



MICHIGAN BUSINESS

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Borders loses \$74.4 million in quarter

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Borders Group reported a \$74.4-million loss Thursday and announced it would test new features and services in a handful of stores as it struggles for profitability in a rapidly transforming industry.

The Ann Arbor-based bookseller offered Monday to buy larger rival Barnes & Noble for \$16 a share with the financial backing of major shareholder William Ackman. It reported its earnings after the stock market closed. Its shares were pushed down 10 cents a share to \$1.27 in after-hours trading.

Borders lost \$1.03 a share in the three months ended Oct. 30, compared with a 63-cent-a-share loss in the same period a year ago. Borders also reported its sales at stores open at least a year were down by 12.6% in the third quarter. Revenue dropped 17.6% to \$475.6 million from \$577.8 million in the third quarter of 2009.

Borders Group President Mike Edwards said during a conference call with analysts that a new strategic plan had not been in place long enough to improve results.

"We have a comprehensive, executable plan in place that supports our goal of transforming the iconic Borders brand into a profitable economic model over time," Edwards said on the call.

But Borders has been in turnaround mode for four years and continues to lose millions, said Ken Dalto, a Farmington Hills-based turnaround expert. Borders lost \$109.4 million on sales of \$2.8 billion last year.

Sales on Borders.com fell 8.6% to \$12.5 million in the third quarter. It reduced its inventory by \$233.7 million in the quarter. But it signed up more than 580,000 customers for its rewards plus program, bringing in \$11 million in revenue.

"If you go four years with all these losses, the core of your strategy is not working," Dalto said. "It is faulty. This just shows it."

Dalto said that as Borders continues to concentrate on its brick-and-mortar stores, Barnes & Noble continues to surpass it there. Walmart also has taken a lot of sales from both booksellers.

Meanwhile, as Borders tries to build its e-commerce operation, it has to contend with Amazon and Barnes & Noble. And now as digital readers and the electronic book business explodes, it has attracted huge competitors Google and Apple.

"With Google, Amazon and Walmart, you have three 800-pound gorillas in the room. And you are a 98-pound competitor," Dalto said of Borders.

Borders said it closed 10 stores in the third quarter and plans to close 16 in the fourth quarter.

It said it hired Boston Consulting Group to do extensive consumer research to help it differentiate its stores in the marketplace. As a result, Borders plans to test new features and services in a handful of stores in New York City and Washington, D.C.

The features include new sections for kids and their families with more educational toys and games, educational programs for children at stores and an expanded selection of e-readers.

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