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Barnes & Noble: A Brief History from Reconstruction to the 21st Century

Part I: The Origins of Barnes & Noble

The story of Barnes & Noble starts as far back as 1873 in the modest town of Wheaton, Illinois, located about twenty-five miles west of Chicago. The area had first been settled in 1831 by Erastus Gary and, starting in 1839, his former neighbors Jesse and Warren Wheaton laid claim to about a thousand acres in what is now the town of Wheaton, Illinois. The Galena & Chicago Union Railroad first appeared in the town in 1849 and contributed to a small but noticeable rise in traffic and trade. In the first few years of the 1870s, Wheaton eclipsed the one-thousand mark for total population.¹

In 1873, Charles Montgomery Barnes decided to open up a small bookstore in Wheaton. With the nearby Wheaton College and a new public school that had opened in 1874, Barnes's business had a steady rate of demand for school books. It was only a short three years before Barnes elected to move his business eastward to Chicago and set up shop as C.M. Barnes & Company. After a couple of decades, Barnes decided to focus exclusively on school textbooks and reorganized the business in 1894. His son, William Barnes, and William's father-in-law, John Wilcox, joined the company in the mid-1880s. Charles retired from the business in 1902

¹ "Wheaton, IL.," *Encyclopedia of Chicago*, accessed February 6th, 2015, <http://www.encyclopedia.chicagohistory.org/pages/1350.html>.

and established William as the president of the company. Five years later, Charles passed away and William renamed the business C.M. Barnes-Wilcox Co. the following year.²

Meanwhile, in the city of New York, Gilbert Clifford Noble was also involved in the book trade. Noble worked as a clerk in the Arthur Hinds & Company bookstore until the mid-1890s when he became a partner of the company and it was renamed to Hinds & Noble. Noble eventually gained exclusive control over the business in 1917. During that same year, William Barnes sold his share of C.M. Barnes-Wilcox Co. (which would go on to become Follett Corporation) and headed for New York where he continued working in the bookstore business with Noble. The name of this new business partnership was Barnes & Noble.³

It is worth pausing here to reflect on the origins of Barnes & Noble and to attempt to understand why it is that this business emerged in the late nineteenth and early twentieth century. As mentioned previously, the Galena & Chicago Union Railroad put the small, rural town of Wheaton on the map and connected it with Chicago which was a straight shot to the east of the town. According to population records provided by the United States Census Bureau, the population of Chicago grew from 4,476 people in 1840 to 503,185 people in 1880, one-hundred and twelve times the city's population in 1840. Chicago was growing at an exponential rate and

² Ted Striphas, *The Late Age of Print: Everyday Book Culture from Consumerism to Control* (New York: Columbia University Press, 2009), 61.; Laura Miller, *Reluctant Capitalists: Bookselling and the Culture of Consumption* (Chicago: University of Chicago Press, 2006), 47.; "Follett's Story," accessed February 6th, 2015, <https://www.follett.com/about-story>.

³ Ted Striphas, *The Late Age of Print: Everyday Book Culture from Consumerism to Control*, 61-62.; Laura Miller, *Reluctant Capitalists: Bookselling and the Culture of Consumption*, 47.

nothing, not even the Great Chicago Fire in 1871, showed any signs of halting this population boom.⁴

The expansion of railroads in the Great Lakes region is integral to the story of Barnes & Noble and to many of the businesses that emerged from this area. Railroads allowed for increased trade by decreasing the amount of time it took for people and goods to move from one location to another. This made it possible for small towns positioned along the rail lines, such as Wheaton, to take advantage of the railroads and use them to ship goods and establish trade with surrounding towns and cities and eventually larger regional markets. Without the railroads, towns such as Wheaton would have been an afterthought for many decades.

In addition to the railroads, Charles Barnes and Clifford Noble benefitted from an increase in school attendance during the late nineteenth and early twentieth century which fueled demand for school textbooks. Following the Civil War, school attendance dramatically increased. The most significant change in attendance figures focused mostly on black and minority attendance figures following the Civil War. According to the United States Department of Commerce, less than 2 percent of black and other minority children ages five to nineteen were enrolled in school in 1860 at the start of the Civil War. By the end of the decade and five years after the end of the Civil War, nearly 10 percent of black and other minority children were enrolled in school. Jumping forward half a century to 1920 when Barnes & Noble's first bookstore had been in business for three years, 53.5 percent of black and minority children were enrolled in school. More students enrolled in school meant more school textbooks were needed

⁴ United States Census Bureau, "Census of Population and Housing, 1880," *Statistics of the Population of the United States, Vol. I*, accessed February 6th, 2015, <http://www.census.gov/prod/www/decennial.html>.

and the demand for these books encouraged the growth of bookstore businesses such as Barnes & Noble.⁵

Part 2: Barnes & Noble Expands

As the 1920s roared on, Barnes & Noble realized that there could be a valuable business opportunity in retail bookselling in addition to their already successful wholesale operation of supplying New York City schools with schoolbooks. The company decided to move its store to Fifth Avenue in 1932 where it remained as the flagship store until its closing in 2014. Clifford Noble sold his stake in the company in 1930 and passed away a few years later. William Barnes continued to manage the company and witnessed the expansion of the retail division of the company during the remainder of the decade.⁶

Barnes & Noble spent much of the mid-twentieth century expanding its retail division in New York City and the nearby region. The company focused its efforts in the 1940s on improving store efficiency. Ted Striphas remarks that “perhaps the most unique innovation Barnes & Noble introduced during this period was ‘book-a-teria,’ a bookselling system whose name explicitly acknowledged the ‘peculiar history’ of books and food.” This system entailed picturing the bookstore as operating like a cafeteria. For Barnes & Noble, this system introduced a method of checking out books where a book clerk marked slips for customers, another clerk packaged the item, and then a final clerk processed the entire slip and completed the sale. This system greatly increased the efficiency of the store. Striphas further notes that “by the end of the decade, *Publishers Weekly* reported, several college book-stores in and around Manhattan had

⁵ U.S. Department of Education, Office of Educational Research and Improvement, *120 Years of American Education: A Statistical Portrait*, ed. Thomas D. Snyder (U.S. Dept. of Education, Office of Educational Research and Improvement, National Center for Education Statistics, 1993), 14, accessed February 7th, 2015. <http://nces.ed.gov/pubs93/93442.pdf>.

⁶ Ted Striphas, *The Late Age of Print: Everyday Book Culture from Consumerism to Control*, 62.

implemented similar systems in an effort to service their expanding student populations with comparable efficiency.” Although this particular system did not stick around for the long-term, Barnes & Noble continued to run an efficient and growing business that opened up a few new stores during the 1950s and 1960s.⁷

Suburbanization following World War II directly impacted the book trade by encouraging the growth of the shopping mall. As Americans gradually moved out of the cities and into the suburbs, the need for businesses around these new neighborhoods emerged. The increasing popularity of the automobile granted consumers the ability to drive outside their neighborhoods and shop at local stores. The simultaneous expansion of the interstate system across the country supported the emergence of the shopping mall in the 1970s. People bought cars, governments built roads and suburban neighborhoods, and businesses formed shopping malls. All of these elements combined with a booming economy, encouraging consumers to spend money at the local shopping mall.⁸

Prior to the shopping mall, books were sold primarily by small independent bookstores or in department stores. Generally, independent bookstores sold books aimed at a more educated audience while department stores sold books aimed at a more broad market of consumers. As the shopping mall emerged, stores like Waldenbooks and B. Dalton Booksellers multiplied across the nation and opened their doors to a mass market of consumers. By offering high discounts and larger selections, these book chains mitigated competition from independent bookstores. Barnes

⁷ Ted Striphas, *The Late Age of Print: Everyday Book Culture from Consumerism to Control*, 64-65.; “Barnes & Noble Remodels Its Quarters for Efficiency,” *Publishers Weekly*, December 6, 1941, 2090-2091.

⁸ Christopher Wells, *Car Country: An Environmental History* (Seattle: University of Washington Press, 2012), 253-287; John Thompson, *Merchants of Culture: The Publishing Business in the Twenty-First Century* (Cambridge: Polity Press, 2010), 27.

& Noble arrived on the scene a few years later than its competitors but continued the same practices that book chains employed to consolidate their share of the market.⁹

As the 1960s came to a close, Barnes & Noble sought new ownership as John Barnes, William's son and head of the company, passed away in 1969. Amtel bought out the company but within two years, due to a series of failures and store closings, sold it in 1971 to Leonard Riggio, a young but experienced bookseller in New York City. He opened up the Student Book Exchange in 1965 when he was just twenty-four years old which enabled him to secure the necessary resources and experience to buy the company. Riggio opened up six stores through his Student Book Exchange and promptly renamed them to Barnes & Noble after buying out the company. In a short four years, Riggio opened up the first Barnes & Noble sales annex in 1975 across from the store located at Fifth Avenue. This sales annex was 40,000-square feet, three stories tall, and featured mostly discounted books bought from closing bookstores and college students. The company sold many of these books at remarkably high discounts, often at-cost or even at a loss, with the aim of encouraging more customers to visit the store and buy other items. In addition to this, Barnes & Noble "took a bold and audacious step by becoming the first bookseller in America to discount books by offering New York Times bestsellers at 40% off publishers' list prices." While the end of the 1960s looked troublesome for the company with no leader at the helm, the end of the 1970s proved promising for the company's future outlook under Leonard Riggio's leadership.¹⁰

⁹ John Thompson, *Merchants of Culture: The Publishing Business in the Twenty-First Century*, 26-27.; Laura Miller, *Reluctant Capitalists: Bookselling and the Culture of Consumption*, 51-52.

¹⁰ Ted Striphas, *The Late Age of Print: Everyday Book Culture from Consumerism to Control*, 65-67.; Laura Miller, *Reluctant Capitalists: Bookselling and the Culture of Consumption*, 47.; John Thompson, *Merchants of Culture: The Publishing Business in the Twenty-First Century*, 27-28.; "Barnes & Noble History," accessed February 13th, 2015, http://www.barnesandnobleinc.com/our_company/history/bn_history.html.

Following the opening of the sales annex in 1975, Barnes & Noble accelerated their expansion efforts and opened up many stores across the Northeast in the next decade. The company opened up a handful of small retail sales annexes, small discount bookstores, and college bookstores. In particular, the company heavily sought out contracts with universities and colleges to set up bookstores on their campuses. In addition to this, Barnes & Noble bought out BookMasters and Marboro Books which immediately gave the company an additional fifty discount stores across the Northeast as well as access to a mail-order business and a larger national footprint. The impressive growth of the company indicated that Barnes & Noble was making progress as a national brand.¹¹

Despite this growth, the fact remains that by the mid-1980s, Barnes & Noble was limited largely to the Northeast. They were a few big steps away from becoming a national brand and still had work to do. By 1986, Barnes & Noble operated thirty-three trade stores and thirty-seven mini-annexes, most of which were limited to the Northeast. At the same time, Waldenbooks, the most prevalent bookselling chain in the country, operated nearly a thousand stores in shopping malls in every state. The mail-order business allowed the company to reach a larger national audience but for the company to establish a national brand it needed to make a more impressive, tangible mark across the nation.¹²

The next big move for Barnes & Noble came in 1986 when the company bought out B. Dalton Booksellers and transformed into a national brand overnight. The acquisition of B. Dalton led to Barnes & Noble gaining 797 retail stores, located in shopping malls all across the country.

¹¹ John Thompson, *Merchants of Culture: The Publishing Business in the Twenty-First Century*, 27.; "Barnes & Noble History," accessed February 13th, 2015, http://www.barnesandnobleinc.com/our_company/history/bn_history.html.

¹² Laura Miller, *Reluctant Capitalists: Bookselling and the Culture of Consumption* (Chicago: University of Chicago Press, 2006), 45.; Ted Striphas, *The Late Age of Print: Everyday Book Culture from Consumerism to Control*, 69-70.

The acquisition of B. Dalton stood out even more since Waldenbooks was the primary competitor of B. Dalton. B. Dalton operated nearly three hundred less stores than Waldenbooks but managed to compete against the company by earning similar revenues. Acquiring B. Dalton allowed Barnes & Noble to stake a large claim in the bookselling industry and become a national brand. However, this move came with growing pains. In 1998, Jeanne Dugan wrote an article for *BusinessWeek* where she remarked that “the Dalton purchase may have put Barnes & Noble on the map, but the chain's course was anything but smooth. Riggio added the Scribner and Doubleday & Co. mall chains in the late-1980s--just in time for a decline in mall traffic, forcing him to start shutting those stores down.” The shopping mall gradually decreased in popularity and the emergence of a new type of a store – the “superstore” – accelerated the decline of shopping mall bookstores. Regardless, Barnes & Noble expanded its national footprint dramatically and continued expanding. In 1989, Barnes & Noble bought out BookStop, a company located in Texas that operated superstores. These superstores set the foundation for future Barnes & Noble stores. In 1993, the company went public. In just two short decades, Barnes & Noble went from almost closing its doors to establishing a national empire.¹³

These new superstores opened up in the early 1990s and marked the future of Barnes & Noble retail stores. The company described these stores as “the information piazzas of America.” Each superstore was “designed to be reminiscent of an old world library, with wood fixtures, antique style chairs and tables, ample public space, a café and public restrooms.” In 1993, Barnes & Noble partnered with Starbucks to open up cafés in its superstores. Today, the company states that their cafés “pour approximately 60 million beverages, bake more than 6 million cookies and

¹³ S. Strom, “Barnes & Noble Goes Public: Vol. 2,” *New York Times*, September 3, 1993, accessed February 17th, 2015, <http://www.nytimes.com/1993/09/03/business/barnes-noble-goes-public-vol-2.html>; Laura Miller, *Reluctant Capitalists: Bookselling and the Culture of Consumption*, 44-48.; Ted Striphas, *The Late Age of Print: Everyday Book Culture from Consumerism to Control*, 70.

scones, and grill 3 million sandwiches annually.” In addition to cafés, the company expanded its stores to include music departments. In their annual report to the Securities Exchange Commission for fiscal year 1997, Barnes & Noble noted that by “February 1, 1997, the Company had 124 Barnes & Noble stores with music departments which range in size from 2,000 to 4,000 square feet. The music departments generally stock over 50,000 titles in classical music, opera, jazz, blues and pop rock, tailored to the tastes of the Company's core customers - the 35- to 45-year age group.” The company also expanded its stores to include toys, board games, a magazine section, and more with the aim to “make each Barnes & Noble bookstore an active part of its community.” Today, the company estimates that it hosts nearly 100,000 community events every year. The superstore became the primary business model for all Barnes & Noble retail stores.¹⁴

The turn of the millennium was an exciting time for Barnes & Noble and the company expanded in both physical and digital markets. By January 29, 2000, Barnes & Noble “operated 942 bookstores and 526 video game and entertainment software stores.” In 1999, the company dipped its feet into the electronics market when it acquired Babbage's Etc., one of the nation's largest video game and entertainment software companies. Over the next couple of years, Babbage's stores were gradually renamed to GameStop and Barnes & Noble relinquished its control of the company in 2004, which managed 1,514 stores at the time. The company also opened its official web site, “barnesandnoble.com,” in 1997 and gave customers “access to Barnes & Noble's more than 750,000 in-stock titles.” From the end of fiscal year 1996 to the end

¹⁴ “*Barnes & Noble History*,” accessed February 18th, 2015, http://www.barnesandnobleinc.com/our_company/history/bn_history.html; “*Did You Know?*,” accessed February 18th, 2015, http://www.barnesandnobleinc.com/our_company/did_you_know/did_you_know.html; “*Community*,” accessed February 20th, 2015, http://www.barnesandnobleinc.com/our_company/community/community.html; Barnes & Noble 1997 Securities and Exchange Commission 10-K Form, 5-6, accessed February 18th, 2015, <http://www.sec.gov/Archives/edgar/data/890491/0000889812-97-001072.txt>; Barnes & Noble 1999 Annual Report, 27, accessed February 19th, 2015, http://www.barnesandnobleinc.com/blue_investors/annual_reports/bnannual99.pdf.

of fiscal year 2006, Barnes & Noble went from having a 9 percent share of the consumer book market to a 17.5 percent share of the market, the highest percentage the company captured. In 2005, Barnes & Noble opened its first store in West Virginia, officially giving the company a retail superstore in every state of the country. Barnes & Noble was riding high on a wave of success and expansion.¹⁵

Part 3: The Challenges of the 21st Century

Of course, there is much more to the story than just success and recent years have proved especially challenging to the company. Bookstore chains were already struggling before the 2008 economic recession and the economic fallout after the recession led to nearly every bookstore chain retailer closing down several stores and some even shutting their doors all together. Waldenbooks, Barnes & Noble's biggest competitor in the 1970s and 1980s, was acquired by Kmart in 1984 and eventually taken under the ownership of Borders Group, Inc., another rival bookstore of Barnes & Noble that was acquired by Kmart. Starting in 2006 and continuing every year after that, Borders suffered financial loss and closed many of its stores. In 2011, Borders filed for bankruptcy and eventually closed its business, liquidating 226 of its stores in the

¹⁵ Barnes & Noble 2000 Securities and Exchange Commission 10-K Form, 4, accessed February 20th, 2015, <http://www.sec.gov/Archives/edgar/data/890491/000088981200001986/0000889812-00-001986.txt>; Barnes & Noble 2004 Securities and Exchange Commission 10-K Form, 4, accessed February 20th, 2015, <http://www.sec.gov/Archives/edgar/data/890491/000095012304004681/y96162e10vk.htm>; Barnes & Noble 2006 Securities and Exchange Commission 10-K Form, 3, accessed February 20th, 2015, <http://www.sec.gov/Archives/edgar/data/890491/000119312506073864/d10k.htm>; Barnes & Noble 2007 Securities and Exchange Commission 10-K Form, 3, accessed February 20th, 2015, <http://www.sec.gov/Archives/edgar/data/890491/000119312507074578/d10k.htm>; Barnes & Noble 1999 Annual Report, 28, accessed February 20th, 2015, http://www.barnesandnobleinc.com/for_investors/annual_reports/bnannual99.pdf.

process. With Borders out of the picture, Books-a-Million became the second largest book retailer in the country behind Barnes & Noble. Meanwhile, Barnes & Noble experienced a steady closure of its retail stores from 2008 when it operated 726 retail stores to 2015 where, “as of January 31, 2015, the Company operated 649 retail bookstores in regional shopping malls, major strip centers and freestanding locations.” Barnes & Noble, along with the rest of the bookselling industry, is competing with a new digital market and vendors such as Amazon and Wal-Mart who have larger capabilities to offer discounts and cheaper prices to customers.¹⁶

Bookselling shifted from department stores to chain shopping mall stores in the 1960s and 1970s, to superstores in the 1980s and 1990s, and most recently to online stores in the 2000s. As the twenty-first century dawned, the Internet allowed for consumers to buy products online and have them shipped to their home, eliminating the hassle of visiting stores. This new method of distributing products to customers invited companies like Amazon to dramatically change the way books were sold to customers. Amazon benefitted from having less rental costs as they stored their books in shipping warehouses rather than in retail stores. In addition to this, Amazon was able to offer customers a wider selection of books than retail stores. Retail stores could stock an impressive amount of books but Amazon could ship infinitely more books than retail stores could ever hope to stock. One of the most difficult challenges for retail bookstores like Barnes & Noble is selling books while also paying expensive operational costs such as rent and utilities. Companies, like Amazon, often find it is cheaper to sell books online and customers also find it is usually cheaper to buy books online. Online bookselling dramatically challenged

¹⁶ N. Bomey, “Ann Arbor bookstore chain files for Chapter 11 bankruptcy,” *The Ann Arbor News*, February 16th, 2011, accessed March 1st, 2015, <http://www.annarbor.com/business-review/borders-bankruptcy-ann-arbor-books/>; “Chapter 11 Store Closure List,” accessed on March 1st, 2015, http://media.bordersstores.com/pdf/Borders_Reorg_Closure_Listupdated3-17.pdf; “For Investors,” accessed March 1st, 2015, http://www.barnesandnobleinc.com/for_investors/for_investors.html.

the current method of distributing books to customers and cut into the profits of retail bookstores.¹⁷

Barnes & Noble currently faces many challenges that could impact the long-term health and sustainability of the company. One of the most significant challenges the company is engaging with is the “intense competition from traditional retail sources, the Internet and suppliers of digital content and hardware” that is making business more competitive and runs the risk of Barnes & Noble making less profit. Mass merchandise companies such as Wal-Mart and Costco present a challenge to the company since they can sell books at discounted prices higher than Barnes & Noble can usually match. Other companies like Amazon present the most difficult of challenges to Barnes & Noble since Amazon often offers products at cheaper prices and can do so without having to invest into physical retail locations. High discounts enabled large booksellers in the 1960s and 1970s to overcome independent booksellers and, ironically enough, presents one of the toughest challenges for large booksellers today.¹⁸

Barnes & Noble is also confronting the challenge of e-books with Amazon, Apple and other companies in the e-reading market. The company first released its e-reader Nook in 2009 for a price tag of \$259. Amazon’s Kindle e-reader was released in 2007 at a price tag of \$399. Apple’s iPad tablet was released in 2012 at a price tag of \$499. While the Nook was received with relatively positive reviews upon release, consumers generally stuck with Amazon’s Kindle, which was released before the Nook, as their preferred e-reader. Apple’s iPad benefitted from being a tablet in addition to being an e-reader and was able to focus its business squarely in the

¹⁷ John Thompson, *Merchants of Culture: The Publishing Business in the Twenty-First Century*, 40-42.

¹⁸ Barnes & Noble 2014 Securities and Exchange Commission 10-K Form, 31, accessed March 1st, 2015, <http://www.sec.gov/Archives/edgar/data/890491/000119312514253539/d728575d10k.htm>; John Thompson, *Merchants of Culture: The Publishing Business in the Twenty-First Century*, 45-50.

tablet market. Barnes & Noble's Nook business has struggled and recently ended their partnership with Microsoft on December 4th, 2014. Some investors, such as John Tinker from the investment firm Maxim Group, have asserted that "investors have a problem with Barnes & Noble at the moment, which is, are you a retailer, are you a technology company, or are you a college bookstore company?" The Nook business has been a burden and failure for Barnes & Noble and the company's future operations in the e-reading market are questionable.¹⁹

Barnes & Noble recently returned to its roots in the school textbook industry. In 2009, Barnes & Noble acquired Barnes & Noble College Booksellers Inc. which was owned by the company's chairman Leonard Riggio. At the time, the company operated 624 college bookstores and has since grown, currently operating 714 college bookstores stores as of January 2015 and services nearly a quarter of the country's college students. In the most recent news, Barnes & Noble announced in February 2015 that it would spin off its college bookstore division. This new business will become an entirely separate, independent, publicly-traded company called Barnes & Noble Education, Inc. As Barnes & Noble separates into multiple businesses, it will be interesting to see how well each business can operate in its respective markets and how they can adapt to the challenges of the twenty-first century.²⁰

Despite the tough challenges in recent years, Barnes & Noble remains the nation's largest bookstore chain and intends, some may say stubbornly, to passionately defend its stake in its

¹⁹ I. Fried, "Barnes & Noble's 'Nook' said to cost \$259," October 19, 2009, accessed March 1st, 2015, <http://www.cnet.com/news/barnes-nobles-nook-said-to-cost-259/>; C. McCarthy, "Amazon debuts Kindle e-book reader," November 19, 2007, accessed March 1st, 2015, <http://www.cnet.com/news/amazon-debuts-kindle-e-book-reader/>; Apple Press Info, "iPad Available in US on April 3," accessed March 1st, 2015, <http://www.apple.com/pr/library/2010/03/05iPad-Available-in-US-on-April-3.html>; A. Alter & D. Gelles, "Barnes & Noble and Microsoft End Nook Partnership," *New York Times*, December 4, 2014, accessed March 1st, 2015, http://www.nytimes.com/2014/12/05/business/media/barnes-noble-ends-partnership-with-microsoft-over-nook.html?ref=technology&_r=0.

²⁰ Barnes & Noble 2014 Securities and Exchange Commission 10-K Form, 1, accessed March 2nd, 2015, <http://www.sec.gov/Archives/edgar/data/1634117/000119312515064273/d879412ds1.htm>.

physical retail stores and continue to do business with customers face-to-face. The method of distributing books to customers by shipping it to their homes or downloading it to their e-readers has reduced the appeal of traveling to retail bookstores. High discounts on books from rival companies have made it difficult for businesses like Barnes & Noble to compete in the market. Barnes & Noble's venture into the e-reading market has proved largely unsuccessful up to this point in comparison with their competitors. Barnes & Noble faces tremendous challenges in the twenty-first century and must adapt to the rapidly changing industry or else it will soon experience the same fate that Waldenbooks, Borders, and many other bookselling companies have already suffered.