McTevia predicts Borders Books headed for bankruptcy, Detroit News reports

Borders Books hopes a refocus on books will revive sales

Jaclyn Trop / The Detroit News

Borders Group, the nation's second-largest bookseller, is looking to return to its roots as an outlet for serious readers, as part of an effort to revitalize sales following another year of losses, company officials said Wednesday.

The Ann Arbor-based retailer plans to focus on book sales and offer more children's, cooking and biography titles, while scaling back its multimedia inventory, including CDs and DVDs.

The increasing popularity of digital download services such as iTunes has curtailed the chain's movie and music sales.

The ailing company also will concentrate on customer outreach "to regain our status as a bookseller for serious readers," CEO Ron Marshall said Wednesday during a conference call to discuss the bookseller's fourth quarter and full-year results.

Borders traces its beginnings to a small bookshop in Ann Arbor, founded by brothers and University of Michigan students Tom and Louis Borders in 1971.

Over the years, the store's focus expanded beyond books and magazines to include music, gifts and stationary, as well as food through a partnership with Starbucks subsidiary Seattle's Best Coffee.

Marshall, who replaced former chief executive George Jones in January, has been charged with rescuing Borders from declining sales.

Fourth-quarter total sales fell 13 percent to $1.1 billion, while net income declined 54 percent to $29.6 million, or 49 cents a share, from $64.7 million, or $1.10, a year earlier.

It was only the second quarterly profit in three years for Borders, which put itself up for sale unsuccessfully last spring.

The industry has been pummeled by competition from online and discount retailers such as Wal-Mart, Costco and Amazon.com, as well as a downturn in discretionary spending as the national recession deepens.

Borders also had a dismal holiday season, with sales for the nine-week period ending Jan. 3 down 11.7 percent compared with the previous year. Sales for Borders superstores were down 13.6 percent for the holiday period.

Overall, total losses for 2008 were $184.7 million, or $3.07 per share, compared to a loss of $19.9 million, or .34 cents per share, in 2007. Total sales for 2008 dropped 8.8 percent to $3.2 billion.

Bankruptcy predicted

Borders also will focus on improving its financial health, closing the gap with its competitors and streamlining operations, from customer service to logistics to information technology, Marshall said.

But the downsizing and cuts in inventory most likely won't staunch Borders' money losses, according to Jim McTevia, managing partner of Bingham Farms-based turnaround firm McTevia & Associates. He said Borders will probably be forced to file for Chapter 11 bankruptcy protection this year.

"The economy is worse off than it was last year, and they lost a ton of money last year," McTevia said. "The first quarter results will probably be the nail in the coffin."

The company reduced its debt by $218 million, or 39 percent, through job cuts and store closures. Detroit's only store, which opened in the Compuware Building on Campus Martius Park in 2003, is scheduled to close in July.

Debt reduction alone can't save the chain, Marshall said. "We must sell our way to success," he said.

Monday, the company's largest shareholder, New York-based Pershing Square Capital Management LP, extended to April 2010 a deadline for Borders to pay a $42.5 million loan.

Borders employs 30,000 people at 1,100 stores in the United States, Australia, New Zealand, Singapore and Puerto Rico, including nearly two dozen in Metro Detroit.

Borders has been in danger of being delisted from the New York Stock Exchange since Dec. 1, when its share price fell below $1. The company has until June to raise its stock price.

The share price hit a low of 35 cents on Dec. 23. Shares closed at 92 cents Wednesday afternoon.