Holiday Sales Decline Shows Nook Losing Its Niche

Barnes & Noble posted a decline in retail sales in the holiday season as the largest U.S. bookstore chain's efforts to take on Apple's iPad with tablet-style Nooks fell flat with shoppers.

Sales from stores and the website sank 11 percent to $1.2 billion, the New York-based company said Thursday. Revenue at the Nook unit, which includes devices, accessories and content, fell 13 percent to $311 million.

Barnes & Noble's Nook division is key to the company's future as it tries to capture consumers reading electronic books. The retailer released two new versions of the Nook tablet for the holidays, around the same time Apple introduced a smaller version of the iPad designed to keep customers from buying low-cost tablets from competitors.

"Success of the iPad mini likely pressured sales of Nook tablets," David Schick, an analyst at Stifel Financial Corp., wrote in a note Thursday.

Apple introduced the smaller version of the iPad in October. The device has a 7.9-inch (21 centimeter) screen diagonally and is priced starting at $329. The 9-inch Nook HD+ went on sale in September for $269. Competition also came from Amazon.com Inc.'s updated set of Kindle Fires that were announced in September.

Both Amazon and Barnes & Noble have increased access to content beyond digital books and touted specifications such as screen resolution and processing speed as selling points to expand their customer base beyond readers.

"It's a challenging marketplace for them to compete with the likes of Apple and Amazon," Michael Souers, an analyst at Standard & Poor's in New York, said Friday in an interview. "It looks pretty bleak, long-term."

Barnes & Noble didn't break out results for specific Nook models. Sales of digital

content rose 13 percent. They more than doubled during last year's holiday season and surged 38 percent in the quarter ended Oct. 27.

"Nook device sales got off to a good start over the Black Friday period, but then fell short of expectations for the balance of holiday," William Lynch, chief executive officer, said in the statement.

The retailer has been investing in the Nook at the expense of profits to gain a piece of the growing market for digital books. The division, which includes college bookstores, also received investments from Microsoft and Pearson. The investment from Pearson, announced on Dec. 28, values the Nook unit at $1.79 billion, more than twice the market capitalization of the entire company.

"We are examining the root cause of the December shortfall in sales, and will adjust our strategies accordingly going forward," Lynch said.

Last week, Barnes & Noble announced that sales for the holiday period were below forecasts. So-called same-store sales, a key measure of a retailer's growth because only established locations are counted, dropped 8.2 percent, the retailer said yesterday.

Barnes & Noble underperformed other retailers, which reported same-store sales Thursday. Revenue by that measure for the more than 20 companies tracked by Swampscott, Mass.- based Retail Metrics rose 4.8 percent last month, excluding drugstores, beating the estimate for a 3.4 percent gain, the firm said. That followed a 1.6 percent gain in November.

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