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**Bookseller revamps online strategy**

## Borders begins a new chapter

Firm to close some stores, update others

Jennifer Youssef / The Detroit News

**ANN ARBOR** -- Faced with four straight quarters of losses and a marketplace that has decidedly shifted to online, Borders Group Inc. unveiled an aggressive company overhaul Thursday that includes an all-new retail Web site, a major update of its Borders superstores, shuttering nearly half of its Waldenbooks stores, and the possible sale of most of its overseas operations.

The company, founded in an Ann Arbor storefront by two brothers in 1971, announced its multi-prong plan to return to profitability after posting an unexpected fourth-quarter loss on Thursday. For its fiscal 2007, which ended Feb. 3, the company lost \$151.3 million, including \$73.6 million in the fourth quarter alone.

"We need to reinvent our business to exploit the rapid changes taking place in how consumers access information and entertainment," Borders Group CEO George Jones said in a statement. The former Saks Inc. CEO was hired to lead Borders just nine months ago.

"Our ultimate goal is to make Borders a vital community gathering place where people come together to see, touch, interact and learn -- online and in-store."

Now is a good time for the company to rethink the way it conducts business, analysts say. Consumers are going to the Internet and wholesale retailers more than ever, leaving specialty stores behind.

The business model Borders used in 2000, with its 290 superstores at the time, doesn't work anymore, said Farmington Hills retail analyst Kenneth Dalto.

"This is the beginning stages of a turnaround phase," Dalto said. "They grew too quickly while the Internet, Big Box stores and discounters cut into their profit. Financially, they're in trouble, but if they're quick to sell (assets and underperforming stores), they can pull it back in 2008."

A big part of Borders' game plan involves ending its six-year marriage with Amazon.com and launching its own Web site for online sales.

In 2001, Borders abandoned its money-losing online business, turning it over to Amazon. Under that setup, Borders.com takes shoppers to a site partnered with Amazon, while a separate Web site for its stores allows shoppers to check inventories and reserve items.

The company expects the new Borders.com, under development since the fall, to launch early next year and be independently profitable in 2009.

Borders' renewed focus on its superstores will include creation of a new concept store prototype, the company said. Stores will introduce computers and kiosks that will offer discounts and coupons, Jones said.

For example, travel or cooking departments may have special offers, he said. Some of these features will show up in stores beginning in the second quarter, he said. Most of the changes will occur in early 2008.

The number of Waldenbooks stores will shrink to about 300 by the end of next year, the company said, with the closing of about 250 underperforming stores.

If Borders doesn't turn itself around quickly enough, it could be targeted for acquisition by another company or a private equity fund, Dalto said. But he doesn't foresee a takeover by Barnes & Noble, saying the No. 1 book seller "isn't strong enough" to acquire Borders by itself.

Senior investment analyst Derek Leckow of Barrington Research expects it will take at least two years before Borders is profitable again.

"This is something that has to be done," Leckow said of the restructuring plan. "This is still a great business and there's still potential for growth."

Borders said Thursday it won't provide future sales or earnings guidance during its restructuring.

This year will be one of "transforming and stabilizing -- but not significantly improving -- financial performance," it said.

*Detroit News wire services contributed to this story. You can reach Jennifer Youssef at (313) 222-2319 or [jyoussef@detnews.com](mailto:jyoussef@detnews.com).*

### Borders at a glance

**Headquarters:** 100 Phoenix Drive, Ann Arbor**Chief executive officer:** George Jones, since July 2006. Former CEO of Saks Inc.**Stores:****Borders:** 499 in the U.S., 73 outside the U.S., 27 in Michigan**Waldenbooks:** 564 in the U.S., 13 in Michigan**Employees:** 34,000 worldwide, including 1,200 employees at its headquarters**Founded:** 1971, when Tom and Louis Borders opened an 800-square-foot used bookstore and called it Borders Book Shop.*Sources: Borders Group Inc., Detroit News research*

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