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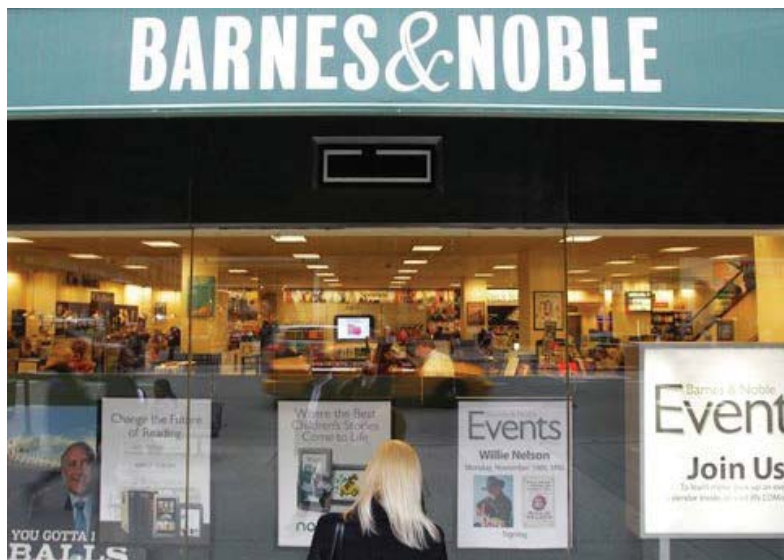


Behind the Screens, Between the Lines

January 3, 2013, 9:15 am |

Barnes & Noble Faces Steep Challenge as Holiday Nook Sales Decline

By LESLIE KAUFMAN



Brendan McDermid/Reuters

A Barnes & Noble store in New York City. Overall sales in the nine-week holiday season for the retailer fell 10.9 percent.

8:21 a.m. | Updated For [Barnes & Noble](#), the digital future is not what it used to be.

After a year spent signaling its commitment to build its business through its Nook division, Barnes & Noble on Thursday announced disappointing holiday sales figures, with steep declines that underscored the challenge it faces in transforming from its traditional retail format.

Retail sales from the company's bookstores and its Web site, [BN.com](#), decreased 10.9 percent from the comparable nine-week holiday period a year earlier, to \$1.2 billion, the company reported. More worrisome for the long-term future of the company, sales in the Nook unit that includes e-readers, tablets, digital content and accessories decreased 12.6 percent over the same period, to \$311 million.

"They are not selling the devices, they are not selling books and traffic is down," said Mike Shatzkin, the founder and chief executive of Idea Logical, a consultant to publishers. "I'm looking for an optimistic sign and not seeing one. It is concerning."

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The results, covering a period that ended Dec. 29, are a sobering development for the nation's largest bookstore chain. The declines occurred during what is supposed to be peak buying season. And the Nook unit's sagging fortunes came despite a 13 percent increase in sales of digital content, suggesting that it is the tepid demand for Nook devices that is dragging down the unit's performance.



Julio Cortez/Associated Press

Nooks at a Barnes & Noble distribution center. The e-reader unit's holiday sales fell 12.6 percent.

Barnes & Noble has invested heavily in developing a tablet that can compete with offerings from media giants like [Google](#), [Apple](#) and [Amazon.com](#). Last April, in announcing a \$300 million investment in Nook by [Microsoft](#), the chief executive of Barnes & Noble's chief executive, William J. Lynch, said the company wanted "to solidify our position as a leader in the exploding market for digital content in the consumer and education segments."

A few months after that, the bookseller began breaking out the financial results of the Nook division. In October it completed its strategic partnership with Microsoft by creating Nook Media, a subsidiary and a signal that it was ready to ride its digital business into the future.

But while Barnes & Noble's most recent Nooks have won critical praise, they have failed to gain significant traction with consumers.

Other companies do not break out sales of their digital tablets, but [Amazon](#) has been saying sales of its Kindle Fire were strong. Analysts say Apple's iPads also appear to be doing well.

"The problem is not whether or not the Nook is good," said James L. McQuivey, a media analyst for [Forrester Research](#). "What matters is whether you are locked into a Kindle library or an iTunes library or a Nook library. In the end, who holds the content that you value?"

For an increasing number of consumers, he said, the answer is not Barnes & Noble.

Though the company's stock was down only slightly — falling 2 percent to \$14.22 — the reaction in the financial world was unsparing. Analysts stopped short of saying that this was a do-or-die moment for the Nook Media division, but they acknowledged that options for a strong digital future were narrowing.

In a note to clients, S&P Capital IQ said, "We think this portends greater market share losses for the Nook over the medium term" and downgraded its recommendation on Barnes & Noble stock from hold to sell. [Barclays](#) said in a note that the Nook's precipitous decline was "quite concerning" and "below even our modest expectations."

The declining retail numbers were also troubling when viewed in the context of a rise in sales among independent booksellers. The American Booksellers Association, which has not yet released official holiday sales, estimated Thursday that its members' sales would be up about 8 percent over last year.


Barnes & Noble executives were not available Thursday to discuss the sales numbers. But a statement from Mr. Lynch indicated that the company was searching for a solution.

"Nook device sales got off to a good start over the [Black Friday](#) period, but

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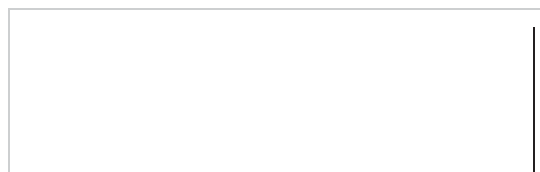
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then fell short of expectations for the balance of holiday,” Mr. Lynch said. “We are examining the root cause of the December shortfall in sales, and will adjust our strategies accordingly going forward.”

The most intriguing, and troublesome, question is whether the company can stay in the digital device business at all over the long run. Nook has been expensive to develop and market and the company does not have the hefty financial resources of its competitors.

Other options are strategic partnerships. Microsoft’s investment last spring was seen at the time as a way to promote Nook through a powerful partner. But sales of the Windows 8 operating system have been disappointing and the Nook has been featured as little more than an app among hundreds on the Windows 8 platform.

“It is going to prove to be a missed opportunity,” said Mr. McQuivey of Forrester.

Last month, Barnes & Noble announced that [Pearson](#), the British education and publishing conglomerate, was taking a 5 percent stake in Nook for \$89.5 million. Analysts said that cash investment was welcome and the partnership with Pearson, a major publisher of educational textbooks, might herald a strategy to move toward dominating an education niche market. Still, that would be a significantly smaller business.

A version of this article appeared in print on 01/04/2013, on page B1 of the NewYork edition with the headline: Barnes & Noble’s Strategy Is Questioned as Nook Sales Decline.

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Contributors

Amy Chozick
CORPORATE MEDIA
[@amychozick](#)



David Carr
COLUMNIST
[@carr2n](#)



Ben Sisario
MUSIC
[@sisario](#)



Jennifer Preston
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