchased BookStop, a company that operated various discount book superstores in Texas. This acquisition gave the company key insights into the ingredients behind a successful superstore strategy, from real estate to operations to marketing and merchandising.

In the early 1990's, the company refined its superstore concept and established the modern generation of the Barnes & Noble superstores, which today represents over 96% of its retail sales. The Barnes & Noble superstores represent the information piazzas of America, combining a vast and deep selection of book titles with an experienced bookselling staff and a warm, comfortable, and spacious environment. The success of this format during the 1990's caused the company to go public in 1993.

The company has sold directly to consumers for over 25 years through its mail-order catalogue. In the late 1980s, Barnes & Noble tested selling books online in an early generation venue called Trintex, a joint venture between Sears and IBM. In the mid-1990s, it sold books on CompuServe and later opened a full-fledged book superstore on America Online in March 1997. In May of the same year, the company launched its website, BarnesandNoble.com. Today, the Barnes & Noble.com web site serves as the company's largest store, enabling customers to order any book any time from any place. With more than one million unique titles, the site's standing inventory is the largest of any bookseller online. Through BarnesandNoble.com, customers also have access to over 30 million used and out-of-print titles from a network of authorized book dealers, as well as a vast selection of music CDs and DVDs, in addition to its standard stocking of in-print titles.

COMPETITIVE ANALYSIS

Barnes & Noble is listed as competing under Specialty Retail with SIC codes of #5192 (books, periodicals, and newspapers) and #5942 (book stores), and NAICS codes of #42292 and #451211. The company's product categories include, but are not limited to: books, magazines, newspapers, video games, music, and movies. Barnes & Noble's main competitors are Amazon.com, Books-A-Million, and Borders. It also faces significant competition from any and all companies that participate in selling any product which the company partakes in, including Wal-Mart, Costco, and other such large retailers.

INTERNAL RIVALRY

The Specialty Retail Industry, specifically the part of which concerns book selling, is fiercely competitive in every channel in which Barnes & Noble competes. Specifically, the Company competes with large format bookstores including Borders Group, Inc. (Borders), and Books-A-Million as well as smaller bookstores like Waldenbooks. In the e-commerce arena, there exists significant competition, most notably from Amazan.com, which has a longer online operating history and a larger existing customer base than BarnesandNoble.com. The Company's bookstores compete with specialty retail stores that offer books in particular subject areas, independent single store operators, variety discounters, drug stores, warehouse clubs, mail-order clubs and other retailers offering books and music. In addition, the expanding market for electronic books may also provide significant competition and opportunity for the Company's bookstores. The music and movie selling business are also highly competitive and Barnes & Noble faces competition from large established music chains, established movie chains, as well as specialty retail stores, e-commerce businesses, movie rental stores, discount stores, warehouse clubs, and mass merchandisers.

The competition faced by the Company is severely heightened due to the fact that mainline products offered by booksellers are almost completely undifferentiated. For example both Borders and Barnes & Noble bookstores carry many of the same titles, leaving only the option of competing with pricing schemes and store quality to differentiate their products. Regarding their sales of DVD's and CD's, Barnes & Noble cannot stock items that significantly differ from competitors. They stock fewer titles in store than do specialty retail stores which offer only music or movies. While it cuts down significantly on inventory costs, this practice may damage company sales. As above, Barnes & Noble can only differentiate its product by varying its title selection, prices and, primarily, its store environment.

The ease of searching, provided by the internet, also enhances the already fierce competition between retailers. Within minutes, a consumer can almost costlessly search large numbers of retailers for the lowest available price, and make their purchasing decisions based on that information. This competition forces Barnes & Noble stores and Barnesandnoble.com to offer lower prices. Its website tends to offer prices which are competitive with Amazon.com's and Costco.com. The company also offers further discounts available to consumers partaking in its membership program, which is open to anyone for a $25 fee.

Since the size of transactions within the industry tends to be relatively small, competition for individual customers is fierce. Barnes & Noble differentiates its product by offering a unique shopping experience to its customers. Each store offers a calm, warm, inviting environment to consumers. In general book suppliers are extremely differentiated, ranging from the lounge environment of Barnes & Noble to the massive labyrinthine structures of warehouse clubs, such as Costco. The company and its competitors all compete fiercely to draw individual consumers into their stores, and this serves to drive down prices companies can charge.

ENTRY

The threat of entry into the Specialty Retail Industry is fairly small. The Company competes almost exclusively with other booksellers, whether large or small, as detailed above. In regards to small start up bookstores, it is feasible while unlikely that individual entrepreneurs, seeing opportunities for profit, could obtain enough capital to open small quaint bookstores catering towards smaller niche settings, such as used book stores. These smaller format bookstores are able neither to stock as many titles nor to offer prices as low as Barnes & Noble's. These entrants represent little threat to the company's interests as they would not steal market share, and could instead provide the company with additional opportunity to expand and grow through acquisition or partnership.

Barnes & Noble faces little danger of entry of new "Superstore" booksellers. In order to effectively and efficiently compete, new superstore sellers would necessarily need to develop relationships with the large publishing houses, distribution centers and a network of superstores. The sheer amount of capital necessary for such an undertaking renders this threat inconsequential. The new entrant would then need to offer a superior product to Barnes & Noble, either through environment or price, in order to steal the company's market share. As Barnes & Noble has been ranked number 1 in retail quality for a number of years, this is an unlikely prospect. The threat of entry, from both small and large entrants, is thus small.

The Company faces the largest threat of entry from already established retailers choosing to enter into the industry. Large established retailers have access to an already developed distribution network that could serve to threaten the Company's interests. While difficult, new entrants could develop and maintain relationships with major publishers and begin to stock and sell books. Most large retailers, however, would not choose to stock large selections of books, likely preferring to focus more on specialty books that fall in line with the business' products and image. For example, Toys R Us aims to capture a younger demographic and thus stocks children's books. Best Buy sells and maintains electronic equipment and therefore chooses to sell explanatory manuals and electronic related media. Thus, the threat of entry from existing retailers is low to high, dependant on the retailers' choice of material and extent of entry.

Substitutes and Complements

The company essentially provides two different products. The company sells books to consumers and provides consumers with a distinct experience when purchasing their books. Barnes & Noble has tried to differentiate its product from its competitors by providing comfortable high-class environments. This strategy of differentiation in their environment gives the company ample opportunity to take advantage of certain complements. Any device that serves to draw potential customers into their stores serves as a significant complement to the Company's sales. To this end, the Company has bundled Starbucks Coffee houses within many of its Barnes & Noble stores. However, other book shopping experiences can provide a significant threat to the Company. Every competitor provides a slightly different shopping experience, such as Border's bundling their stores with their own coffee shop or Wal-Mart's vast array of alternative products, which serves to draw in a different consumer. These subtle differentiations between the Company and its competitors, while serving to draw more consumers into the stores, are very easy to replicate and, as such, do not provide firm sufficient barriers to prevent substitution from being a threat. In order to maintain the differentiation, the Company must continue to innovate and change their bookstore environment.

The Company faces serious threats from substitutability of books with one another. Consumers do not care whether they buy the next bestseller from Barnes & Noble, Borders or some Internet retailer. They only care that their shopping experience and book they buy is of the quality they expect for the price they pay.

The Company has been able to create a certain amount differentiation, and therefore reduce the substitutability of its product by providing hard to get and otherwise unavailable out of print books. The overall threat from substitution is extremely high as a book from a Barnes & Noble store is equivalent to a book from a competitor.

Supplier Power

Barnes and Noble faces massive threats from supplier power. Much of the Company's success builds on its agents' ability to negotiate favorable terms with its suppliers of land and space for Barnes & Noble bookstores. If suppliers of space decided to charge the Company more rent, they could eat into the Company's profits, possibly rendering certain stores unprofitable.

Barnes & Noble also suffers significant supplier power from publishers and wholesalers. The monopoly power of publishers in providing titles represents a serious threat to the continued profitable operation of the company's stores. Barnes & Nobles profits depend on negotiating and maintaining favorable terms with its suppliers. However, while the company purchases books on a regular basis from over 1,700 publishers and approximately 20 wholesale distributors, its top five suppliers accounted for 46% of the company's book purchases in 2004 and 49% in 2005. This growing dependence on a few suppliers only serves to enhance their power over the company.

The employees of the Company could exercise significant supplier power, if they were to organize. Since the Company's workforce is largely non-union, they have not been able to present a unified front to present demands to the Company. This being said, the Company's employees require a certain level of skill and training, and their training represents a cost to the Company. This provides each individual worker with a certain degree of supplier power as their skill increases the company's switching cost and renders employees imperfect substitutes. Barnes & Noble feels that the relationship it has with its workers is a stable and positive one, therefore rendering the threat of supplier power from the employees small.

Buyer Power

Barnes & Noble caters predominately to individual buyers rather than large institutional buyers and the vast majority of their sales consists of those made to individuals, buyer power does not represent a significant threat to the Company. The Company is highly subject to general trends amongst buyers, such as seasonal preferences, but has neither group has significant control over them. Thus buyer power represents a minimal threat to the Company.

SWOT Analysis

Strengths

- Market Leadership and brand equity
- Multiple distribution channels
- Growth of publishing program

Weaknesses

- Dependence on the US market
- Underperforming B. Dalton stores
- Dependence on certain suppliers

Opportunities

- Growth in e-commerce
- Growing consumer book market
- Rise in global entertainment and media spending
- Growth in number of older consumers in gaming market

Threats

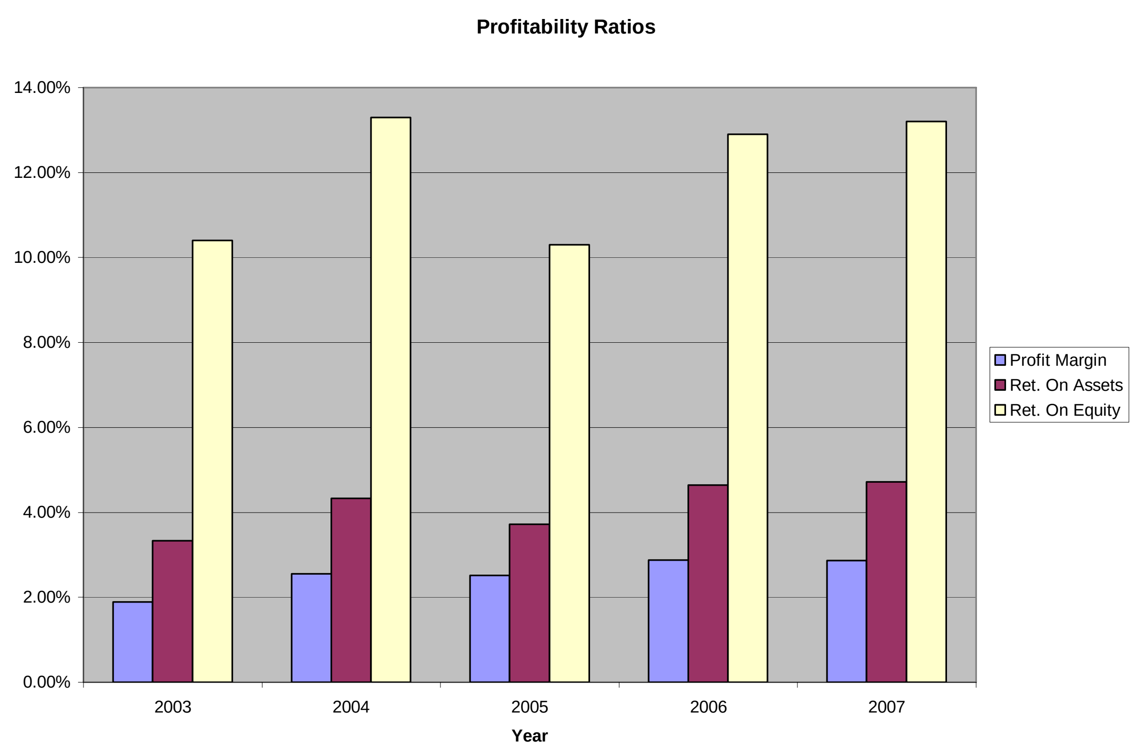
- Increasing competition
- Retail rents
- Piracy of books/music CDs and DVDs

Financial Issues

In its most recent fiscal year, Barnes & Noble reported a net income of $150,530,000, which is up from a net income of $146,681,000 in 2006. According to the company's 10K report, their largest expense for the fiscal year of 2006 was the cost of sales and occupancy which amounted to $3,533,009,000. This represented 69.2% of sales of $5,103,004,000. The percentage saw a steady decline since 2003 as it fell from 70% of sales to 69.5%, then finally to 69.2%. According to the 10K report, "This decrease was due largely to more purchases directly from publishers rather than from book wholesalers, higher purchases through the company's distribution network, reduced sales of lower margin music and increased sales volume leveraging fixed occupancy costs in the Barnes & Noble stores, offset by the deep discounted selling price of J.K. Rowling's *Harry Potter and the Half-Blood Prince* book."

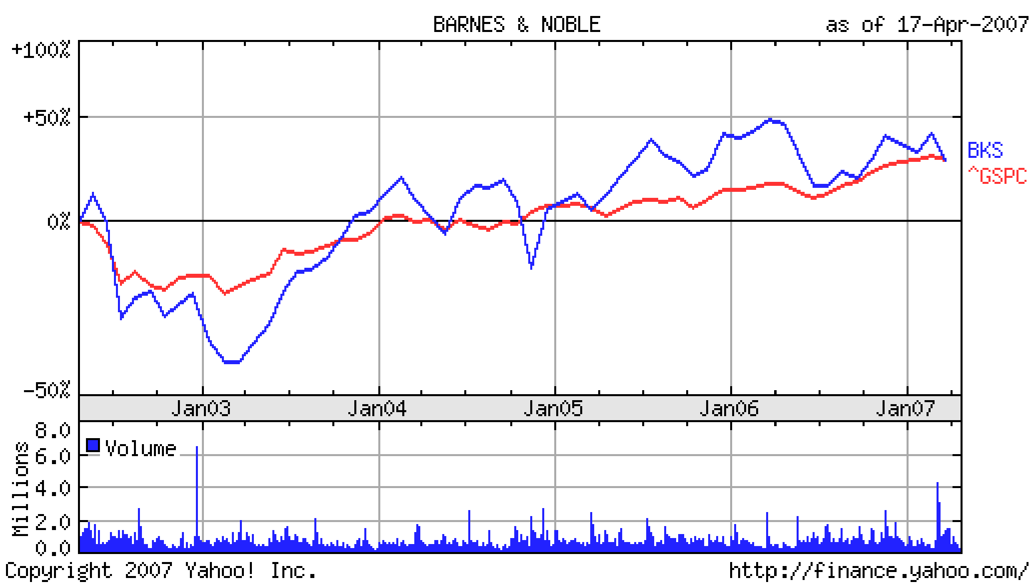
These statistics give us guidance as to Barnes and Noble's key financial difficulties. One of the problems revolves around the company's present reliance on outside suppliers of books and the deep-discounting necessary to move blockbuster titles. This has led to year on year earnings per share to fluctuate wildly from one another, with values between 2002 and 2007 of $1.28, $1.39, $2.07, $1.68, $2.03, and $2.18 respectively. While Veronis, Suhler & Associates Communications Industry Forecast estimate that U.S. consumer spending on books will grow at a compounded annual rate of 1.9 per cent, the company's sales are projected to grow at 3.1 per cent in 2007 and at 4 per cent in 2008, by the S&P stock report for Barnes & Noble. Barnes & Noble operates solely in the U.S. and is subject to any fluctuations in the economy. The recent downtrend in the U.S. economy's growth rate could adversely affect Barnes & Noble, and expansion into foreign markets, such as China or Europe, could provide the company with significant growth opportunities. However, with Borders' recent abandonment of their partnership with Amazon.com, Barnes & Noble could also pursue a strategic partnership with Amazon.com in the hopes that it could increase its own buyer and seller power and capture a greater share of the internet marketplace. However, in spite of these possibilities, Barnes & Noble's consistent EPS growth is a major concern for investors.

Competition from other booksellers is becoming fiercer in the book-retail market. With the entry of Wal-Mart and other big box retailers into the market, and the continuing expansion of Amazon.com, the company believes that its sales will suffer, thereby resulting in lower margins, return on assets, and return on equity. However, from the historical data, the company does not appear to be suffering significantly from the increased competition as it has seen a general upward trend of its margins and returns for the last five years. This upward trend can be seen in the following graph:



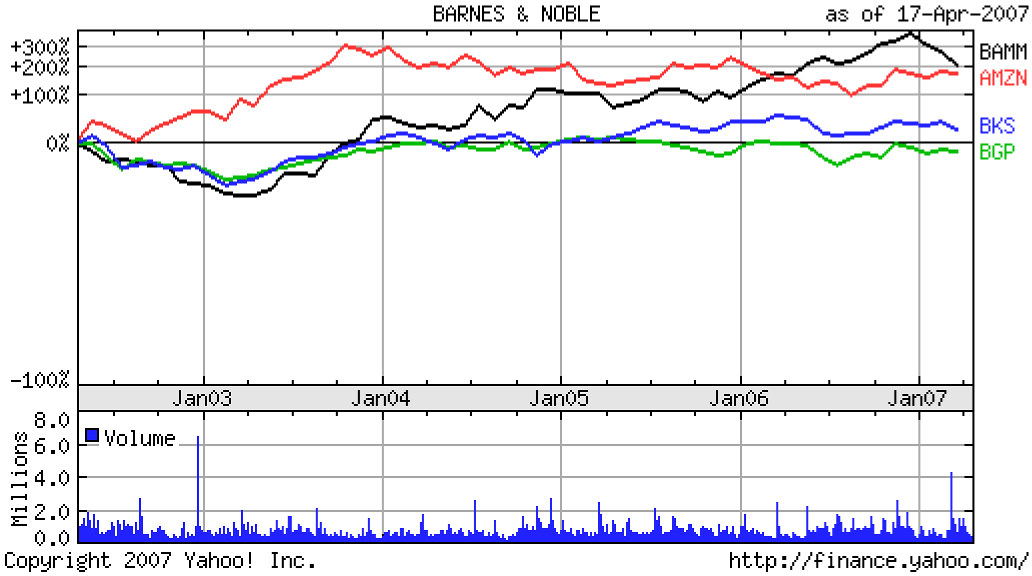
If competition increases significantly in the future, the company could suffer from lower profit margins as deep discounting becomes more necessary and input prices become higher. Input prices for the company include the cost of the books, the wages of employees, materials for producing books, rental costs, and so on. While the company certainly faces the potential of increasing input costs, it always has the option of incorporating certain aspects of its supply chain into its own production capacities, such as the expansion of its book publishing company. With the current competitive environment, Barnes & Noble's stock may begin to suffer as a result of losing market share.

Looking at Barnes & Noble's stock performance over the last five years, we see that, while it has had a turbulent past, the overall trend is upward. Unfortunately the company, while having outperformed the S&P 500 for nearly all of 2005 and 2006, has now given up its previous gains, only to return to the S&P 500's performance. The recent retreat stemmed from the company's recent dismal guidance for their next fiscal year. Their less than exciting guidance arose from the expectation that the company would receive a less than admirable boost from the sales of the new Harry Potter book due to deep discounting resulting from the increased competition facing the company. The comparison between the company and the S&P 500 can be seen here:



Barnes & Noble's stock has, unfortunately, begun to give up its previous gains and retreat back to the S&P 500, in spite of the company's recent announcement of a dividend payout. It is possible that investors have been tepid when observing Barnes & Noble as the company is still mired in legal action resulting from their problems of backdating options.

When we analyze Barnes & Noble's immediate peer group, we find that the company's dismal performance is not particularly abnormal for book superstores, while it has significantly underperformed the newer competitors. A graph of stock performance can be seen in the following graph:



We can see from the chart that Barnes & Noble has performed well below its two newest direct competitors, Amazon and Books-A-Million, while it has outperformed Borders over the last five years. By comparing trading multiples of the peer group of book retailers, we find that Barnes & Noble is trading in a middle range compared to its competitors.

Multiple	Barnes & Noble	Amazon.com	Books-A-Millions	Borders Group
P/E	18.62	100.6	15.69	21.24
EV/EBITDA	5.222	25.809	6.552	9.337
EV/Revenue	0.44	1.68	0.55	0.41
Price/Book	2.26	43.29	2.06	1.96

From these numbers, it would seem that Barnes & Noble is trading at a discount to Borders in spite of being the number one retailer. One reason the company may be trading at a discount compared to Borders is that Barnes & Noble is currently embroiled in legal troubles with its back dating of options. However, upon looking at the balance sheets, we can decide that Barnes & Noble's discount is not a result of its undervaluation as a stock, but rather Borders' recent troubles with maintaining positive net incomes.

In principle, the value of a stock is determined by the discounted present value of the free cash flows. Building off of Standard & Poors stock report, assuming a weighted average cost of capital of 10.3 per cent and a long term growth rate of 3.5 per cent, we find that the fair value calculation yields a stock price of $35.80, which suggests that the stock is overvalued by $4.68 or 11.56 per cent. A long term growth rate of 3.5% for the company is not particularly unreasonable as it has been able to achieve and maintain similar ones in recent years by engaging in a strategy of expansion by opening new stores. The WACC of 10.3% is also not unreasonable as Barnes & Noble consistently pours large amounts of money into opening new stores and closing underperforming ones.

Another value of a company is its return on equity. Using a standard DuPont analysis we can analyze Barnes & Noble's ROE relative to its competitors.

	Barnes & Noble	Amazon.com	Books-A-Million	Borders
Profit Margin	2.87%	1.77%	2.60%	-3.67%
Financial Leverage	2.74	10.12	2.15	4.07
Asset Turnover	1.65	2.45	1.62	1.57
Return on Equity	12.96%	44.08%	9.03%	-23.52%

We see that Barnes & Noble has the highest profit margin of all the companies with which it competes, but only the second highest ROE, and asset turnover. However, the company's financial leverage is significantly smaller than that of Amazon.com, and this suggests that Barnes & Noble is as strong as Amazon in its margins. We can, though, see that Barnes & Noble must improve its asset turnover if it is to compete more effectively with Amazon. The remaining question, arising from the finances of the company, is how the company can effectively increase their asset turnover rate. The two ways by which a company can increase its asset turnover is either to increase sales, and therefore net income, or to decrease assets without loss of net income, such as reducing inventory holdings. It is from here that we will examine our possible strategies for the company.

Strategic Issues and Recommendations

Barnes & Noble has very strong brand value which has allowed it to partner with big brands to offer more value added services, including the inclusion of cafés for which Starbucks provides coffee products. This powerful brand combination helps drive traffic, retention, brand recognition, and store consistency. As a result, the company has been ranked as the top brand for quality among retail brands in America from 2002 through 2006 by Harris Interactive. While the company's strong brand image and leadership have enabled it to stay ahead of its peers, it can also create a certain sense of complacency, resulting in a lack of innovation and further development of brand image.

Barnes & Noble faces two major strategic issues. Barnes & Noble must update and streamline its supply chain management in order to cut one of its most major costs. The company must also reexamine and update its front end consumer interaction, its company image, store quality, and service quality.

For a retail company the cost of holding inventory in stores and in warehouses comprises a huge portion of its overhead cost. Barnes & Noble, like most other book retailers, must maintain a large enough inventory to ensure a smooth flow of books into and out of their stores, both the physical and electronic. At present, the company holds a large portion of its inventory in store, and a smaller amount in centralized distribution centers. Barnes & Noble is in the process of expanding its central warehouse style distribution centers. As of January 28, 2006, the company had approximately 3.5 million square feet of distribution center capacity. In 2004, construction began on a new 1,145,000 square foot center serving the Eastern United States. This new facility replaced five smaller distribution centers, totaling 1.2 million square feet. The company also operates a distribution center for the west coast, based out of Reno, Nevada.

The development of a centralized distribution system for the company's bookstores helps to drive down overhead cost by limiting the amount of inventory necessary to have on hand. However, with the competition growing from mega-players, such as Wal-Mart, Barnes & Noble may find it self pressed to streamline its supply chain management even further in order to compete on its costs effectively. Unfortunately, the company is limited in its ability to compete on such a scale with Wal-Mart and the like as the company's buying power, distribution power, and selling power is significantly less than that of Wal-Mart and its ilk.

Barnes & Noble is also heavily dependant on just a few major suppliers. While Barnes & Noble purchases regularly from over 1,700 publishers, the company's purchases from its top five suppliers, including both publishers and wholesale distributors, increased from 46% of the company's book purchases in 2004 to 49% in 2005. This growing dependence on fewer suppliers could adversely affect the company's operations if there is any disruption in the company's contracts with these suppliers or in case of any disruption or delay in the supplier's operations.

As a result of these considerations, it is Gotham Global's recommendation that Barnes & Noble pursue three stratagems in order to gain an advantage over its competitors. First, we recommend that, in the short run, the company continue its expansion and development of its centralized distribution centers. By continuing this particular path, we expect that the company will be able to cut its inventory and rental costs. By centralizing their distribution capabilities, the company does not need to hold quite as much inventory in their stores as they do now because their restocking ability will be higher. The centralization of their distribution centers also reduces the rent cost necessary for operations. By reducing costs thus, Barnes & Noble will be able to operate more profitably at lower margins than otherwise.

The second direction, which Barnes & Noble should follow, requires that the company expand its publishing capacity and capabilities. As we stated above, nearly half of the company's book purchases come from only five sources. By developing their capacity to print, publish, and distribute books the company could both cut their operating margins and increase the revenues and profits of its publishing company. The expansion of its publishing capabilities would allow the company to sell its self published books to its stores at no margin and to provide other retailers with books at a mark-up.

The third and final strategy is a much longer term project, requiring significant investment in new technologies. By expanding their publishing capabilities, Barnes & Noble puts itself in a unique position to significantly decrease its inventory costs and supply chain efficiency losses. We suggest that Barnes & Noble develop not only a "just in time delivery" system, but a "just in time printing" system. With the advent of high-powered computer memory, Barnes & Noble could hold their books in an electronic inventory. The company could then print each book as it is ordered. By using new printing technology, such as Xerox's new Nuvera 288 which can print a 288-page book in one minute, Barnes & Noble could significantly reduce its operating costs. If the company could obtain the rights for publishing and distributing even five percent of its titles, it could save nearly 70 million dollars in inventory costs, freeing up the cash flow for other uses.

The second set of strategic issues which Barnes & Noble faces revolves around front end consumer interaction, image, and service quality. At present, the company is facing increasing competition on multiple fronts. As we stated above, Barnes & Noble competes strongly with Borders and Books-A-Million, both of which have experienced positive growth in recent years, and smaller format bookstores. The company also faces increasing competition from a growing Amazon.com, which has both a longer online operating history and a larger existing online customer base than Barnes & Noble.com. The third threat comes from mass merchandisers, such as Wal-Mart and Costco, many of which have greater financial and bargaining resources than Barnes & Noble. The fourth competitor group is specialty retail stores that offer books in particular subject areas, independent single store operators, variety discounters, drug stores, warehouse clubs, mail-order clubs and other retailers offering books and music. This increasing competition could adversely affect the company's market share and margins.

Barnes & Noble has been ranked the top brand for quality among retailers between 2002 and 2006 and this provides the company with an invaluable asset. As the number one retailer for brand quality in the country, Barnes & Noble is in a powerful position to enhance its store image, consumer interaction, and service quality. At present, however, its stores are racked by a number of problems which damage their quality.

Barnes & Noble's initial corporate strategy was to provide books to consumers at low prices in a warm inviting lounge-like environment. According to certain personal accounts, however, in recent years, Barnes & Noble's stores have begun to undergo a process of decay from their initial environments. Some stores have maintained a warm inviting environment with personable, intelligent, and helpful employees. Others, however, have found themselves transformed into labyrinthine structures worked by employees who are unhelpful and standoffish.

We, at Gotham Global, have characterized the present image as a dauntingly professorial environment. The present environment provides a sense of sophistication and intelligence marked by a certain air of pretentiousness. This air of pretentiousness makes the stores difficult to use when customers want or need help from the employees. While this varies greatly from store to store, it is Gotham Global's opinion that Barnes & Noble must update its image to provide a warmer, more inviting atmosphere populated by employees who are focused on high quality customer service.

Gotham Global suggests a number of possible strategies in order to update Barnes & Noble's image to a "Friendly Professor," wherein the employees are intelligent, helpful, and excited, the environment is warm and inviting, and the store quality is high.

We first suggest a number of programs and requirements which the company could implement to improve employee-customer interaction. By actively and aggressively hiring employees who love books and enjoy working with other people, Barnes & Noble stores could enhance their image from one in which employees are standoffish to one in which they are helpful and personable. As Gotham Global recognizes that such employees may be difficult to find, we also suggest that Barnes & Noble implement a standardized training program in order to train employees to interact better with consumers. One suggestion for this training program would be to instruct and require employees to walk consumers to the location of books when asked, rather than simply point or provide directions, and to suggest other books for consumers to purchase, which could mimic Amazon's suggestion program. By creating a standardized program, Barnes & Noble can make a move to ensure quality in its stores and improve their image.

With our second strategy for improving the company's image and environment, Gotham Global suggests that the company reexamine and rearrange their store layout. At present the many Barnes & Noble locations are labyrinthine structures with seemingly countless mazes of shelves stocked with thousands of titles of books. Gotham Global suggests that the company attempt to create a number of very open locations within the store. Open locations with comfortable chairs could provide areas where consumers could sit and leaf through books before buying them. The company could also aim at creating areas conducive to the exchange of opinions and ideas, similar to that of the salons in Paris during the late nineteenth century. Gotham Global also suggests that Barnes & Noble reexamine its color schemes in store so that, if necessary, it can change its decorations to provide a calm, warm, and inviting atmosphere in store. We also suggest that the company examine and implement a number of different store layouts, as this can provide consumers with unique experiences. Since Barnes & Noble has a number of different outlets, it is in a rare position to be able to implement a multi-layout strategy.

A third strategy, which Gotham Global feels will benefit the company greatly, requires that Barnes & Noble develop a system to ensure store quality. For instance, the company could employ surprise shoppers to catch store managers unaware, in the hopes that this would create significant incentives for managers to maintain and enhance their store environments. Another possibility would be to rotate managers from the most successful stores into the less successful ones, so that they could work on improving the store environments. The company could also engage in on-going on the job training programs for its employees, so that they would be aware of any changes in store inventory, layout, and company policies. As a final option, Barnes & Noble could develop a system of regional inspectors whose only duty would be to ensure that stores meet company quality standards.

Gotham Global also suggests that the company push to expand their membership program. By expanding the number of people enrolling in their membership program, Gotham Global estimates that the company could see a significant increase in business, especially amongst those consumers who expect to spend enough money on books in a single year to at least match or surpass the $25 membership fee. The membership fees would help the company to shave off consumer surplus from shopping at Barnes & Noble stores. In addition the expansion of the membership program would give members additional incentive to shop in Barnes & Noble stores. The company could expand the incentives of using the membership program by bundling some of their online products, such as “Meet the Author” or its online reading groups with the program. This could create significant incentives for more consumers to join the program and for members to make use of the membership program even more. In order to expand the membership program, Gotham Global suggests that Barnes & Noble engage in a media campaign expounding the added value resulting from going to a bookstore in order to buy a book, as well as the added benefits resulting from partaking in the membership program.

By making use of these suggestions, the advisors at Gotham Global feel that Barnes & Noble can begin to capture a larger portion of the book selling market by growing at a rate greater than the estimated yearly increase in US consumer spending on books of 1.9%.

REFERENCES

1. All statistics are taken from Barnes & Noble's 10K and 10Q reports

2. Datamonitor Company Profile of Barnes & Noble

3. Standard & Poors Stock Report

4. Credit Suisse Analyst Report