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Borders' task: Cut, innovate: Retail stores, reading platforms must evolve

By Daniel Duggan

Borders Group Inc. has bought itself some time to reorganize its debt in bankruptcy, but emerging and surviving for the long term will be a challenge.

In the company's favor, say retail experts, is that there is continued demand for printed books and demand for e-book readers. Working against the company is competition online and at street level.

"They're going to need to innovate their stores, and they need to find new applications for e-readers," said Mandi Mankvitz, social media director with the Waterford Township-based retail consulting firm **Sphere Trending**. "They need to evolve and innovate.

"They can't play catch-up anymore, they have to come up with new ideas."

The Ann Arbor-based bookseller, founded by Tom and Louis Borders as a college bookstore, filed for Chapter 11 bankruptcy protection Wednesday in New York.

The court has approved \$500 million in debtor-in-possession financing as well as an order to close 200 of the company's 650 stores, including stores in Ann Arbor, Dearborn, Grosse Pointe and Utica.

More closings are possible as Borders has 120 days -- and a 90-day extension -- to terminate leases as part of the bankruptcy.

If the company is going to survive bankruptcy and succeed long-term, it needs to be careful about how it cuts its stores, said Chad Shandler, a partner in the New York-based accounting and consulting firm **J.H. Cohn LLP**, who has worked with several book-industry clients.

In the book retail industry, like any retailer, Borders needs to oversee an intricate distribution network to ship books from national warehouses to regional hubs and individual stores.

If Borders closes too many stores in a particular market, the sales revenue from the remaining stores might not be enough to support the distribution, marketing and overhead costs for that market.

"If they're in an area with five stores and they close down four, it isn't going to be cost-effective to have that one store left," he said.

Cutting stores is always emotional for retailers, which typically measure themselves by the number of stores they have, he said. As a result, they often don't cut enough.

"When you go from growth to cutting, it's a matter of saying, 'Am I stronger and more profitable?' or 'Did I not shrink enough and not enhance the cash flow enough?'"

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Jim McTevia, McTevia & Associates

But being small isn't enough to be competitive, said Jim McTevia, managing partner of Bingham Farms-based consulting firm **McTevia & Associates**.

"They're closing stores, eliminating employees," he said. "But will that change the dynamics of the industry? I don't think so."

McTevia said Borders needs to focus on locations where it can be competitive and give up stores to **Barnes & Noble** where the two companies compete head to head.

"And if they do all the things right in bankruptcy, make the company smaller, more profitable, then, maybe, they can focus on their e-commerce strategy and become more competitive there," he said.

Borders is in some ways like **Blockbuster Inc.**, which filed for bankruptcy in September, said Pam Danziger, president of Stevens, Pa.-based research and consulting firm **Unity Marketing Inc.**

Blockbuster was hit with competition from Netflix for digital and mail-based movie consumption, then also hit by retail competition from Oakbrook Terrace, Ill.-based **Redbox Retail LLC**, which rents DVDs out of kiosks in grocery stores and other locations.

"Borders was hit the same way by Amazon.com online and Barnes & Noble, competition coming at them from both ways," Danziger said.

The solution will be for Borders to re-examine the experience it offers customers.

"The message in retail right now is that it's not so much what you sell but how you sell it," she said. "The product is important, but when everyone is selling the same product, the retailer needs to be doing something different.

"Borders has lost their way, and it will need to look at the 'how' just as much as the 'what' when it comes to retailing."

Re-creating bookstores as hangouts needs to be a major part of the strategy, she said.

Susan Yashinsky, macro retail trend forecaster with Sphere Trending, said the digital revolution won't leave print behind, but books will continue to evolve.

Books by "Daily Show" host Jon Stewart, she said, are an example of the books that cater to new generations of readers.

"You don't read left-to-right or up-and-down," she said. "You can read it all over the page."

Books are adapting, and there will always be a need to sell them, she said.

But retailers in the industry are taking notice of the Borders situation, particularly Barnes & Noble, said J.H. Cohn's Shandler.

"Barnes & Noble isn't cruising either," he said. "At the end of the day, they're going to need to assess their own business to avoid this as well."

Based on the dynamics of the bookselling industry, Shandler said, everyone wants to see Borders succeed long term.

"It's good for consumers, vendors, publishers and landlords, to have another retailer in the market, he said. "The more competition, the better it is for the entire industry."

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