

Barnes & Noble's loss more than doubles

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In this Tuesday, Feb. 26, 2013 photo, a Barnes & Noble bookstore is seen in Los Angeles. Barnes & Noble Inc. reports quarterly financial results, Tuesday, June 25, 2013. (AP Photo/Jae C. Hong)

Sales plummeted at Barnes & Noble bookstores in the latest quarter and its Nook e-book devices failed to keep up with competitors, pushing the company to a net loss that more than doubled from a year ago.

The largest traditional U.S. bookseller said Tuesday that it will stop making its own Nook color touchscreen tablets as a result, a move

intended to stem the losses it's suffering from its digital unit.

It said it will continue to make its more basic, black-and-white e-readers but farm out the tablet manufacturing to a third-party.

"We know this is a sizable change from our existing strategy," CEO William Lynch said in a call with analysts. He declined to give specifics on how the tablet partnership would work because the company is in discussions with "a lot of interested parties."

The about-face troubled investors, who sent Barnes & Noble's stock price down more than 15 percent to \$15.88.

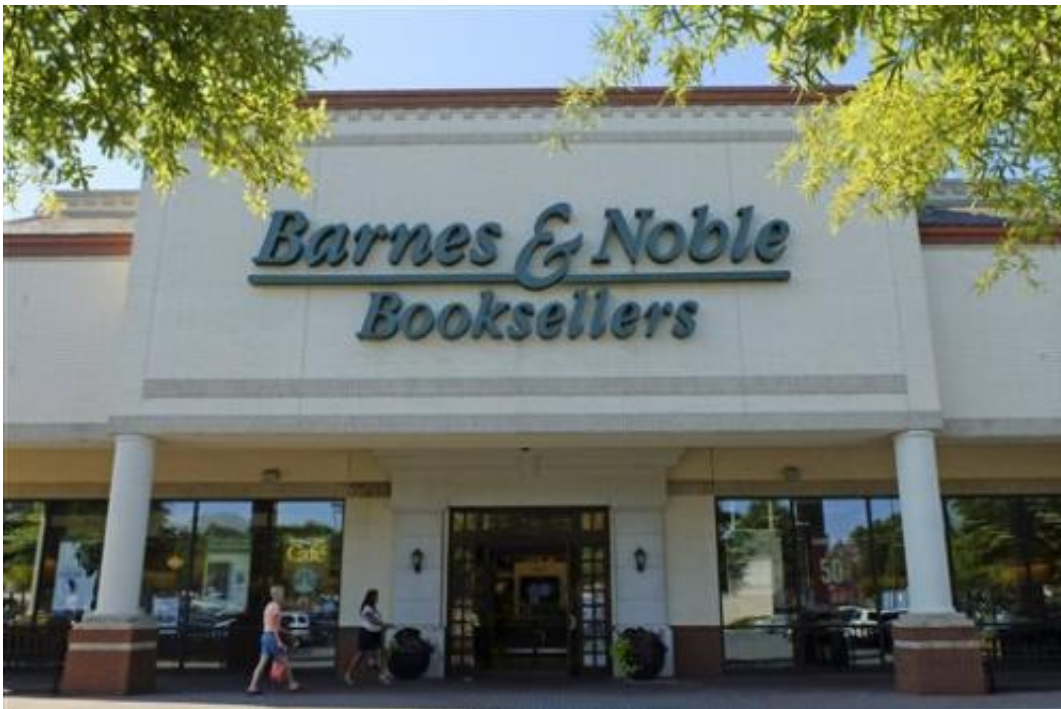
Barnes & Noble Inc. had been pouring money into developing its Nook devices to keep up with changing reading habits and beat back competition from retailers such as Amazon, which makes the popular Kindle readers.

It hasn't worked. According to research firm IDC, Barnes & Noble's tablet shipments fell to 1 million in the fourth quarter, down from 1.4 million a year earlier. At the same time, sales of Kindle e-readers have kept growing.

Michael Norris, senior analyst in the trade books group at Simba Information, said Barnes & Noble didn't differentiate its product aggressively enough.

At an analyst presentation, for example, he noted that Barnes & Noble had Kindle devices on hand to demonstrate how much lighter its Nooks were. But it failed to do that in stores for customers, he said. The company also didn't have as much money to spend on advertising as its rivals.

"It's kind of unfortunate," Norris said of the decision to outsource tablets but continue making its e-readers. "They're getting out of the hardware business that has the most potential and hanging onto the business that has the least."



In this Friday, June 21, 2013 photo, customers walk into a Barnes & Noble store in Charlotte, N.C. Barnes & Noble Inc. reports quarterly financial results, Tuesday, June 25, 2013. (AP Photo/Chuck Burton)

Whether the change will help Barnes & Noble remains to be seen, but Norris warned that it could be going down a dangerous path.

"That's where Borders got it so wrong," he said. "They had a bunch of devices lined up like Formula One race cars. You'd ask an associate about it, and they wouldn't have a clue about them."

There were signs that Barnes & Noble was seeking to exit the hardware business. This month, the company slashed prices on its Nook readers, leading some to suggest that it was clearing out its stock of tablets.

On Tuesday, the company said it planned to sell its remaining inventory at the reduced prices. Some have speculated that Microsoft, which has a 6.8 percent stake in the Nook unit, could offer to buy it outright.

For the quarter, the company booked inventory and impairment charges for its Nook unit. It said it sold fewer devices and that sales of digital content for the readers also fell 9 percent. It blamed the decline of e-book sales partly on the tough comparison from a year ago, when "The Hunger Games" and "Fifty Shades of Grey" trilogies boosted results.

In the broader e-book market from the largest publishers, Barnes & Noble has said it has about 25 percent of content sales. But it admitted that figure has been under pressure from Apple Inc. and Amazon lately.

"We're holding our own, but it's declined slightly," said Michael Huseby, chief financial officer.

The company declined to say how its device sales split between tablets and dedicated e-readers. But it said its "biggest readers" use e-readers, which drive a majority of its content sales.

Meanwhile, its bookstores also saw sales decline. Revenue at stores open at least a year, a key metric, fell 8.8 percent during the period. It also warned it expects that figure to decline in the "high-single digits" for its fiscal 2014, partly as a result of tough comparisons with last year.

Overall retail sales, which include Barnes & Noble bookstores and online sales, declined 10 percent, in part because of store closings.

Barnes & Noble declined to provide an update on the possibility of taking the retail business private. Leonard Riggio, the founder of Barnes & Noble, has offered to buy the company's physical bookstores and website, but not the Nook unit.

The company also said it's reviewing previous financial statements that may result in a revision.

For the February-to-April quarter, Barnes & Noble Inc. said its net loss totaled \$118.6 million, or \$2.11 per share. That compares with a loss of \$56.9 million, or \$1.06 per share, last year.

Revenue fell 7 percent to \$1.28 billion.

Analysts expected a loss of 97 cents per share on revenue of \$1.33 billion.

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