What Became of Borders?

Some Evolutionary Economic History of the Book Trade in America

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Version of 040514

This text gives the narrative that will be in the background of an LEM seminar at Sant'Anna on May 14, 2014. I am grateful for comments on earlier versions from audiences at the Wharton Seminar on the Evolution of Organizations and Industries (and in particular from my discussant on that occasion, Constance Helfat), the University of Wisconsin-Madison's Center for the History of Print and Digital Culture, the Penn Seminar on the History of Material Texts, the Bibliography and Textual Studies Interest Group at the Harry Ransom Center of the University of Texas in Austin, the Penn Economic History Forum (and in particular to my discussants Peter Brantley and Harborne Stuart), the Tübingen Universität Abteilung Wirtschaftsgeschichte, the Johns Hopkins University History Department, the Library of Congress, and the John Carter Brown Library. The financial support in the larger project of the Wharton School Dean's Office and its Mack Center, the latter a particularly stalwart backer, have been indispensable. The University of Michigan Department of Economics facilitated some of the interviewing through its MITRE Visiting Scholars program. The usual disclaimer applies.

As will be obvious, this text is an intermediate product, still in expansion and development. That makes feedback—especially when critical—from the audience particularly valuable. But it also makes the author request that the text not be passed on to anyone not planning to attend the seminar on the 3rd without his explicit permission.

The days of our youth are the days of our glory.

George Gordon, Lord Byron
“Stanzas Written on the Road Between Florence and Pisa”

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Introduction

The purpose of this paper is to give an account of the demise of Borders Group Incorporated, the American chain of large-format bookstores. That demise was conspicuous. The company had reached in the Fortune Five Hundred in the sixth year after its 1995 IPO. Its stores were a familiar sight across the country (and indeed, for a time, in a number of major cities abroad). But the collapse, when it came a decade later, was complete. The Chapter 11 bankruptcy filing in February of 2011 eventuated not in the usual reorganization but in an auction; and despite some last minute suspense, there were, in the end, no bidders acceptable to the creditors' committee. Liquidation of the firm's assets began in July, 2011, and was completed in September.

The demise, of course, did not start in 2011. The firm had once seemed a harbinger of great and positive change in its industry. I wrote a paper about the machinery in the background in 1998.[1] The company's future seemed bright when I wrote. This paper is about what happened after that point, good times—which there were—and bad.

The most straightforward way of proceeding would be narrative and centered on the firm. The task would be to document what went well (and how well it went) until eventually it didn't. This is an established genre. The drama would lie in the results, good, indifferent, and otherwise. If such a study were to be written in the traditional style, the narrative would focus on products (Harry Potter's presence and absence might feature prominently), store openings, the highlights of financial statements, and stock market activity. The periodization would be by chief executive appointments. The chief executives themselves would be central (perhaps themselves, like Harry Potter, somewhat supernatural) figures

My earlier paper took a somewhat different approach. It was an attempt to root the detailed historical analysis of the competitive process in the study of the accumulation of firm-specific capabilities and it came to be seen as a leading example of the genre.[2] I had not really thought through the anti-Whig history program at the time I wrote it.[3] But I did have a visceral sense that there would be interesting trials to analyze if I waited, that I shouldn't write more until a good deal more of the firm's history and its interactions with various aspects of that ongoing history's context had played out. In terms of the firm's own history, at least, there is now no need to wait any longer.

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1 Raff, "Superstores and the Emergence of Firm Capabilities," *Strategic Management Journal* 21(10-11) (October/November 2000) [Special Issue on the Evolution of Firm Capabilities]: 1043-1059.

2 Nelson and Winter, "Evolutionary Theorizing in Economics," *The Journal of Economic Perspectives* 16(2) (Spring, 2002), 42.

3 For the most extensive exposition to date, see Raff, "How to Do Things with Time," *Enterprise and Society* 14(3) (September, 2013): 435-466.. I give a little more detail below.

But one might productively probe a little more deeply, for this is a setting in which a more thoroughgoingly evolutionary perspective on economic change might be in order.[4] The evolutionary perspective urges a shift away from the preoccupation with optimization and equilibrium states of traditional economics and a focus instead on the limitations of information is actually available to actors, the boundedness of the computational capabilities economists so casually assume, and the generally satisficing mode of organizational decision-making. It sees organizational action predominantly as a matter of carrying out routines which tend to persist over time (however much the organizations may also search for new routines from time to time). The central idea is that the behavior of populations of organizations changes predominantly through selection processes such as entry and exit rather than through intra-organizational optimizing adjustments ('feedback, not foresight'). The central point of my paper was that the Borders and Barnes & Noble superstores, however dissimilar both were to their independent bookstore competition and however similar they might look from the outside and on casual inspection within, represented as of that writing very different sets of routines and capabilities. The suggestion that industry evolution going forward would be influenced to a significant degree by these differences had a very evolutionary flavor to it.

I want to carry forward the project of writing evolutionary business history. I have addressed elsewhere at considerable length the question of how one might, as a general matter, go about doing this. There are three key elements. The first is to write the history from a forward-looking perspective, with the focus on actions and decisions (rather than their outcomes) and the evolving context as a more or less demanding selection mechanism (rather as a dramatis personae or a source of narrative color). The second is to pay close attention in that to the development over time of the firm's competitively valuable capabilities and in the ability of those capabilities to command surplus in the marketplace in a way which enables the firm to move forward productively, in its operations and its investments, over time. The third is root the analysis of firm-level action and decision-making in a realistic psychology in which habit as well as formal analytical cognition both play a role.[5]

I have been pursuing various single elements of this agenda in different projects.[6] I have thus far found it difficult, within the compass of even a very long single paper, to treat all three in any particularly satisfying way. But what I propose to do in this paper, once it attains a full realization, is to chance my arm a little more than previously, taking on more than one element at

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4 The locus classicus of this approach is Nelson and Winter, *An Evolutionary Theory of Evolutionary Theory of Economic Change* (Cambridge: Harvard University Press, 1982).

5 I certainly don't want to go so far as to say that this last amounts to studying incapabilities as well as capabilities, though it might in the most extreme cases come to that. The old phrase "core rigidities', which I first encountered in the work of my quondam colleague Dorothy Leonard-Barton (see e.g. "Core Capabilities and Core Rigidities: A Paradox in Managing New Product Development." *Strategic Management Journal* 13 (summer 1992): 111–125), sometimes seems helpful in this setting.

6 For some (inevitably but nonetheless unfortunately truncated) examples, see my chapters on "The Business of the Press" and "Oxford University Press-New York" in William Roger Louis, ed., *The History of the Oxford University Press* Vol. III (Oxford: Oxford University Press, 2013). (Somewhat more expansive versions of the material are available now. I made an attempt to present less granular detail but more connection of these particular dots in a series of lectures given at the London School of Economics in May, 2012, though the format constrained me from presenting the degree of detail which would have been best. I hope to have a written and more fully realized version available in the not too far distant future.)

once. I want at a minimum to trace capability development alongside surplus generation and capture over an enterprise-level life course (i.e. all the way through to exit and aftermath) for Borders in a reasonably fully realized industry context. Perhaps I will be able to execute the whole agenda in sufficiently satisfying detail—I am in fact modestly hopeful about this. There is a bit more legwork still to be done; but the main point about this version at least certainly is that it is, in the respects just described, an experiment. The reader will have to judge for him or herself whether the detail on offer here is sufficient to be interesting and the approach in the end illuminating, never mind—odd as a narrative without, in important senses, a real endpoint may seem to some—satisfying.[7] I am sorry this version does not have the level of detail I hope it eventually will. I hope it is detailed enough to give at least the flavor of what I have in mind.

7 On narrative without endpoints (and laying down the challenge to which all this recent work is in a sense a response), see Galambos, "Recasting the Organizational Synthesis: Structure and Process in Twentieth and Twenty-First Centuries," Business History Review 79(1) (Spring, 2005), p. 3 fn. 6.

Some Brief Remarks about Routines as Genes, in General and at Borders

Capabilities will be, as noted, central in this analysis. For the basic meaning of capabilities I follow the line of thought originating in Nelson and Winter.[8] Individuals possess skills and cannot always, or possibly even often, say on what bases their skilled performances rely. Organizational routines are a collective counterpart to individual-level skills. Much of what is tacit in this counterpart concerns coordination and, in particular, the mobilization of complementary factors. Organizational capabilities are high-level routines or groups of routines deployed in response to specific challenges and circumstances.

Nelson and Winter were interested in the transmissible basis of firms' ability to capture surplus in aid (from the Nelson and Winter perspective) of persistence over time. They sought to root this in notions of what firms can do which is in one economically valuable way or another distinctive. This led to their celebrated metaphor of routines as genes. They did not insist that there is no change in routines over time—indeed, they discuss research and development as search explicitly—but the flavor of their discussion was that routines change only slowly and incrementally at that, so that they have something like the function of genes in Darwinian evolutionary theory. (There is a slightly Lamarckian flavor to this analysis, since routines can be the subject of conscious attempts to change. That is not a matter which need concern us here.) In this discussion, routines are not exactly an equilibrium state of affairs. But they seem to constrain activity, being sources of continuity rather than variety.

Thirty years on, one finds that an elaborate literature developed about the substance and significance of organizational routines. The literature might seem confusing, because different notions came to be referred to by common names. It has emerged that a set of distinctions is in order.

There certainly is a sense in which explicit rules and procedures generate routine behavior. To the extent they are followed, they are routines. But in most familiar organizations they hardly exhaust the repertoire of routine behavior and we are all familiar with rules more honored in the breach than the occurrence. This last often seems to have to do with the value of flexibility in the face of unforeseen circumstances, on which see below.   It is also the case that focusing on repetitive action patterns reveals a great deal about the routines of organizational life. To the extent that there are explicit rules and procedures and these are followed, the traces will of course be visible in recurrent action pattern. But the class of recurrent action patterns may be a much larger one. This class of recurrent action patterns is framed in an explicitly retrospective way. In some settings, it is helpful to think about routines as behavioral dispositions. (Flexibility and the generative come in here.)

Recent developments in the organization of retail trade highlight the significance of routines. This is certainly the case secularly, in the rise of multi-establishment firms in the distribution sector with the chain store movement of the early twentieth century and in their late twentieth century second flowerings, focused as those were on economies of scale in an essentially transactional setting.

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8 I draw this specific formulation from a summary presentation of Winter at the 2013 EOI Spring Conference.

One sees all of this in tight focus in the retail trade in books. Almost without exception, highly-multi-establishment bookselling organizations are not organized through franchising, still less through franchising with extensively specified operating procedures.[9] These are organizations with standardized trade dress, fixturing, and layouts. In the more behavioral realms, the recruiting and training of staff, protocols and expectations for customer interaction, means of gathering information bearing on merchandising decisions and the making of those and pricing decisions are all at one level or another highly routinized.

Two different aspects of this are particularly conspicuous in the case of Borders. The routines bearing in any way on personal interactions with customers were all set up with particular attention to creating intimate, engaged interactions which led to merchandise being placed in the hands of the customer and the customer being encouraged to browse, on the shelves and in the texts, in an unhurried way before making a purchase decision. These are at once routines and ones which would lose some effectiveness if specified in excessive detail. The merchandising decisions were to a very great extent based on localized evidence but centralized processing, a routine at various levels of abstraction.

The initial significance of the company can be summarized easily. The latter set of routines, facilitated by the trade convention that merchandise was typically shipped well ahead of required payment dates and could in any case be returned for trade credit, if not shopworn, for many months after arrival at the retailer, created the possibility of massively more broadly merchandised stores than had been common, or perhaps even seen, in America outside of the center city districts of a small number of very large cities and the main drags of a number of large university towns. These were bookshops. They were stores, in both senses of the word, with selections like libraries. This was an extraordinary development for the American reading public, particularly those in suburban locations badly served by public transit or simply nowhere remotely near a good bookstore (or even library). To such consumers, hungering for both reading matter and the discovery of something new, the paradigmatic Borders store was a kind of angelic visitation. Perhaps angels aren't quite the Burning Bush. Their visitations could be momentous nonetheless.

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9 This has not always been the case. Oddly enough, one franchising company dating to the 1960s was actually headquartered in Ann Arbor, later the hometown of the Borders enterprise. But the franchising company has long since ceased to be of any commercial significance now.

Some Even Briefer Remarks on the Operating Environment

Successful retail trade is dependent upon the existence of interested customers with money to spend. This sort of external environment can be a facilitating (and perhaps even an explanatory) factor in the life course of a retailing enterprise (and in particular an innovative one). It may therefore be helpful, before plunging into the operating and marketplace history, to give a little background concerning aspects of the basic environment confronting Borders during the years in question.

Borders started its first operations in Ann Arbor in 1971 and it went into liquidation in 2011. It will prove convenient in what follows to divide this period of forty calendar years into four segments of roughly ten years each: 1971-1984, 1985-1992, 1993-2000, and 2001-2011. It is only practical to give evidence on a national basis but there is value in keeping in mind even such coarse-grained evidence.

It is helpful to treat growth in real income and changes in the price level separately. The most appropriate easily available national income measure is Gross Domestic Product (GDP). Growth in real GDP in 1971-1984 was modest and its course turbulent. The largest single source of turbulence was due to the OPEC oil price shock deriving from its embargo announcement of October, 1973, and the stagflation this set off. The period 1984-2000 was generally much more expansive in real terms, the latter part of it much buoyed the coming of the Internet and the recognition of the prospects of WWW-based commerce. The period from 2001 through 2011 was troubled even by the standards of the early 1970s. The end of the tech boom in March, 2001, created a recessionary environment and the 9/11 attacks the following September magnified this greatly. (Economists refer to the period that followed as the Great Recession. Some readers will recall the President of the United States encouraging the country's citizens to go out to the malls and go shopping.) The failure of Lehman Brothers in September, 2008, ushered in a severe crisis in which financial markets briefly froze and functioned at best very awkwardly for an extended period and in which general levels of economic activity were and remained for some time quite depressed. (The early part of the crisis period was, in particular, a very bad time in which to have to roll over corporate debt.) Levels of real economic activity gradually began to recover as the period drew towards its end, in significant measure on the back of activist monetary and fiscal policy; but unemployment remained stubbornly high and the ability of recent college graduates to find jobs presumably constrained their spending and chastened many others.

Inflation causes problems of its own for retailing firms and so may be thought worth examining separately. Any firm with a long cash conversion cycle is vulnerable in inflationary times unless it updates its sale prices promptly when its costs of resupply—of any stock-keeping unit that sells or of whatever might replace such a unit in the firm's inventory—rise. In the book trade, this problem afflicts the manufacturers (the publishers) as well and the distributors (here, the retail bookstores). Failure to do something like this in periods of sustained inflation will create cash shortages and potentially even threats to firm viability even when accounting done in the traditional strictly nominal terms shows profitability. Inflation spiked in 1973 and 74, reaching a first peak of 11 percent per annum in the latter year. It lessened but remained high through a second peak, this time of 13.5 percent, in 1980, after which it gradually receded to historically more ordinary levels with more normally modest amounts of volatility.

Some basic demographic background will also be helpful. There was a sharp increase in the birth rate ca. 1946-1949, but by the standards of demographers the United States had abnormally high birth rates from 1946 through 1964. The children of this this baby boom will have been of undergraduate age from 1964 through 1986 and gone through the succeeding life-cycle stages in a similarly staggered fashion. Cohort life-expectancies were such that the oldest of these were expected on average to die in 2012 and 2034.

Pre-history of the Borders enterprise

The Borders company began in the university town of Ann Arbor, Michigan in the late 1960s. I give some detail in my 2000 article.[10] The initial enterprise was initially a used book store. Two brothers, Thomas and Louis Borders, were the entrepreneurs. It is of some significance in the events that followed that Louis Borders had previously been an applied mathematics graduate student at MIT and was competent at writing software code.

Selling used books proved unsatisfying in various respects which need not concern us here. The brothers liked the idea of book retailing, however. Ann Arbor was and remains the home of one of America's most prominent public universities. Faculty and staff together numbered about 28,000 at that time. From a book trade perspective, these people were a natural potential clientele, since their work habituated them to reading (and probably to a significant extent pre-selected for enjoying it). The brothers thought that they ought to be able to make a living selling books in such a setting if they were smart about it.

The history of the enterprise proper begins at this point; and it begins as the history of a single store. There are many fewer documentary traces—publicly available financial statements, articles in newspapers and the trade press, and so forth—for this period of the company's life and so the section that follows is more dependent than most of the rest on information gleaned from (extensive) interviewing of actors in the events (and of course from careful comparison across interviews and consideration of what the interviewees said in terms of what else is known about the places, the opportunities, and the rest of the industry at the time).

There is a view of retailing that sees it as being little more than an example of real estate: the key factors for success are location, location, and location. Much of the Ann Arbor book trade just before Borders began seems an example of this. Just before the initial Borders store opened, the *American Book Trade Directory* reported a total of thirteen establishments in the retail book trade in Ann Arbor.[11] Most were clustered near the perimeter of the central campus.

The single Borders store moved location on a number of occasions; but the locations were all very close to the perimeter of the core of the University on established shopping streets with plenty of foot traffic. A more striking difference between the properties was the size. The initial used book store at 211 S. State Street had been 800 square feet and the initial retail site at William and Maynard was, while better located, not a great deal larger. The site at 303 S. State Street, to which the store moved in 1974 and in which it stayed for twenty years, had 10,000. This observation gets close, though without really clarifying anything, to the sources of the store's early success.

The reason location and on-site space are on their own an incomplete description is that it mattered what was put into the space. Here the central idea can be put into an aphorism. The Borders brothers thought they ought to be able to make a reasonable living selling new books at something like first price in a place like Ann Arbor if only they could be smart about what they

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10 See Footnote 1 above..

11 Helaine MacKeigan, ed., *American Book Trade Directory* 20th Edition (New York: R.R. Bowker,1971.)

put out in their inevitably limited display space (tying up working capital in various ways all the while) and very smart about when they had made a mistake.

Both elements of this deserve elaboration. The store requires revenue to cover its costs and have any hope of generating a profit. Revenue comes chiefly from sales. So knowing what potential customers might want to buy is the first step in efficiently selling to them. But bookselling is a differentiated products industry to an unusually extreme extent. Many promising ideas of which books might be saleable to a particular locale's population might prove to be mistakes. (The task of identifying mistakes is not made simpler by the fact that there are a number of distinctly different time paths for sales of successful books.) Display space in a physical store is inevitably limited and the working capital to support the space and the actual display is limited as well. Recognizing mistakes when they have been made and repurposing the working capital and the space to displaying another title is no more than the dynamic version of choosing the right books in the first place.

As I will discuss below, the Borders brothers developed a novel and powerful approach to addressing these two problems (or, as I argue, these two facets of a single problem). This may clear as far as it goes (and it goes as far as most presentations in Strategy teaching do in fact go). But it is important in understanding both how the idea worked and how the enterprise's early development went to see what this relatively abstract formulation leaves underdetermined. As a guide to action, it only says "Stock titles you think the customers will buy." It doesn't address the question "How many titles?". One might think that that is a question to be addressed by experimental but essentially microeconomic methods—expand the merchandising breadth, compare benefits against costs, if benefits are larger than the costs expand the merchandising breadth further and if costs are larger than the benefits cut back. That is roughly how the founders remember what happened. And it was roughly what happened in terms of outcomes. But it will be helpful to probe a little more deeply into process.

It may be helpful in understanding that to pause for a moment to reconstruct the Ann Arbor book trade context. Of the thirteen Ann Arbor bookstores the 1971 *ABTD* reported, one was basically a music store and another dealt in occult, astrological, eastern religion, and mystical literature. One (Logos) dealt in religious literature. One specialized in illustrated books (rare and new, specialty in mail order). One was the college bookstore of a Lutheran junior college far from the central University campus. Six of the remaining seven identified themselves as "College" or "College-General". These did a substantial trade in textbooks, insignia clothing, University memorabilia, and the like. The remaining one characterized itself as strictly "General" with some focus on art books and supplies. Its space was quite modestly proportioned. .Once the first Borders State Street store opened, Borders was conspicuously a very different sort of enterprise.

It was a very different sort well-suited to its times. The preceding dozen or so years had been full of anxiety about our scientific accomplishment and education and of social uproar on many other issues. And the Baby Boom children were entering the phase of their lives in which they spent a lot of time reading and a lot of time contemplating what to do and how to live. The demand for reading matter was up; and the supply side accommodated. It was a tremendous time to be in publishing, particularly on the non-fiction side. The modest upward trend in the number of books in print took a sharp uptick.

A university town is full not only of students who are fully engaged with and progressing in their course of studies. Characteristically there are also those who are in the process of disengaging. Many like the life but not the prospects. Some more or less know they are done with being students but have not yet really figured out what else to do But when the fellowship money stops, they must—if they are not to move someplace else, perhaps leaving not just a life but a partner, and start from scratch—find something else to do locally. These are often people who liked spending their days reading. The idea of working in the book trade, and conveying their enthusiasms to others, was often quite appealing. Often, in those days in Ann Arbor, such people would stop by the Borders store to inquire whether there were jobs going. (A photograph of the early store staff will bring back memories to those who can recall the times.)

One such inquirer was named Joseph Gable. Prior to arriving in Ann Arbor, Gable had been a graduate student in European history at the University of Wisconsin in the Wisconsin History Department's glory days. At one point he obtained a Fulbright to do thesis research in Europe. When that money ran out and his enthusiasm for the thesis topic also began to dwindle, he and his then partner came home. A series of not very satisfying jobs followed. She decided to get a graduate degree and accepted a Michigan offer of a place. So they moved to Ann Arbor. He had, in Madison, worked part time in an unusually broadly merchandised used book store. A Borders inquiry seemed a natural move.

The pith of the interview between Tom Borders and Joe Gable attained a legendary status among store employees. To the question "What do you think of the store?" Gable replied "It's good. It could be better." (He is indeed a man of few and short sentences.) His ideas concerning how to improve it were many but the core of them concerned merchandising. He wanted a carefully curated stock but absolutely as broad a stock as possible. This might be seen as a blunt instrument, a large-step version of the incremental analysis sketched above (and with someone else's money at risk). It is better viewed as a deeper way of proceeding, as a view on why potential customers might want to come into the store in the first place. That view was that in a town like Ann Arbor and with a reasonably convenient location, potential customers would come to a store that promised discovery: not only items you knew you wanted but also, if not chiefly, items you did not yet know you would want as soon as you knew about them. Gable saw the key task a propos the customers as maintaining a stock that would be just brimming with interesting reading matter individual customers didn't necessarily know about and having a staff that could help the customers find what might capture their attention.

Taking this seriously involve, from the owners' perspective, a commitment to risking a lower stock turn—roughly speaking, a lower productivity of invested capital—than would be the case with a store more consistently merchandised with fast-moving stock like (actual) best-sellers. But if the strategy is successful, what the risk-taking buys is a larger and more curious clientele and one presumably more inclined to buy without agonizing about whether the stock is for sale at a discount or only at first price.

None of this had to mean effective execution, of course. There are many ways for such a strategy to fail. But Gable was hired and six months later was promoted to managing the store. The many employees who worked in the store over the years I have interviewed talk about him as if he was the spirit of a very particular bookstore. He was clearly not the easiest person with

whom to work. But he does seem to have had real gifts for the sort of enterprise he described; he led the Borders store with that ideal in mind; and the evidence of my interviews suggests that he got fairly far with it.

He seems to have led in two distinct ways. The first was by example. It was not just a matter of a sort of perfectionism about placement (where the individual items of stock sat and in what numbers [generally only one on the shelves], how they presented to the customer, precisely what went on to the tables at the front of the store instead of in the bookcases, and so forth), display (the neatness of the way the books sat on the shelves), or even the look of the entrance from the street (he seems to have been often observed just before opening sweeping the sidewalk). His perfectionism and ambition extended to merchandising. To paraphrase Gibbon, the graduate student in intellectual history and the staff member of the sort of university town used book store that buys the personal libraries of downsizing or deceased faculty members was not useless ton the manager of an intellectually ambitious bookstore on the main drag of another big research university town.[12] The range of his background knowledge of books potentially for sale was very broad indeed. He read the publishers' catalogues assiduously, backlist as well as front. He oversaw the ordering. He followed the flow of daily transactions at a title level at the end of each day from the control cards inserted by store staff into each book when it went out on display and he knew the stock, both on the floor and in the basement awaiting an opening in the shelf space. It may not actually be the case that he knew all this cold in real time; but the fact that so many employees thought he did was clearly a powerful social fact. The store's offerings were about breadth and the store's staff was about being knowledgeable enough to interest and direct customers. The store manager was the first citizen of both and these facts were on display to the staff more or less every day.

The second way lay in routines. The two most important routines concerned staff selection and staff knowledge of stock. People who wanted jobs were tested for background knowledge. This was hardly a Ph.D. General Examination; but to the general population of retail employees, even bookstore employees, it represents a serious screen. Gable frequently revised the test to make cheating difficult. Candidates only advanced to being interviewed (by Gable) if they did well enough on the test. Staff knowledge of stock was maintained less by book-buying credits, though those were available, than by having each person's responsibilities center on maintaining the stock and its presentation and making acquisition suggestions for particular stock categories.

This account may leave the impression that all the action was in the front of the store. This is not even true of the retail property. It certainly was the case that most of the time when the store owned more than a single copy of a title, only one was out on the shelves and the rest were stored in the store's basement (in aid of displaying as broad an assortment as possible). But it was also the case that the store usually had more titles than display space permitted showing even when the modal number of copies of each title on the floor was one. Interviewees told me repeatedly that there were usually titles in the basement not (yet) on display. (Those responsible for an individual section, and Gable, generally know what was there and where to find it.)

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12 *Memoirs of My Life and Writings* (1796, many reprintings),

The real back office was not downstairs but rather offsite. It early on became apparent that it would be valuable to have lower-rent space away from Ann Arbor's business district for receiving and processing and other genuinely back-office operations. A good deal of effort had to be expended confirming that the incoming shipments actually corresponded to what had been ordered and processing the mistakes as well as returns from stock. This was initially a very labor-intensive process; and Louis Borders wrote some software to automate the process. But the software was more broadly valuable than that. As the title count in stock grew, it became increasingly difficult even for Gable and his assistant managers to maintain a clear sense of sales patterns. The memory and analytical capabilities of a mainframe computer offered valuable decision-support opportunities.

This software went through a number of generations. It first expanded to inventory control with modifiable model stocks. As it happened, Borders left a great many fields available for inessential but possibly helpful descriptors of each individual stock-keeping unit. Gradually the time patterns of sales began to be captured and analysis of it integrated into setting the stock models for that title. This was in effect, the software learning the tastes of the Ann Arbor store's clientele; and eventually the software became quite self-consciously a Bayesian forecasting tool. It did not displace Joe Gable and the in-store category captains (or soon enough others to be discussed below). But it gave them food for thought.

It was readily apparent that the software represented a capability which was not exhausted by the single Ann Arbor store. The question was how to exploit it. This appears to have proceeded in two distinct stages.

A wholly-owned company, Book Inventory Systems (BIS hereafter), was set up in 1976.[13] It would service both the Ann Arbor Borders store and any other wholesale customers who could be signed. Some such customers came to them. Others were recruited. Sites local to the recruits were scouted, leases were signed, and operations proceeded. Other customers still came to BIS already in business but desiring to be freed from the back-office tasks (and associated overhead expenses), to be able to focus simply on selling books.

The range of services on offer was broad, running from advice and assistance on basically all pre-opening activities and decisions through day-to-day back-office operations. BIS would help with finding a good location if that was in order and assist with layout and fixturing. But more centrally, BIS was a sort of unusually full-service wholesaler. It provided the database and computer systems. It dealt with the publishers reps. It would propose title lists and place the approved orders. It would pay the publishers and confirm that the incoming shipments contained what was ordered and nothing else and included no damaged or otherwise defective merchandise. It would ship the processed books to the store (in all but the heaviest of times within about two days), consolidating in single shipments titles from as many as a hundred publishers, and take care of any necessary returns and credits. The compensation terms were a

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13 For an early account, see the relevant parts of Howard Fields, "A Plan to Franchise Quality Bookstores: Tom and Louis Borders, of Ann Arbor, Mich., have a book distribution system they claim takes the hassle out of maintaining a large stock with emphasis on backlist," *Publishers Weekly* July 31, 1981, pp. 41-4. (For the rest of the article, see below.)

flat percentage (4.5) of the publishers' (i.e. the trade) discount. The clients still had to run the customer-facing aspects of their store operations. But they didn't really have to do anything else.

This business grew, albeit initially slowly. In 1981 it serviced a total of seven stores. Most were, because of the breadth of merchandising the stock control capabilities the BIS systems facilitated, major presences in their cities. The stores were Jocundry in East Lansing, Young and Welshans in Flint, John Rollins in Kalamazoo, David-Kidd in Nashville, and the two Hawley-Cooke stores in Louisville along with the Borders State Street store.[14]

It is worth a moment exploring what BIS did for them and how it did that. The infrastructure in the background was a 34,000 square foot warehouse, Louis Borders's software running on an IBM 38 mainframe computer, a semi-annual profile for each store, worked up or amended on one-to-two day semi-annual visits by the chief buyer Phyllis Lambert meeting with client owners, managers, and sales staff, and in 1981 an Ann Arbor staff of a marketing director, 5 buyers, and 12 other employees. Transactions data was exchanged twice weekly in the course of excess (relative to plan) stock being returned to the warehouse and new stock required (either per the BIS computer forecasting and buyers or per customer orders or the intuition of the BIS clients).

The physical distribution aspects of the BIS operation were relatively straightforward. Stock arrived at the warehouse from publishers via semi trailer, small freight service, and parcel post. Employees unloaded and unpacked the boxes, inspected the contents (against invoice and for damages and defects), and placed a small machine-readable control card in each book accepted. The books were sorted by store for pickup or put into general stock.

The planning aspects were more interesting. At a time when regional general trade wholesalers were almost all basically engaged in speculation on which just-published books were about to be bestsellers with local demand far exceeding local retailer's initial orders from the publishers, Louis Borders's software represented about as different an approach as could be imagined.[15] It considered as much as eighteen months of weekly sales history (in aggregates of either weeks or months) and genre, title, edition, and author information for each individual store and stock-keeping unit (sku) and suggested in-store inventory numbers. The buyers would review these proposals and consider amending them, again on a sku by sku basis. The buyers thus had for tools both the software and their own expertise and intuitions. They exercised a great deal of autonomy in all of this (and also made both suggestions of new books to be added to assortments from among the listings in publishers' semiannual catalogues and suggested older books, no longer selling, to be pulled). Buyer jobs were seen as highly desirable for booksellers. They were, appropriately, relatively well paid. .

The second step in attempting to exploit the capabilities all this represented was prompted by a repetitive experience. Customers came to the Ann Arbor store from all over the

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14 The Michigan sites are all within about 70 miles of Ann Arbor. Louisville is about 350 miles by road, Nasheville about 500.

15 I discussed the history of the wholesale trade in lectures delivered as parts of three-lecture series at Columbia University in 2007 and the University of Michigan in 2009. I suppose the texts would be available; but I hope that a much better version of both (and then some) will be available from me later this springtime.

Midwest. Some came regularly, some even weekly. A weekly regular from Lansing once told Tom Borders wistfully that there was just nothing like the store in Lansing (home, inter alia, to Michigan State University, another large Big Ten research university). He asked Tom Borders why they didn't open a store there. Borders replied by asking why the customer didn't. This approach involved facilitating such stores as franchise operations.   The company began to try to develop this business idea in 1981.[16]

Two aspects of the proposition on offer seem salient. The renown of the State Street store was growing. So the first is that Borders was offering to provide a name i.e. some brand equity along with the pre-opening and day-to-day back-office operations services described above. Perhaps unsurprisingly, the proposed compensation terms were higher: the flat percentage of the publishers' discount rose (considerably) to 10. The second aspect concerns what the franchisee had to do. The short version of this was that the franchisee had to raise the working capital on the one hand and interact with the customers and run the front of the store more broadly.

Perhaps the population of people who want to start bookstores but want to do so under another enterprise's name is small. Perhaps the population of people who would be willing to do this and to put up the working capital required is vanishingly small. In any case, there was no immediate uptake, glossy brochures and a table at one year's American Bookseller's Association meeting notwithstanding. And the legal side of this business idea looked daunting. Franchising laws vary state to state. The up-front costs of getting such a business started even with willing counterparties ready to hand seemed daunting. Soon the Borders Brothers were looking for another way.

This wholesale clientele gave the systems and those who ran them a vastly larger volume, albeit a volume of other people's business. From the perspective of the wholesale operation, Borders had become a seven-store chain.[17] This was, while not huge, certainly not insubstantial. It was certainly no longer just a store on the main drag of a Midwestern town far away from the publishers' usual haunts, too small an account to really command publishers' attention. But it equally certainly had not grown as large as the Borders brothers hoped. There remained a sense of an unplowed margin.

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16 See the bulk of Fields *op. cit.*

17 Thus, those who like to think about physical distribution will want to know, the State Street store could generally rely on stock in one of three different places: either on the shelves, in the basement storage area, or in the BIS facility where the really large stocks of anything ordered in bulk would be.

Early evolutionary history

In 1985 Book Information Services had a potential client who wanted to open a store in a well-to-do northern suburb of Detroit. The BIS real estate man, John Sappington, thought he had found a good site and was in preliminary negotiations with the landlord. One day he got a telephone call from Louis Borders instructing him to stop negotiating. The Borders Brothers, a little more than a decade after expanding on State Street, had decided to experiment a little more radically and wanted it themselves.

The times may have seemed propitious. It may be helpful to gloss the summary information given above. The macroeconomic environment of the early nineteen-sixties was a sort of golden age of Keynesian fiscal policy which proceeded to run into trouble later in the decade under the additional spending pressures of the Vietnam War. (This was the famous moment when Lyndon Johnson, said to be facing a choice between guns and butter, chose both.) The inflation these set off was not helped by the OPEC-sponsored oil price rise of October, 1973; and the so-called stagflation crisis to which this led was another decade in subsiding. Stagflation seemed at the time a sort of inescapable rolling disaster. Paul Volcker took over the chairmanship of the Federal Reserve in 1979 understanding himself to have a brief to do something about this; and during the tight-money period of Fed policy he instituted in the early 1980s, the Federal Funds rate hit 20 percent and the prime rate available to commercial borrowers went higher. There were, of course, very difficult operating conditions for businesses reliant on bank finance. (Indeed were catastrophic for the savings-and-loan sector of the financial system). But they had the desired effect of wringing inflation out of the system. By 1983, the inflation rate, which had peaked at 13.5 percent annually in 1981, was down to 3.2 percent. By the mid-1980s, conditions were more normal, real investment had kicked up at the prospect of more of the same, and the remainder of the decade proceeded as the longest period of peacetime expansion to that point in American history. It was, in general, a good time—perhaps, in the different firm-level sense, even an expansionary time—to be in retail trade.

Birmingham is a comfortably off town of about five square miles in Michigan north-northwest of Detroit around Fourteen Mile Road.[18] In terms of its retailing cachement area, it is on the fringes of the city. It advertises itself as a walkable place to live and its central business district is an attractive shopping venue which is certainly well-known locally and is said to attract shoppers from all over the area. Birmingham is adjacent to the even more well-to-do Bloomfield Hills. The also affluent Rochester Hills is not far away.

As a site for experimenting in transplanting the model of the State Street Borders store to a location away from a major university, Birmingham had considerable appeal. The shopping district had lots of foot traffic. The area was dense in households with substantial disposable income comprising well-educated parents and children who, while they were at home, might be presumed to be growing up in an atmosphere affirmatively encouraging reading. The Cranbrook School—the most well-known private school in the Upper Midwest—was less than three miles away. Birmingham had the additional attractive feature of being in a part of the country that was culturally familiar to the Borders brothers. Because of the rectangular footprint of Midwestern roads, Birmingham was a forty-plus mile drive from Ann Arbor; but the drive was still

18 It is technically an incorporated city. In the 1980 Census its population was a little less than 20,000.

comfortably less than an hour. An experimental site could be observed and, if necessary, supervised. The supply lines were also short, so resupply of something selling briskly could just be a matter two hours in a car.

The store, in a space about five-sixths the size of the State Street store, was planned carefully. In an attempt to replicate operating routines and atmosphere as closely as possible, Joe Gable's youngest brother was hired to be the store manager. Ex ante expectations for the volume of business were modest. They were exceeded spectacularly, both in terms of the volume of business and, perhaps more saliently, in terms of the variety of books the Birmingham customers seemed interested in buying when the store opened in June of 1985.

The next locale they tried was Atlanta with an opening the following autumn. This space was smaller still—about two-thirds the size of the State Street store—though still significantly larger than the usual independent bookstore. Atlanta is the major city in the Southeastern part of the country and there are several universities there in addition to the employees of the sort of firms one might naturally expect. But the particular location was awkward and the store's results were disappointing.

This was not regarded as a disconfirming experience—the Birmingham store continued to flourish, even exuberantly—but it a chastening one. So openings continued but the next five sites were closer to home, both geographically and culturally. Fourteen months after the Atlanta opening, the company opened a store in Indianapolis, Indiana, the capital and at nearly three-quarters of a million people the largest city in the state. The metropolitan area was a million and a third. At 15,800 square feet, the Indianapolis store was more than ninety percent the size of the State Street store and, like Birmingham and unlike Atlanta, it too stocked (i.e. offered) more than 100,000 titles. It did well.

Twenty months after that, the company opened a store in Novi, Michigan, about half-way between Birmingham and Ann Arbor. Novi is the home of offices of a number of regional and national businesses, many firms connected to the automobile industry, the American headquarters of the Japanese automobile supply industry trade association, and a so-called super-regional mall which was a major shopping destination. The Borders store was, like the Atlanta store, about two-thirds the size of State Street; but unlike Atlanta's 87,000 titles, Novi offered 106,000.

It may be helpful to note that as of the opening of the Novi store, BIS was servicing a total of sixteen stores. Young and Welshans were still customers in Flint, as was John Rollins in Kalamazoo and Hawley-Cooke with their two stores in Louisville. Davis-Kidd had expanded, adding stores in Memphis and Knoxville to their Nashville establishment. BIS had picked up Schuler Books in Grand Rapids (started by a Borders alumnus), Thackeray's Books with stores in Toledo and Des Moines, and Joseph-Beth (with Beth Mary Beth Borders, Tom and Louis's sister) in Lexington, Kentucky.[19] The then five Borders establishments filed out the list, with more Borders stores soon to follow. The Ann Arbor warehouse was now 34,000 square feet and

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19 Some clients had come and gone. The one furthest afield had been in Colorado Springs. It left after four years, the distance and its relatively small store size being (inter-related) issues. The service continued to make sense for Atlanta, quite apart from anything else a much closer and more convenient location.

the involved 11 buyers, 5 buyers assistants, 2 purchasing managers, and a president. Economies of scale were being exploited considerably more intensively than they had been in 1981, and there was no reason to think that this process had reached anything like whatever intrinsic limits there might be.

A store in Oak Brook, Illinois, a suburb west of Chicago which is one of the wealthiest communities in the United States, followed thirteen months later offering 132,000 titles. Des Moines, Iowa, another capital city, followed four months later with a small (8,299 square foot) store offering 75,000. Three months after that a store slightly larger than State Street was opened in Columbus, Ohio, home inter alia to the giant Ohio State University, offering 106,000. But something more adventurous was already in the works.

In April of 1990, Borders opened a store in a strip mall on the main traffic artery of Rockville, Maryland. Rockville is the main commercial area of a Maryland county north of Washington DC where many civil servants and employees of other education-intensive businesses live. The economy of that part of Montgomery County is robust (since Federal employment of the relevant sort is not particularly cyclical and since Federal-related employment was and continues to grow secularly). At the time, the DC Metro system had not yet reached out into the county and bus service was not dense, so that households generally got around and did their shopping via automobile. Proximity to the Washington Beltway (I-405) made access to the site in question easy.

All this said, the site was far from the region of other Borders stores and BIS clients. Comfortably off suburban areas were by this point familiar commercial terrain as a general matter; but there was concern at Borders that it might Eastern—which is to say not Midwestern—enough to be culturally different. (The Washington Standard Metropolitan Statistical Area was understood to be smaller than Indianapolis, but there was concern that it was more sophisticated in ways the company did not understand and know how to manage for.) And there were local universities, but these were not at all close to the site either in distance or transit time.

The experience of opening the store was like the experience of opening Birmingham only on steroids. To say that business boomed is to engage in understatement: predicted first-year store volume of $5 million was dwarfed by the realization of $10 million. The opening store manager's reaction to a question about merchandising breadth was simple: "We could sell anything." Store management and receiving were quickly squeezed out of the building and into a trailer. It soon became apparent that resupply through the Ann Arbor distribution center would often lose first-price sales relative to resupply via wholesalers (inevitably with less attractive costs) and store management did this (pressure from Ann Arbor notwithstanding). Local reception of the store was as this account suggests. Soon the children's department was moved into a separate space in the strip mall and the space in the original store taken up with expanded stock. (In due course the entire operation moved into a 40,000 square foot space in an upscale mall subsequently developed essentially across the road.)

A 16,400 sf store in Pittsburgh opened in June of 1990. The next big step was an undeniably center city location in Philadelphia just off Rittenhouse Square. The neighborhood was easy walking from the Academy of Music, the Curtis Institute, various theaters, several hospitals, and the part of the city in which corporate offices and the major law firms were

located. It was beyond walking distance from Drexel and the University of Pennsylvania and for locals going someplace, it was also not far from the Amtrak northeast corridor 30th Street Station This was the largest store to date at 19,042 sf and 152,000 titles. It stayed open long hours in a part of the city in which that was less common than it became. The store became a magnet as well as a service; and it too thrived. The next eight openings (see the Table at the end of this section) can be viewed from a geographical perspective as outreach and infilling.

The stores may be seen as a site for a set of highly complementary practices.[20] The buyers and software put a very broad assortment on the shelves. The staff members were selected to be capable of helping customers who would value such assortments find books that might interest them (and were trained not to leave customers' sides until such a book had been put into customers' hands). They were supported by in-store databases that kept track of what was on the shelves, in stock but elsewhere onsite, or otherwise obtainable, information such customers might well want. Coffee bars, café tables, and comfortable chairs scattered throughout the stores encouraged browsing and that atmosphere enticed readers. An unusually broad selection of magazines and newspapers (including foreign papers) and performance spaces for readings and even small concerts also drew traffic into the stores. (As the value of this was seen to grow, stores even began to employ event coordinators.) Unusually long hours also drew in potential customers: the stores became prime destinations for the tag ends of an evening or a lazy Sunday afternoon.

It may be helpful to consider this expansion in the context of the other channels of distribution for books—the competition, so to speak. I begin this task by considering bookstores of various traditional sorts selling mainly trade and perhaps some academic books in stores smaller than the Borders "superstore" variety. These would be unusually good independent bookstores, more ordinary independents, the mall chains, and discounters such as Crown. I comment briefly on mail-order channels and general merchandise retailers. I will return below to competition among superstore-type firms.

There certainly were bookstores in America in the period this section discusses that were famously interesting, and sometimes broadly, merchandised other than Borders. The Saville Bookshop in Washington, DC, had long since closed. But Elliot Bay in Seattle, Cody's in Berkeley, Prairie Lights in Iowa City, the Hungry Mind in St. Paul, Schwartz's in Milwaukee, Kroch's and Brentano's in the Loop in Chicago, Olsson's in Washington, DC, and the Harvard Bookstore in Cambridge were certainly names to conjure with; and The Tattered Cover in Denver and the Seminary Co-op Bookstore in the Hyde Park neighborhood of Chicago could practically do the conjuring by themselves. Some of these were just splendid anomalies. But most of these were near to one or several large universities, in regional capitals, or both.

While bookstores (like most retail establishments) are concentrated in relatively populated locations (as one would expect of institutions with fixed costs to cover), most independent bookstores in the 1980s were in smaller places. Almost all were single-establishment firms, generally located in town centers. Most were relatively thinly capitalized. The physical spaces were generally on the small side and the merchandising, no matter how well

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20 I use "complementary" in the technical sense to mean that more intensive use of one raises the value of more intensive use of the (or an) other.

curated, was inevitably not broad. The successful ones had owners or staff or both who knew the tastes of the customer base (and often of the individual customers.) But these were basically artisanal enterprises and even when basically successful generally not economically robust.

All this said, the 1980s were a time of increasing numbers of bookstores. Sometimes this was at the extensive margin, with bookstores opening in places where there had been none before; but sometimes it was not. Harvard Square in Cambridge, Massachusetts must have been an extreme example. One found there (simultaneously) in the 1980s all within nine blocks of one another the Harvard Book Store, the Harvard University Press showroom, Schoenhoff's (an outstanding foreign languages only store). the large book department of the Harvard Coop, the Paperback Booksmith, Wordsworth, Reading International, Mandrake, and Barillori Books, as well as a number of specialized (poetry, radical politics, etc.) and used book stores. The part of the Coop with the books was all but adjacent to the Paperback Booksmith and it was in turn across the street from Wordsworth. This situation did not last forever but it lasted for quite some time.

Malls had begun to be a common feature of the American retail landscape in the 1950s and 60s. These typically had department stores and general merchandise retailers such as Sears as the so-called anchor tenants but wanted smaller-footprint establishments to fill the spaces in between. Bookstores were thought to be a desirable element and two chains had developed to fill the demand. One, Waldenbooks, had its origins in a Depression-era book rental company; the other derived from an entrepreneurial impulse in the mid-1960s from a member of a Minneapolis department store family which eventually operated a chain of department stores in the upper Midwest (incorporating the Michigan-based Hudson's and the iconic Marshall Fields of Chicago) and developed the Target discount chain (now the second-largest discount chain in the United States, trailing only Walmart) from 1962. These mall stores were typically on the order of 2000 square feet, with a title count in the 10,000-15,000 range. The selection was heavily best-sellers, hobbyist, and genre fiction. They might have proximity to shoppers as an advantage of a local independent bookstore. They wouldn't have had much more.

Crown Books was founded in 1977 by Robert Haft, the son of a pioneering discount drugstore operator in Washington, DC, named Herbert Haft. In the beginning it sold a relatively modest selection of best-selling books at heavy discounts along with magazines, newspapers, and the like in stores of two to three thousand sf. Its most notable advertising slogan, from an ad with a photo of the founder, was “”Books cost too much, that's why I opened Crown.” and it advertised aggressively. It expanded ambitiously and from 1990 began to open twelve to thirty thousand sf stores offering as many as 80,000 titles in many major cities and metropolitan areas. Its growth was a major reason for pricing pressure in the 80s and early 90s. At peak, in 1993, Crown operated 196 establishments and was the third-largest bookseller in the country. Amidst turmoil in the Haft family in 1993 and 1994, management changed. The company's finances decayed rapidly and it filed for bankruptcy in 1997. It emerged later in that year but led a troubled existence thereafter including inter alia a second bankruptcy filing, and closed for good in 2000.

Mail order had once been a principle channel of distribution for books, as an examination of any turn-of-the-century through the Great Depression copy of the Sears catalogue will

suggest.[21] The Book-of-the-Month Club started in 1926 and its flamboyant success let to a considerable expansion of what were essentially mail-order subscription sales of books. The Book-of-the-Month Club remained for many decades the largest of these firms and in 1947 was the largest single seller of books in the United States. But this channel was in sad decline by the end of the 1960s and was no significant force by the 1980s. Drug stores and general merchandise retailers sold genre books but did not become any significant factor in trade books until nearly the end of the century.

The picture this circumspectus of bookselling's retail channels should leave is one in which the number of stores was blossoming fully as much as the number of titles and sales noted previously. The variety of types of stores was marked. Most were not outstandingly profitable but all that remained open were profitable enough. The question I want to turn to is how Borders grew, in itself and in the context of this population. One might be tempted to a simple but superficial answer of the form "Management negotiated leases, raised enough money to pay for store openings, and opened the stores." Leases and working capital were certainly important inasmuch as they represent resources crucial for growth. But I want to take a more evolutionary view of what was happening. I will address the question of the growth of the company under three distinct heads. The first concerns the mechanics of retention of the know-how learned in the State Street stores and the early expansion experience. The second concerns selection. I will then turn to variation.

Staffing routines are one obvious possible means of passing on knowledge during organizational growth processes. A company could select new store managers only from the population of individuals who had worked for an extended period in the mother store or established high-performance new stores. This was, overwhelmingly, precisely what Borders did not do. The company took the view, in hiring both managers and booksellers, that beyond basic competences and a suitable temperament, the most important attribute for new hires in both classes was knowing the local population, culture, and tastes. With only rare exceptions, the company systematically hired locally. It did engage in some systematic imprinting: new hires came to Ann Arbor for a two-week period of training. This imprinting was clearly powerful relative to not doing any at all. But it may not have been particularly powerful. To assess the power, one would want to know in some detail the extent to which local managers exercised autonomy in e.g. selection of titles (and perhaps total title count) and placement within the store and at least something about the extent to which the incentives and evaluation routines facing the store managers supported or, at least potentially, might conflict with the original ethos.

Considering the selection context brings us back to the anatomy of the competition. For independents without a strong identity, strong ties to individual customers, or related barriers to competition, the opening of a local Borders store offered quite challenging competition: the merchandising was broader, average costs of resupply were lower (and the pace of resupply may often have been faster), amenities may have been superior (Borders floor plans included space for an onsite café operation) parking i.e. access may well have been easier, and it was easier for

21 The Little Blue Books Emanuel Haldeman-Julius also furnished somewhat shorter but still substantial reading matter in booklet form through the mails. For a (somewhat self-congratulatory) account of the company while it was still thriving, see Emmanuel Haldeman-Julius, *The First Hundred Million* (New York: Simon and Schuster, 1928). (Of course, a great deal of what America read, in those days and later, wither appeared in newspapers and magazines or was of a religious character and distributed mainly through essentially religious channels .

the Borders stores to organize author events and other such activities. A discounter such as Crown would not draw potential customers for whom discovery was the first virtue. The real danger for Borders was competition from other real superstores that at least in a rough sense tried to match them stride for stride.

There was some of this sort of competition brewing from early on and it got more intense with time. The most important locus was the Barnes & Noble firm.[22] The firm name goes well back into the nineteenth century but the modern Barnes & Noble is as much a creature of a late twentieth-century entrepreneur as the founders of the original nineteenth century New York bookshop.[23] The old enterprise had descended through family inheritance until a time when no one really wanted to run it. An NYU dropout named Leonard Riggio, who had been working at another bookstore on the edge of the campus and thought he had better ideas about how to run such a business, bought it with money borrowed from relatives, credit card companies, and Household Finance. He built and expanded the business fiercely aggressively in its early years, acquiring and starting complementary bookselling businesses as he went.

He restored and developed that business's fortunes with a relatively broad selection but aggressive pricing rather than investment in staff and support. The advertisements said "If you paid full price, you didn't get it at Barnes & Noble." Riggio told a reporter for *Publishers Weekly* that

> [the customers] are everyday people who have shopping behaviors similar to people we see in shopping centers across the country. The best way to reach them is by everyday sound [retailing practices]. We've taken the stuffiness out of a bookstore … [and] give customers a feeling that they are being treated as customers, not as potential scholars. … [Many of the customers] have no intention of reading the books they buy. They buy them as shelf fillers, in order to project images of themselves through their collections. We see people returning week after week … and buying 10-15 books ….[24]

The unkind said that it was not book retailing so much as just retailing. But it did sell books.

Riggio in due course discovered the virtues of large format stores and, in addition to developing a national business in managing campus bookstores, built up an increasingly national chain of superstores. There assortments were discernibly more popular than the Borders assortments. They were nonetheless much broader than was feasible for mall bookstores or most independents. And the coffee—Riggio contracted with Starbucks and secured use of the name,

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22 The other superstore chain, large in store numbers, was Books-a-Million. Its sites were concentrated in the southeastern United States

23 Again, my 2000 article gives more history.

24 L. Freilich, "Barnes and Noble: The book superstore—of course, of course," *Publishers Weekly*, January 19, 1976.

something the Seattle company was subsequently unwilling to do—was good. Barne3s & Noble rapidly became, and thereafter remained, the largest book retailer in the country by volume.

By the end of the 1980s, the two firms were not yet locked into truly fierce competition against one another: the easier pickings were elsewhere and their main competitive impact was on the population of independents. There was still room for them to grow without this being directly at the cost of one another. But both chains were expanding and the site demographics they sought appear not to have been very different. The days of competing for specific leases were already beginning to be upon them.

From this evolutionary perspective, the remaining aspect concerns variation. There were two major potential sources of variation. One, hinted at above, comes from deep within the organization. The other comes from the top and might, indifferent settings, be thought of as the scope for strategic direction of the firm by top management when what top management has in mind is a change. In the late 1980s it seems that Borders arrived at a moment of ambiguity about direction or, perhaps, a moment of choice. The scale of growth had gotten to be such that it seemed wise to hire a professional chief executive. The brief the owners gave such a person, the inclinations the person's background might have induced (or selected for), and the incentives facing them might conceivably have just been for a more structured and orderly version of what had come before. Or they might, to choose the other extreme, have sought to maximize the scale of operations and the number of stores in order to exploit as intensively as possible the potential for scale economies latent in the inventory management software, brand equity, and the like.

The executive the company hired was an unusual man. Robert DiRomualdo was Philadelphia born and a graduate of Drexel University. He had served as a naval aviator during the Vietnam war and had afterwards done an MBA at the Harvard Business School. He held a series of positions at Acme Markets, which he left as Director of General Merchandise, Hickory Farms, Inc., where he began as Vice-President of Marketing and left as President and Chief Executive Officer. The Borders staff was nervous about having a chief whose previous job they thought of as selling bacon; but many soon came to feel they had radically misjudged the man. Personally genial and warm, DiRomualdo was clearly a thoughtful professional, comfortable with large organizations and executive decision-making, spreadsheets, and finance. Equally clearly, however, he was happy at that stage of his career to leave bacon behind to run a culture company. He liked the Borders product and he liked what seemed special about the company: he liked to read and he liked to engage with floor staff and customers about what they found to read and what they thought about it. When customers mistook him for floor staff when he was visiting stores, he pitched in enthusiastically. (That he also liked a good cup of coffee proved to be a happy coincidence given the margins available from a well-run café service with a high-quality product.) It might have been easy to posture at such things. No one who encountered him seems to have doubted that these were really his feelings.

All this said, there remains some residual mystery concerning what the brothers were looking for and what DiRomualdo himself wanted and expected when he came on board. This much is clear: though growth to that point had been funded internally, there were clear limits to how much would be possible without more capital. These were not the only potential constraints on growth: both participants remember a late 1980s conversation between Tom Borders and John Sappington concerning how many good sites for the sort of stores they were running in the

United States and the conclusion they somewhat speculatively came to was fifty. But the company in 1992 had only nineteen; and significant growth, particularly rapid significant growth, would require working capital (to open stores, to staff them, to provide the corporate and back-office support required) not currently available. In 1992, the company contracted with a major investment bank to prepare for an initial public offering.

Table: Store openings and attributes of the first twenty-two years

Store Location	Opening Date	Square Footage	Approximate Number of Book Titles
Ann Arbor, Michigan	February 1971	17,354	126,000
Birmingham, Michigan	June 1985	14,494	137,000
Atlanta, Georgia	September 1985	12,293	87,000
Indianapolis, Indiana	November 1986	15,800	116,000
Novi, Michigan	July 1988	12,106	106,000
Oak Brook, Illinois	August 1989	16,548	132,000
Des Moines, Iowa	October 1989	8,299	75,000
Columbus, Ohio	January 1990	18,200	112,000
Rockville, Maryland (l)	April 1990	15,200	151,000
Pittsburgh, Pennsylvania	June 1990	16,400	108,000
Philadelphia, Pennsylvania (2)	October 1990	19,075	152,000
Rochester, New York	November 1990	14,400	117,000
Kansas City, Kansas (l)	November 1990	17,600	134,000
Minneapolis, Minnesota (2)	August 1991	6,284	87,000
Framingham., Massachusetts	October 1991	17,146	129,000
Marlton, New Jersey	November 1991	15,520	111,000
Cleveland, Ohio	April 1992	13,450	111,000

Bryn Mawr, Pennsylvania (2)	June 1992	24,000	133,000
Tyson's Corner, Virginia	July 1992	20,150	134,000

(1) The Borders stores in Rockville, Maryland and Kansas City, Kansas expanded by placing their children's books in separate stores under the name "Borders for Kids" located in the same commercial area. The figures for square footage and average number of titles listed above include the children's store figures.

(2) The Company is currently expanding its Philadelphia store by approximately 3,600 square feet, its Minneapolis store by approximately 4,500 square feet and its Bryn Mawr store by approximately 8,500 square feet. Each expansion is currently expected to be completed by December 1992.

Source: [Withdrawn] S-1 Registration Statement filed with the Securities and Exchange Commission on August 12, 1992.

Growth as a public company: Divisional life and IPO through the last months of the Tech Boom

Before exploring what happened next, it may be helpful to explore the facilities, offerings, and how operations at Borders worked in 1992 in a little more detail.[25]

There is a little more granular information available about the cross-section then than was sketched above. The three-largest mall chains (the two established chains of B. Dalton and Walden plus the newer Crown) were thought to account for about 20 percent of the total retail trade of about $14 billion of sales (excluding textbooks and trade books sold via book clubs and mail order). These chains occupied predominantly mall-based locations and generally maintained merchandise of from 5000 to 15,000 titles. The character and growth of Barnes & Noble has been discussed..

As of 1992, Borders operations were still entirely domestic (i.e. continental US). The 19 Borders stores at that time occupied on average approximately 15,500 square feet of space and stocked on average about 119,000 titles. Individual stores varied, of course: the actual title counts ranged from 75,000 to 152,000. (Merchandising was tailored: the total title list across all the stores was about 200,000. Bestsellers accounted for less than 3 percent of retail sales in FY 1991.) The contrast to the typical mall store or independent was dramatic. The Borders stores was experimenting with two major non-book lines, music and video, through which they hoped to pursue the same commercial strategy of managed broad abundance. (The experiment involved offerings at two sites of about 70,000 music stock-keeping units and 10,000 video sku's.) The facilities were overwhelmingly leased, typically on 20 year terms. Total staff headcount in a typical store was about forty: a store manager, four assistant managers, a publicity director, a staff trainer, three office and special order personnel, and approximately 30 floor staff, the latter specifically screened via a book information test. While the company thought its inventory management software was close to the heart of operations, service was also an integral part of both the appeal and the profit model. The staff members were instructed not to leave the

25 The information in the paragraphs that follow comes from the 1992 S-1 Registration Statement filed with the Securities and Exchange Commission.

company of customers who had approached them for assistance without leaving a book in the hands of the customer. These elements of the resources and activity systems were not the only strongly complementary ones among the whole set represented by the stores but they were the most central and important ones.

Some detail on upstream operations may also be helpful. The expert system software considered historical sales trends, seasonality, and all the other hard data the Company had come feel pertinent and recommended stocks for individual stores. Buyers (of which there were by 1992 25 plus 14 support staff) reviewed and modified these based on their own analyses of opportunities, current events, and trends and information from the stores themselves. Orders were sent to publishers via EDI when feasible and telecopied purchase order when not. About 65 percent of orders by value went out by the faster, more reliable, and cheaper EDI connections. The company operated two distribution centers (i.e. warehouses) at this point, one in Ann Arbor (which also housed a centralized returns function) and the other in Harrisburg, Pennsylvania.[26] Distribution center staff checked in shipments arriving from publishers, wrote out claims for short orders, incorrect shipments, and damaged merchandise. They labeled the rest with barcode stickers identifying title, price, and subject area, this (time-consuming) last to facilitate reliably proper placement when the books got to their store destination. Outside of the frenzy of the fourth quarter holiday season, about 90 percent of the book merchandise flowed through the DC's. The company felt that by centralizing distribution in this fashion, it was able to reduce cycle time and free individual stores from the burden of keeping anything other than minimal inventory without undue expense (as, for example, would have been involved in more extensive resort to the services of wholesalers).

Naturally, considerable care was devoted to the selection of expansion sites. These were generally profitable within the year. But it cost money to open a new store. The expenses to that point for an average-sized store had generally been about $400,000 for leasehold improvements, fixtures, and equipment, about $500,000 in working capital, and about $100,000 for pre-opening expenses. The finance for this to this point had been internally generated i.e. from cash flow from operations, borrowings from financial institutions under a bank credit facility (on the books as long-term debt), and trade credit from vendors (i.e. publishers—at the end of FY 1992, accounts payable to inventories was about 57 percent.).

The financial performance in this period of early growth was very encouraging. The headline numbers were particularly impressive. For the five years ending with FY 1992, net sales had increased at a 40 percent compound annual rate. Comparable store sales growth (i.e. of stores open at least thirteen months) was of course smaller but still a very healthy 20 percent. Stock turn overall in the early 1990s was in the mid-4's.[27] It should be noted that most of the year's profits were generally earned in the fourth quarter (and in occasional years all of them); but the profits were there. Net cash from operations in FY 1992 was $4.865M.

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26 In fact, it operated a wholesale business out of these facilities as well. The volume of this business had been growing in absolute terms in the late 1980s and early 90s but shrinking as a percentage of the total. The percentage in FY 1991 was 18.5 percent (when there were ten clients), down from 43.4 percent in FY 1987 (when there had been fourteen).

27 It is not possible on available evidence to give stock turn statistics on a comparable store basis.

It was in this setting that Borders hired Goldman Sachs. Management felt, it said in the Prospectus Goldman prepared, that Borders was still a relatively local business exploiting a fixed asset and that more growth, given suitable sites, would improve profits. It wanted to expand on a scale beyond what could be financed by the credit facility and retained earnings.

The sale of the company proceeded in a surprising way. As the lawyers and investment bankers did their due diligence, created a draft registration statement, sent it to the SEC and responded to the staff comments, other actors were becoming aware the company might be for sale. The planned IPO never took place because one of them, itself a large public company in a position to loosen the operation's capital constraints through internal funding sources, pre-emptively bought Borders. Thus began a new kind of growth phase.

The acquirer was Kmart. This company began life as S.S. Kresge, an eventually large chain of five-and-dime variety stores centered on the Upper Midwest which began around the turn of the century. The shift to large-format discount stores started in 1962 and the company formally changed its name, recognizing the reorientation, in 1977. By the end of the 1980s Kmart was still the second-largest general merchandise retailer in the American economy (after Sears, Roebuck). But the decade had not been kind to Kmart. Its stores seemed increasingly shabby and out-of-date. Retailing best practice seemed to be changing, with Walmart (soon to pass Kmart in size), with its sophisticated logistics and generally relentless quest for efficiency in aid of low prices, leading the frontal assault and chains of much more narrowly focused specialty stores offering shoppers immense variety within some chosen category (thus the name "category-killer") such as Circuit City, Toys R Us, or Home Depot drawing away customers looking for one very specific type of item. In the course of the 1980s and early 90s, management came under increasing criticism.

One 1980s response of Kmart's was to acquire some specialty store chains. The idea was to own, or at least to develop, some category-killers of their own and to diffuse throughout the general merchandise retailing operation whatever was learned and transferrable. The initial acquisitions were Builders Square and Waldenbooks (in separate transactions) in 1984, Payless Drugs in 1985, Pace Membership Warehouse in 1989, and OfficeMax and The Sports Authority (in separate transactions) in 1990. By the end of 1991, all these were highly multi-establishment chains. They were not, on the other hand, equally effective in their functioning as category-killers. Walden seemed particularly troubled from this perspective. The thinking seems to have been that the problems of the ineffective ones were a matter of infrastructure investment and execution routines (rather than something more fundamental such as a defining identity as a mall chain, with the various constraints implicit in that).

Walden had, as noted above, begun as a chain of rental libraries in the depths of the Great Depression. The opening date was March 4, 1933, which turned out to be just two days before Roosevelt's "bank holiday" suspending banking transactions other than change-making in a period of increasingly fearful bank runs in order to close failing banks and enhance public confidence in those allowed to reopen. Reading without the expenditure of a purchase price must have been a welcome distraction from the troubles of the day to its initial clientele. The company opened its first retail bookstore only in 1962. But the initial base of establishments was large, having reached two hundred and fifty by 1948, and by 1981 it had become the first bookstore chain to have stores in every state. It had been in no small way helped in this by

having been purchased in 1969 by a California chain of department stores which was eventually owned by the national department store operator Carter Hawley Hale, since department stores were prime candidates for being anchor tenants in malls.[28] It had also been helped in no small way by the ambitious if not always profitable management of Harry Hoffman, who stepped down as President—perhaps under pressure but in any case surely wearying of pressure from the Kmart corporate office for improved margins, in 1991.[29].

Kmart was by this time headquartered in Troy, Michigan, a northern suburb of Detroit. The divisional general manager (the Executive Vice President of the Specialty Retailing Group, to be precise) was a Harvard Business School graduate named George Mrkonic who had previously been an executive at W.R. Grace and President of Eyelab and Herman's Sporting Goods. Mrkonic was looking for solutions to his lagging business's problems. He had heard about the Ann Arbor bookstore; and he gradually came to hear about the inventory management software. More direct due diligence followed (albeit conducted in secrecy). The software seemed very promising and the senior management, most of all DiRomualdo, seemed very promising indeed. An offer generous enough to pre-empt the planned public sale was made and accepted. This took the Borders brothers out of active management of the firm and, in effect, put Mrkonic in their place.

Initial reactions to the acquisition by Borders staff were critical: it seemed as if culture was being captured by commerce, and not very high-level commerce at that. But from the perspective of operations not much changed. One obvious change was in fact the one that had been originally planned: resources, both financial and human, for expansion, were considerably increased. Another was less obvious to the lower-level Borders employees. Kmart placed Waldenbooks increasingly under the supervision of Borders senior management.

Pressure on Kmart from analysts and in the financial markets continued, however; the company began to divest itself of the specialty stores "to focus its attention on its core business". In 1995, Kmart spun off Borders in a so-called highly structured transaction in which Kmart retained a substantial minority interest of about 13 percent and transitionally controlled the board and the incumbent senior managers emerged with non-trivial stakes in the business (DiRomualdo with 1.5 percent and Mrkonic with about 0.3 percent).[30] Mrkonic, already President of Borders, left Kmart for the company as President and Vice-Chairman of the Board to DiRomualdo's Chief Executive and Chairman. The company was now a corporation, responsible to public investors.

Changes that were more obvious to company insiders also began to emerge. With the wheels greased by $7.7M of State tax credits, Walden headquarters was moved from Stamford, Connecticut, to new corporate office space in downtown Ann Arbor. (Some Walden executives

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28 Carter Hawley Hale 's stores included the history-of-retailing and Philadelphia icon John Wanamaker, Bergdorf-Goodman in New York, Nieman Marcus in Dallas, Emporium in the Bay area and Broadway in southern California among many others. The company seemed to be doing well in in the 1970s and but faltered in the 80s and did not come to a happy end, filing for Chapter 11 bankruptcy in 1991 and eventually being liquidated. Carter sold Walden early on in the troubled period in an attempt to focus its executives' attention on department store operations strictly so called.

29 Edwin McDowell, "Head of Waldenbooks Chain Steps Down," *New York Times* March 12, 1991.

30 S-1 registration statement at 66.

made the move and others chose not to do so. Ann Arbor may have seemed remote and sleepy, or at least far away from the industry in which they worked.) The two companies were formally integrated. More importantly, appointments were made to senior management governing the two (still operationally quite distinct, even with their own distribution centers and inventory management software) chains. To the alarm of the Borders employees, the new Chief Financial Officer came from the Walden side. He had started out in public accounting and had gone into management because he had, frankly, wanted to make a lot of money. He had run operations at Walden in that spirit. Employees of the Borders stores were worried about a clash of values. They would not have been comforted to hear that the executive responsible for store operations had spoken about the necessity of recognizing that the company was no longer a collection of excellent bookstores with some common upstream resources but now really was a chain.[31]

Even just taking growth to be the issue (and the stock market clearly still thought about the company as a growth stock), there were palpable intra-organizational challenges at that time. One was finding suitable locales and sites for expansion. One aspect of this was finding places which were at least as good, if not better, than where the stores already were. The other was that Barnes & Noble was also hunting and was often willing to pay more. A second problem concerned human resources, a central concern for a company as oriented as Borders has been to customer experience. Local hiring raised the specter of thinning culture. Other issues arose as the organization grew large. It had seemed prudent to expand the set of distribution centers as the store footprint became more spread out but startup difficulties in some of them were also proving to be a problem. Altogether, retention of know-how in a period of rapid growth was not unproblematic and questions of precisely what was being retained were beginning to be heard.

The selection environment was changing rapidly as well. The change was not due to the economic environment, which was consistently favorable. The selection environment closer to the ground, so to speak, was where the change was. This had quite a number of elements, both within the mode of the familiar channels and between those channels and the new world of online commerce, and through some extra-modal competition as well.

Within the book trade as traditionally carried out in stores, there was not just activity but notable change. As Borders and Barnes & Noble had grown rapidly and Crown fairly rapidly, business had siphoned away from independent stores significantly, and developments described below only made the situation worse. Numbers of independent stores began to drop noticeably.

Crown, on the other hand, soon ceased to be a competitive force and by 2000 had ceased trading entirely. A bitter intra-familial struggle had removed the entrepreneur in favor of his father, a man with a well-documented history of sharp dealing. Soon the firm was in financial difficulties. Successive bankruptcies in 1998 and 2001 ultimately led to liquidation.

Barnes & Noble posed altogether more formidable problems. It also had gone public, in its case in 1993. Again the motive was to raise capital to finance more ambitious expansion. Certainly money went to expansion of the footprint. But management spent on other things. It is clear from a comparison of the Borders and Barnes & Noble IPO prospectuses that the Borders software was superior in its capabilities at that time; but post the IPO Barnes & Noble made a

31 The executive in question died, too young, in 2004, and I was not able to interview him.

sustained investment in updating its software and indeed its entire supply chain operation. Borders did not.

The mall chains at this stage still existed as consumer-facing entities but in effect operated as divisions of Borders and Barnes & Noble. But they were less profitable than the superstores and recognized as such; and they were not operated in a way that put competitive pressure on the superstores.

Other bricks-and-mortar retail channels, on the other hand, were more of a threat. The share of the shopping dollar going to warehouse clubs such as CostCo, Target, and Sam's Club had been rising for some time and some had begun to have a book section. The significance of the size of their clientele became clear as the seven Harry Potter childrens novels emerged to seemingly ever-increasing frenzy. No retailer wanted to risk a stock-out and so aggregate orders comfortably exceeded expected demand. The publisher, who was on the hook for returns of unsold copies, naturally was cautious.

One might have wondered whether publishers themselves might also become competitors, selling directly to consumers. In this period the danger of losing the free marketing of the bookstore owners making display space available undoubtedly seemed to dominate the improved margins involved in direct sales.[32]

There were, however, as the 1990s proceeded, competition in bookselling from entirely different quarters. Internet penetration picked up briskly over the course of the decade and Amazon.com started selling books over the Internet in 1994. Amazon went public in 1995 and raised money very cheaply. It used the resources aggressively to build a base of customers rather than to book profits. The mantra was "Get Big Fast". The website, visible to all, hardly needed publicity; but there was considerable publicity to the efficiency of its distribution center operations. Much of the industry seems to have thought of Amazon as a company which ran warehouses and logistics with ad admittedly very sophisticated online front end.

Barnes & Noble responded to Amazon's growth by starting an online subsidiary, bn.com, in 1997. It is unclear whether Riggio thought of this as participating in a sort of land rush for space in e-commerce or whether he imagined it would be complementary to store operations—converting stock-outs into incremental sales, attracting sales from customers familiar with the brand name but not near a store, and so forth. In 1999, the German publishing conglomerate

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32 It would, on the other hand, be naïve to imagine that this shelf-space was entirely free. First of all, the booksellers got to keep the books for some time before paying for them, a subsidy in itself. Second, in the course of the 1990s both Borders and Barnes & Noble began aggressive 'cooperative advertising funds" programs that seemed to function less as means of cost-sharing than as profit centers. See e.g. Mary B.W. Tabor, "In Bookstore Chains, Display Space Is For Sale," *New York Times*, January 15, 1996. It appears that the push began at Borders early in 1994, though it was formally prompted when publishers began to withdraw the wholesale discount they had been offering BIS in favor of the more modest retail trade discount around the time Borders opened the Rockville (i.e. Washington, DC) and Philadelphia stores in 1990. "In order to make up the lost revenue [strictly speaking, the higher costs] caused from being switched to a retail discount schedule from a wholesale discount schedule," the longtime chief fiction buyer wrote me, "Borders, kicking and screaming, entered the co-op collecting fray. We always said that we would get out of the co-op game in a heartbeat if publishers gave us back the wholesale discount, but it obviously never happened." (Teicher to Raff 011814) The push, of course, represented making co-op programs into a profit center.

Bertelsmann (which had been acquiring American publishing houses since 1977 and capped off the series of acquisitions with the purchase of Random House in 1998, making the merged entity the largest American trade publisher) purchased a 50 percent interest in bn.com. It is also unclear whether Bertelsmann thought the dot com operation would be a good investment or whether they were casting a wary eye at Amazon as a trade customer.

To the extent that competitive advantage would come to owe to economies of scale and learning by doing in operations, this amounted to chasing Amazon and betting on either catching up eventually or on the curves not being too steep. Amazon was playing other angles, however, and to an extent almost no one in the book trade seems to have grasped. Customer search behavior, particularly once repeat customers identified themselves, generated enormous amounts of data which could be systematically analyzed and exploited in pricing, book marketing of various sorts, and who knows what all else. Data accumulated in terabytes. The company hired experimental physicists as well as statisticians and marketing researchers to make sense of it. Little did the book trade understand in these years how deeply data-driven Amazon was.

The above considers competition from the traditional economist's perspective of construing a market and looking to other firms. There is something to be learned from the approach suggested by recent writings on cooperative game theory, looking first to consumers (to compare the value-added of various offerings competing less directly against one another than in attempting to capture consumers' favor. This suggests two observations.

The first is that there was also competitive challenge from outside the category entirely. Cable television was an increasingly intriguing leisure activity. Precise figures are elusive, but the general profile is as follows. Early offerings were relatively meager but by the early 1990s 50-60 channels was not an uncommon carrier package. By the late 1990s, the number would have been about 100. Figures extrapolated from a Nielson panel offer some compatible evidence.

As Internet access grew, the set of competitive possibilities in this domain grew. Home access was still generally through dial-up connections and transmission rates slow, but Amazon's example put thoughts in the minds of entrepreneurs. Netflix, for example, had begun a tremendously successful business first renting movie DVD's (dispatched by mail) on a transactional basis in 1997 and then offering a subscription-based service from 1999. It was getting easier and easier for potential readers amenable to watching a movie instead to get precisely what they wanted in their homes. Demographic change may also have contributed to the success of Amazon and Netflix. By 2000, the age distribution of the American population was changing.

The Borders clientele itself was also changing, albeit in a different way, in the course of the store base expanding as radically as it did. It may be helpful to imagine the clientele as a balance between potential customers looking for something specific (a well-defined commodity) and customers looking for book discovery (a want rooted in expectations of a store's curation and the knowledgeability of the staff and so much less vulnerable to price competition). The old State Street store's clientele was heavily tilted towards the second group; and the pleasant shock in the openings of Birmingham and Rockville had been how many such customers might be found outside of the immediate environs of major research universities. But as the store base

expanded, the proportion of such customers shrank. By FY 2000, by one estimate, the proportion overall was down to around 15 percent. This put the stores in quite a vulnerable position, and not just regarding price competition.

The outward record of Borders growth in this period was mixed. It is helpful to begin with the footprint. The Walden stores as a group were not growing (i.e. in revenue) but the better-performing stores threw off useful cash and the main action on the Walden front was one of triage. At the time Walden was joined to Borders, Walden had about 1200 stores in malls of all grades, A-E. Quite a number of these, chiefly in small malls, did notably less well than the others and the most conspicuous element in the history of Walden operations in this period was a shrinking store count. The count of Borders superstores, in contrast, grew, vigorously, with peak openings in 1998 of 52, a 25 percent increase, but a monotonically increasing total throughout the period. As of the end of FY 2000, the total square footage was a little more than 8M in Borders superstores and a little more than 3M in Walden mall stores.

Total net sales for the company were $1.75B in FY 1995 and $3.3B in FY 2000. Sales per square foot, however, went from $273 to $255. Comp stores sales growth was down from 9.6 percent to 2.3. The first impression this creates is one of saturation (not necessarily entirely by Borders, of course). One might have hoped for operating efficiencies when Indianapolis represented six stores rather than one and the Washington, D.C., metropolitan area twenty-one (though the question remained of how scalable Joe Gable was). The stock price hit $44.88 on February 4, 1997. This proved to be an all-time high.

There were several strategic commitments during this period running through the end of FY (that year, early February) 2000. The most structurally conspicuous was that starting in 1997, the company began to open stores abroad (managed through an International Division). Stores opened in Singapore, The United Kingdom and Ireland, and Australia and New Zealand. Distribution center functions were handled abroad (and at considerable expense). In 1998, Borders purchased a British chain of 35 stores called Books etc.. The British chain's stores were in general much smaller and the stores continued to operate under their own name. The point of the transaction was to utilize more intensively the Borders U.K. distribution infrastructure. Many of the U.K. stores were in highly conspicuous locations (Orchard Road in Singapore, Oxford Street and Charing Cross Road in London, for example). Divisional revenue was substantial. But expenses were high and the division was never very profitable.

A second form of commitment lay specifically in leases. The issue here is not just the number of properties but their size. Since 1991, as noted above, most Borders stores had footprints compatible with broadly merchandised music and DVD as well as book sections. These generally amounted to about 30 percent of a store's floor space. A general decline in the level of trade could make lease payments on low volume stores less attractive at the margin. A decline in the demand for recorded music or video's in formats Borders could sell could have inframarginal effects.

There was also the question of online bookselling. Amazon.com began operations in 1994, went public in 1995, and began a period of extremely rapid growth. It had raised money inexpensively and spent aggressively on its website, distribution operations, and on its logistics services: competitors griped that Amazon sold books "with five-dollar bills wrapped around

them". Barnes & Noble, as also noted above, began online operations in 1997. Borders waited. From one perspective, the thinking was that Borders should stick to its areas of competitive advantage, which it took to be back-office and store operations. (It was a company of stores selling books, not a general purpose means of acquiring books.) From another, Amazon did not seem like much competition. Actual evidence was scant, but the impression was that Amazon chiefly sold books to people already knew they wanted (or otherwise types of books buyers didn't have to examine to make a decision, such as computer language manuals), to people who were insomniacs or otherwise unable to go to stores when stores were open, and to people who didn't want anyone seeing what they were buying. And in any case, the growth rates so widely publicized were on a very small base: Amazon wasn't selling that many books. "When they get to 5 percent market share I will pay attention. When they get to 10, I may get nervous. Unless they get to 12 or 15, I won't be in trouble," one senior official told me in the summer of 1998.

An online store would be expensive, it should be added. The potential economies of scale are greater than for any individual store and the variable costs are lower but the fixed costs are considerably larger. Between creating and operating the website and running a separate distribution center, costs might be as much as on the order of $20M a year. This cash has to come from somewhere, so working capital would certainly be tied up. Actual realized revenues might or might not be larger than the costs. The attitude in the quotation above notwithstanding, Borders began borders.com operations in 1998. The commitment may well have been ambivalent: the site seemed to industry commentators less than cutting edge.

Operationally important new routines developed in this period high in the organization. One may have been an essentially inevitable consequence of the scale of the organization's growth. This was buyers buying to performance metrics (instead of on merit), a natural temptation to orient to the prospective popularity rather than to intrinsic merit or the breadth or assortments. This sort of shift has a natural tendency to self-replication.

One with direct effects both high up and low was the increasing reliance on co-operative advertising program money from publishers (loosely defined to also include placement fees) general means of boosting total revenue. Co-op money is in effect a subsidy from publishers to stock, market, and otherwise make prominent particular books. This would not represent a distorting influence if the titles were the ones the buyers would have chosen by themselves and the store placements what would have made sense to the store managers given their sense of the books and the local clientele; but if the outcome would have come about without intervention, presumably the publishers wouldn't be spending money to bring them about.

It seemed clear in the executive suite by 1998 that the era of explosive growth of the infrastructure was drawing to a close. A discreet attempt was made to sell the company to Amazon, with the rationale being that the stores could be the basis of a local delivery infrastructure. Amazon did not bite and the Chief Financial Officer began to think about looking for another challenge.

There were more portentious changes at the top before he left, however. DiRomualdo was ready to step back and on November 12, 1998, the board voted to appoint a book trade veteran, Philip Pfeffer, who had been instrumental, over a period of nearly twenty years, in growing the volume of the wholesaler Ingram Distribution Group from $36M in 1977 to $12B in

1996, in the course of this developing the operation into the largest trade wholesaler in the country. He had subsequently been President and Chief Executive of Random House from 1996 until the Bertelsmann takeover in 1998, was recruited. Pfeffer, unfortunately, did not fit in, perhaps in part because he had no plausible quick solutions for deteriorating results announced shortly after his appointment. Whatever the causes, he resigned in late April without making much impact.

The situation was actually worse than a mere matter of personnel specifics, however. First, the company's situation was deteriorating. Results for the fiscal years ending in January, 1997, and January, 1998, had certain basically positive elements—top-line revenues grew consistently vigorously. But this was powered mainly by growth. Superstore comp store sales were at least quite respectable as dollar sums. But they were declining at 9.9 and 8 percent respectively. (The Walden figures were 0.1 and 0.5, respectively.) Revenue growth for the fiscal year ending in January, 1999, had been more exclusively due to opening stores—same store sales growth was much more modest at only 3.5 percent (only a little more than twice the inflation rate) and was pronounced "unacceptable" by top management. Walden revenues were down 2.7 percent, in part due to store closings, a familiar pattern in recent years; but comp store sales were no longer roughly even but rather down 1 percent, suggesting that the problems were deeper than just the stores that were closed. Fourth quarter sales were below forecast, as were earnings for the year.[33] Losses at borders.com nearly doubled to about $10.5M Pfeffer gave an interview to PW in mid-April outlining initiatives. These do not appear to have impressed and coverage referred to "growing impatien[ce] waiting for Pfeffer to initiate changes at the company". Second, Pfeffer's $4 million severance payment, announced with his resignation later in the month and appearing in the 2000I accounts as a one-time charge, wiped out the quarter's profits. DiRomualdo returned transitionally and on November 15th the board appointed Greg Josefowicz, whose previous career had been with the Midwest food-and-pharmacy chain firm Jewell-Osco, as CEO. The sense of the Board seemed to be that modern retailing methods as they appeared in those lines of trade would be key in addressing Borders's problems.

The results for his first year in office were a mixture similar to what had preceded them. Total fourth quarter revenue was for the first time over a billion dollars, with a total for the year of about $3B. Superstore comp store sales were up, but perhaps not reassuringly so, at 5.4 percent and Walden comp store sales were up at 0.7 percent. Beyond the numbers, with improvements of this magnitude, much would turn on how the improvements were generated. But on the surface at least, these could have been read as reassuring short-run developments.

Volume on borders.com was up strongly for the year. On the other hand, its losses had widened to nearly $18m. Wall Street, very impressed with Amazon and what the Street understood of its prospects, cast an ever more skeptical eye on bricks-and-mortar chains such as Borders. The stock price suffered more and more, declining from a $40 high in 1998 to the $11-$18 range in 1999. By March of 2000 it was about where it had been when the company went public in 1995.

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33 Note that the forecast was revised around the end of the fiscal year so. This allowed for a superficially less alarming characterization of the actual results when the formal announcement was made but the financial markets were of course not confused.

More operationally-oriented parties put more weight on the improved near-term results and waited as plans were developed and might begin to bear fruit. Josefowicz certainly had plans he could talk about. He imagined, the press release announced, reinvigorated store design and wayfinding signage, installation of customer self-help kiosks “which integrate the power of the Internet with the advantages of the bricks and mortar store experience”, a renewed emphasis on local marketing activities, redesigned incentive program to reward sales performance, an expansion of the company's gift certificate program, a comprehensive upgrade of Borders.com including graphic redesign, improved e-commerce functionality and expanded content. These sounded like the sorts of suggestions one might have expected from someone with Josefowicz’s professional background. Those who thought choosing someone like him was a good idea for fixing the business were encouraged while those who saw him as someone from a business relatively far away from the roots of the company’s success were not. Meanwhile, the stock price was an increasingly worrying concern; and Borders management also announced on Friday, March the 3rd, after the Stock Exchange had closed, that Merrill Lynch had been hired to explore strategic options i.e. a possible sale of the company.

A more demanding environment

Starting later in March of 2000, the environment in which Borders operated changed in ways that were seriously adverse. I begin with the general economic environment and then proceed to the activities of firms in related lines of business.

The burst of technological innovation starting in the early mid-1990s that many had hailed as a new industrial revolution materialized as something more like the boom part of a boom-and-bust cycle with the bust period starting in March, 2000. The collapse in tech stock prices was dramatic in the extreme. Overall it of course represented a writing down of wealth constraints. This caused great difficulties for some individuals and firms, and the conservatism it led to in the capital markets was exceptionally difficult for firms in the sector which needed to borrow substantial sums of money for working capital or expansion.[34] Altogether, there was something of a pall over the wider economy. Real GDP growth rates declined sharply in the second half of the year and were weaker still in the New Year.

Hard on the heels of the tech bust came the September 11, 2001, attacks on the World Trade Center and the Pentagon. Long after airplanes were flying again and other overt emergency measures had been withdrawn, a cautious mood about expenditure and even congregation in public places remained. The President of the United States may not have explicitly encouraged Americans to go out to the mall to go shopping, as various right-wing commentators hotly insisted; but real GDP growth in 2001 IV was a mere 0.18% and he did indeed take the occasion of the State of the Union address the following January to "ask your continued participation … in the American economy." Growth rates continued anemic by the standards of the late 1990s for several years and rose only to the level of the modest in the remainder of the period covered in this section. Foot traffic in malls is in general quite sensitive to this sort of thing. Reliable hard data is not easily come by but anecdotal evidence suggests that foot traffic went sharply down and stayed down for many years. There were surely some composition effects concerning which customers appeared in stores; but the main fact was that there were fewer customers and spending was down. Retail stores were, overall, hurting. At the margins, the brunt of this was born by hourly staff and suppliers (in the case of bookstores, publishers) and the main residual was by owners (for Borders and the other incorporated bookselling firms, the shareholders); but inframarginally firms might just go under. Many did.

Less transitory disruptions appeared within the set of firms whose business might touch upon that of Borders. The bellwether event actually took place before 9/11. In January of 2001, Apple announced its iTunes software which acted as a front-end to a software media player. In October, the iPod, a solid-state digital music player using the software was first offered for sale. An iTunes store was announced in April of 2003. The growth of iTunes sales was explosive and by 2008, it was the by revenue the largest vendor in the country. The equipment was elegant, chic, and frequently updated with ever-expanding capabilities. To the firm these—and the devices in particular—were at once an enterprise, an ethos, and a source of immense and ever-expanding profits. To the customers they were chic, gratifying in themselves and an intriguing

34 Amazon.com had been fortunate to complete a flotation of $672M of convertible bonds a month prior to the collapse: this proved to insulate them nicely from post-bust liquidity problems.

claim on their owners' time. To established channels of distribution for music and video, they were, as will be explored below, nothing but a disaster.

In the meantime, changes were also taking place in the book trade proper. Trade sales overall slowed notably. Barnes & Noble kept expanding its retail footprint (from 542 superstores in 2000 to 713 by the end of 2008) and, whatever else, Borders felt obliged to keep up with this to avoid the development of dangerous asymmetries (335 to 515). Barnes & Noble's 2000 involved a loss for the year but it after that resumed the profitability it had enjoyed consistently since 1996, a larger and increasingly challenging competitor.

Online sales in general continued to blossom though the total as a percentage of total retail remained small. The volume of bn.com continued to grow though the profit margins were slender at best. Bertelsmann board unhappiness with the company's online investments led to the ouster of its Chief Executive and the position in bn.com was sold back to Barnes & Noble in 2003. Barnes & Noble but did not back away from the venture, plowing new resources into it.

The tech crunch hit Amazon quite hard. The fall-off in BMV sales relative to expectations and the underused warehouse space were the least of the problems. There were still no profits. The stock price declined steadily and was down at one point nearly 87 percent from its prior 1999 peak. Executives' options went far under water. Amazon had been aggressively investing in other online sales companies and many of these went broke. Had the firm not completed the sale of bonds described in Footnote 34 above a month prior to the tech boom collapse, its situation would have been desperate. Commentators thought the firm came close to bankruptcy in 2001.

A fundamental reorientation at Amazon seemed to be in order. The most notable aspects were two. One was that Amazon started its Marketplace operation and in effect became a third-party host for the websites of other retailers, large and small. It even handled their goods from the distribution centers on a merchant basis. The other was that it began leasing server capacity, sometimes on a very large scale, in what became Amazon Web Services. As software and storage began to migrate from desktops and personal devices to servers, this became a large, profitable, and entirely separate new business from the original one.

There was also renewed investment in the Amazon books, music, and video business, however. The website was improved, both in terms of customer usefulness and as an observatory onto potential customer behavior. Delivery operations received particular attention. This was partly a matter of infrastructure for physical delivery, with all of the opportunities for economies of scale and scope that offered, and partly a matter of the costs and pricing of premium delivery services. A sequence of ad hoc initiatives designed to boost sales by making shipping less expensive and in some circumstances free was succeeded by a subscription service for premium delivery, Amazon Prime, in February of 2005. Its appeal was almost entirely as an idea, as there was very little evidence on the basis of which to determine a suitable pricing structure. It became a centerpiece of the firm's marketing. Prices for established products like books remained low relative to bricks and mortar channels but began, on average, to creep up as tensions emerged between finance executives, with the financial markets behind them, and Bezos.

The success of Harry Potter only grew as successive volumes emerged, mainly to the relief of the established book trade. Launch events became more and more theatrical. On the other hand, the publisher, noticing the possibilities, began increasingly to allocate copies to warehouse clubs.

Netflix began attacking the business of video rental chains in 2006, renting DVD's via the mails with no late fees. Exploiting the infrastructure of fiber-optic cables laid in the most feverish parts of the dot com book for cheap broadband transmission, Netflix began a streaming service in February of 2007 which soon became the core of its business.

Borders had been profitable as a public company through FY 2005, though profits had taken a major dip in 2000. Net earnings peaked in FY 2004 and then went into decline. Net revenue grew through FY 2006 but the company lost more money than it had made in the peak year in both FYs 2006 and 2007. Superstore comp stores sales growth had not been in double-digits since before the IPO but even so the numbers declined: FY 2000's 2.3 percent was followed in the next seven years by figures oscillating between a high of 2.0 percent to a low of -2.2, Sales per square foot flattened out from FY 2002 after a long and essentially monotonic decline from their FY 1991 peak.

Barnes & Noble had been consistently larger than Borders but had on most relative measures been less profitable in the early years: Borders had been a more efficient generator of profits, whatever the totals were. Starting in the late 1990s, however, the relative profitability relationship began to reverse and Barnes & Noble became more profitable in both respects. This was only partly a matter of the decline in performance at Borders: Barnes & Noble also improved. This is generally thought to owe to Barnes & Noble's thoroughgoing reorganization of its supply chain: the selection and appeal to customers was somewhat different from Borders but it was also more efficient at doing the basic business.

The collapse of the music and video business hit Borders less hard than it did firms specialized in the products like Tower Records; but it hit Borders hard nonetheless. The firm found itself relatively abruptly with massive overcapacity and in the worst possible way since closing individual stores wouldn't directly address the problem. More or less all of its superstores had effectively lost categories occupying roughly 30 percent of floor space. The stores were large enough, at least given their locations, that they could not profitably be filled entirely with books. (Indeed, even the Ann Arbor store, now moved around the corner into the 44,000 square foot former home of Jacobson's Department store, struggled without music and video sales.) The growing competition for sales of best-sellers and for foot traffic more broadly were of course not helpful. This was no small problem; and obvious possible means of somehow making the problem go away were few.

Possible ways forward seemed few**.** The new senior management did advance a number of responses. One set involved retailing methods, many familiar from the grocery business. There were couponing and other discount initiatives. There were, from 2006, loyalty (i.e. frequent buyer) programs under the general name of Borders Rewards. There was also (of course, less obvious in either customer's email Inboxes or in SEC filings) an increased reliance on co-op money from publishers. This eased financial problems at the corporate level but caused significant tension at the store level, where centralized control over when went where and in

particular what went on the front table displaced the authority (and so the role) of local management and staff. The requirements of the corporation seemed to them to be running into conflict with the requirements of adaption to local markets and the corporation was winning.

Even the local management agreed that corporate did some things right. In this period for the first time, there was significant investment in consumer research. One aspect of this came in for a great deal of public criticism, perhaps unjustly. In what was publicized as the category management initiative, systematic research went into researching best merchandising practices on a category-by-category basis. It certainly proved to be true that the best way for selling books varied across categories (just as it was true in the grocery business). Keeping hardcover and paperback genre fiction separately, for example, made sense: customers didn't get confused about where to look (or give up before finding what they might otherwise have purchased). This was not true for genre fiction (romance, fantasy, vampires, and so forth). There was a great deal of play in the press about the company finding publishers with a major stake in particular categories to share the expenses of the research. This generally presented as selling individual publishers the right to suggest title allocations across not only their offerings but those of other publishers in a paid-for role as "category captains". This looked less good. Indeed, it looked a little desperate.

Other changes were more straightforwardly operational. Barnes & Noble had secured a contract with Starbucks to sell their coffee and it seemed important to do something to emphasize the quality of the coffee in the Borders stores' cafes. Starbucks Inc. did not have an exclusive contract with Barnes & Noble but wanted to increase control of trade use of its name. So the brand became "Seattle's Best", either a sly hint or an invitation to read the initiative as imitative and in fact second class. Operations of the cafes were contracted out to Starbucks under this name in 2004. A British company called Paperchase was purchased in 2004 and Borders superstores opened a new department selling its paper products and related notions. Walden stores were incrementally refurnished and rebranded as Borders Express stores. There were some upstream economies in this, though the locations rarely really exploited the capabilities. Extensive programs of refitting stores were undertaken and significant funds expended on research for a "store of the future" layout and prototypes were created. None of this was fundamental; and none of it reversed the tide.

Others still were markedly ambiguous. In August of 2001, Borders contracted with Amazon to run the borders.com website. Josefowicz argued that this had a number of advantages. It freed up sums between $10 and $20M he felt could more productively spent on other initiatives. Amazon paid a commission on sales, so the online operation began contributing to profits. On the other hand, Amazon learned the order flow and the search information which in older days would have been information to Borders of the greatest value. Borders also severely limited its ability to leverage online transactions into in-store activity. Amazon picked up customers who got used to the service.

Net cash from operations was sharply down in FY 2005 and the following year looked likely to be worse. (As noted above, that following year's accounts eventually booked an actual loss in net income.) The company was clearly struggling. Josefowicz left in July of 2006 and was replaced by George Jones, an executive at Saks Fifth Avenue and before that president of worldwide licensing and studio stores for Warner Bros., the film studio. It was another stretch

outside bookselling (though again this time not in the increasingly obvious direction of web commerce or the digital world).[35] Josefowicz had been chairman as well as president and CEO and the board replaced him in the chairman's role with Lawrence Pollock, an experienced traditional retailer and, since 2004, investor, who had been on the board since 1995. The situation looked increasingly difficult. It was certainly not clear that the new authorities would have the key to the problems. The company's shares lost half their value in the course of 2007 and losses for the fiscal year that closed shortly thereafter were recorded at $157M.

The ownership began to change in significant ways later in 2006 as well. In November, a private equity fund called Pershing Square announced that it had acquired about 12 percent of the shares of the firm. The fund's head, William Ackman, said he felt the firm was undervalued at the then ruling price of $23.92. By January of 2008 he had increased Pershing's stake to 18 percent.

Jones introduced a "strategic plan" in March of 2008.[36] He surely had to. Its headlines were very much focused on results rather than operations (thus coming across more like a forecast than an actual plan) and seemed—perhaps understandably—much more an act of offering assurances to investors than a report of the conclusions pf nitty-gritty planning meetings. Its central element was the abstractly characterized idea of "[r]einventing the company by leveraging innovation, technology, and strategic alliances to differentiate Borders in the marketplace". There were vague references to leveraging the (addresses and other information the company had about the) Borders Rewards program membership and developing "'Destination Businesses' in lifestyle and other categories" i.e. diversifying away from books and possibly even reading matter. But it really was a bit vague.

One (rare) specific element of this would be the debut of a new e-commerce site in 2008. The plan did say forthrightly that management proposed to sell the international stores it owned, to expand the modest but profitable international franchising program, and cut by nearly half the remaining network of Walden stores. The key assets were characterized as being "a powerful brand, a strong network of store locations, knowledgeable employees, and nearly 17 million … members of [the] Borders Rewards … program". It's not entirely clear what to make of this: the brand still stood for something in the public mind; but the network of store locations was closely shadowed by another firm's network of locations, the employees were not as knowledgeable as they were once, and the Borders Rewards membership list had not yet proved to be of enormous values. Jones added that "the superstore is the foundation of our brand: it's how we grew into the respected name we are today and we believe it is the key to our future." This last could have been at once both entirely true and whistling in the wind. A propos the latter possibility, one might think, he also said that management would stop providing guidance on future sales and earnings, saying only that the company expected to return to continuing EPS growth in 2008. The relatively concrete measures the plan described could mainly be summarized as more efficient and modern marketing-oriented centralized discipline over individual store operations, certainly urgent if the firm was on a productive path and just not executing well. Among these

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35 When Henry Reece stepped down at the head of the Oxford University Press in 2009, his successor, who came from Penguin, had specific experience running the publisher's digital operations.

36 For the text, see http://www.prnewswire.com/news-releases/borders-group-presents-long-term-strategic-plan-to-focus-on-core-domestic-superstore-business-52175002.html.

relatively concrete measures, "Improving merchandising, assortment planning, replenishment and supply chain effectiveness" stood third in a list of five. It would have stood out vividly to anyone with a sense of the firm's history. Overall, the press release did not convey a sense that any searching reconsideration of what the business was about, how environmental changes had changed its prospects, and how it might move forward with confidence about the future had taken place.

One prominent industry commentator complained that this was both unimaginative and shallow[37]. It did not engage deeply with the way the base of potential customers had been changing and the way other firms had been adapting to this. And it did not grapple with the inefficiencies that had developed in core activities and capabilities. There is certainly some truth to these observations; but there is another—distinct but not incompatible—perspective worth considering. These initiatives appear to reflect a view of what the investments and commitments had been, what the clientele had become, how the loyalty of significant parts off that clientele had been seduced away, and what might be done, with funds and with time actually still available, to shore up the loyalty of a hard core of the clientele that remained. It could well have been the case that there were things not done—measures not specifically addressed in the Strategic Plan that Borders ought to have urgently been doing—but also that Borders, at this juncture in time, had become a sort of captive of things the company had done previously. Strategies are often said to be decisions it would be difficult or costly to unwind; and it might have been that past strategies, whether or not wise decisions when they were undertaken, had in a sense calcified into unfavorable aspects of the environment now confronting those responsible for the overall direction of the firm.

The most important visible initial steps of the new administration concerned both operations. Borders severed ties with Amazon regarding the borders.com website in May of 2007. The following September, 2007, it concluded a sale of the U.K. and Irish subsidiaries, raising $20M in cash and with an earn-out potentially yielding another $20M and a 17 percent stake in in the new entity. The following February, it opened the first of 14 new "concept" stores. This "concept" had been in development for some time: consultants were appointed shortly after Jones's arrival. The concept might waspishly be said to have been that readers of books also lived in a world in which digital technologies existed. The High Strategy version of this was that Borders would remain a bookstore but that "[w]ith a mission to be a headquarters for knowledge and entertainment, Borders simply had to evolve and participate in the digital business."

This was discreetly framed a response to the growing strength of Amazon and Apple but seemed aimed more towards the Borders customer demographic than theirs, in particular at customers who wanted to use devices but did not feel much technical confidence. The spaces were brighter and more open and the chairs were now leather. There was a video-conferencing device allowing authors to "sign" books electronically, but the main action involved digital media. But none of this was close to the heart of it.

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37 Michael Cairns [a longtime industry executive and consultant who was at one point president of R.R. Bowker, inter alia the owner of *Publishers Weekly*) "Borders Strategic Plan: What Borders Could Have Said," personnondata.blogspot.com March 26, 2007.

Taking up space released by a sharp contraction of the music offerings with computer stations where customers could, for a price, burn music CD's (from a library of more than 2M songs), download music and audiobooks (from about 15,000 offerings) onto MP3 players, create digital photo albums, learn how to self-publish, and research family genealogy. Trained staffers were an advertised feature, presumably an attraction for those potential customers who felt unable to do any of this on their own online at home.[38] (Perhaps these staffers were distant descendants of the old floor staff suggesting books.) The digital services would not work on iPods, though the company said it was "working" on that. Merchandise for cooking, travel, and wellness were also available in their own new 'lifestyle' kiosk sections, along with facilities for downloading recipes, booking trips, and the like. Sony e-readers were also for sale, along with digital cameras and memory cards, and also toys in the children's section and more gift items elsewhere. Floor space devoted to books was not reduced but the title count was, in order to allow more face-our rather than spine-out shelving.

Throughout this period the financing of the Borders business was becoming parlous. There was a substantial line of credit available. But the ratio of trade accounts payable to merchandise inventory—a rough proxy for the extent to which publishers were financing the inventory—had declined steadily from FY 2003-FY 2007, suggesting either tightening terms (presumably signaling increasing uneasiness on the part of publishers and wholesalers) or that the books were selling more slowly (or some combination of the two). Long-term debt was down but other noncurrent liabilities were up sharply; and total liabilities kept rising.[39] The share price fell. Cash was unusually low at the end of FY 2005 but cash positions generally declined steadily from the end of FY 2003 through Jones's arrival. The Chief Executive Jones, his mind no doubt sharpened by Josefowicz's experiences, may have been focusing his attentions fiercely on the stores and what to do with them. But this was a preoccupying time for the Chief Financial Officer as well.

Borders announced an annual loss of $157.4M in March 2008 and the stock, which had been declining, went down another 28.5 percent on the news to $5.07. The company announced it was hiring J.P. Morgan and Merrill Lynch to "investigate strategic alternatives" i.e. put itself up for sale, undoubtedly at the behest of its major investor, Pershing Square. It also announced that it was would "accept" a $42.5M loan from Pershing Square to boost its financial position in the interim.[40] The interest rate on the loan was said to be 12.5 percent, more than twice the so-called prime interest rate and high enough to require significant operating profits for the firm to avoid default. Perhaps this was just private equity investors angling for cheap shares. The correct interpretation of these events seems likelier to be that the company would have been unable to

38 As a popular newspaper put it ""with help[ful] clerks who know how to do those sorts of things and won't embarrass you if you don't." Jayne O'Donnell, Sharon Silke Carty, and Erin Katz, "Borders opens bookshelves to digital services," *USA Today* February 14, 2008. "We had to build something that would cause the consumer to drive five or ten minutes past the competitor's store to come here," the article quoted Jones as saying. It was clearly a particular segment of the customers he had in mind although, as Jones noted, at that time more than half of the book purchased in the United States appeared to be purchased by people over the age of fifty. Internal research suggested that the customers in the store stayed on average nearly an hour. .

39 The noncurrent liabilities were presumably line-of-credit borrowings.

40 The language of the announcement was "to carry it through the rest of the year". Unsurprisingly, the company also suspended paying dividends.

continue trading and therefore become unsalable, without the loan—the offer was Pershing Square, risking throwing bad money after good, protecting itself from having to recognize a complete loss on its Borders investment.

It may be worth elaborating on the situation from the Borders perspective for a moment. Cash might seem a lifeblood of a retail business. The perception on the part of suppliers that there will be sufficient cash when the bills fall due is indeed a lifeblood. The freezing up of capital markets, which had not been sufficiently reversed in time, could have been a catastrophe for Borders. Instead it was a melodrama. Pershing in effect made a loan of $42M to the firm to tide it over, at 9.8 percent interest with Pershing taking a large number of warrants and certain other contractual commitments in consideration. It is unclear whether customers noticed in any significant numbers. But the events did not make the firm look stronger to Wall Street, suppliers, or to Pershing (which, as I commented, had its own reasons for not wanting to throw in the towel on its investment).

The new website launched, roughly as announced, in late May but the main theme of corporate announcements in months following the loss announcement was, unsurprisingly, triage. On June 3, the company announced a $120M cost-cutting plan including dismissing 156 from the Ann Arbor headquarters staff (leaving about 1000). On June 10, 2008, the sale of the Australian, New Zealand, and Singapore stores was announced, generating badly needed working capital. In August, Barnes and Noble ruled out bidding for company. This seems to have been mainly a relief to Barnes & Noble common stock shareholders. Since anti-trust concerns would surely have required very large-scale store closings if such a transaction had gone through, the announcement was probably not the disappointment it might have been to Borders staff. To them, the publishing industry, and the stockholders, the sentiment was probably more a mixture of short-run Micawberism and increasing dread.

Real crisis (more precisely, financial and real crisis) in the external environment and the evolutionary responses

In 2008 the external environment got markedly worse. The Wall Street investment banking house Lehman Brothers filed for Chapter 11 protection on September 15 in the largest such filing in American history. The filing was related to the large holdings at Lehman and elsewhere of unsound derivative securities related to the ho\using bubble. The bubble soon stopped, as did the insurance giant AIG (which had sold insurance on price movements of many of the securities) and much activity on US financial markets (as potential actors in many transactions became uncertain of the soundness of potential counterparties). The chairman of the Federal Reserve Board had spent his professional life studying what had happened in the Great Depression; and he and his colleagues seem to have succeeded in preventing an outcome as bad as that. But the financial markets grease the wheels of commerce; and in the Great Recession that ensued, conditions were not at all good for a very long time. Republican resistance in Congress to a deficit spending bill of the size that would have been in order when a new Administration came in in 2009 meant that the real economy was more depressed, and for longer, than it would have been otherwise. Real GDP growth was negative for the following five quarters, reaching a nadir of -4 percent in 2009 II. It did not return to anything resembling normal levels until 2010 II and these proved fragile. None of this was good for trade; and none of it was good for firms with debt obligations, never mind with growing ones. Borders fell into all of these categories

Starting a little less than a year before the crisis, alternative means for potential customers to obtain reading matter had begun to change in a way with radical and potentially quite adverse implications. In November of 2007, Amazon offered, in time for the Christmas selling season, a digital device designed for reading long-form texts, the Kindle. This was a dedicated electronic reading device in two distinct senses: owners could only use it read electronic texts and they had to buy those texts from Amazon. The product came to seem quite primitive and the initial roll-out was troubled.[41] But the threat to the basic business model of bricks-and-mortar book retailing was vivid. Manufacturing costs for electronically downloadable text were essentially entirely fixed, with the variable costs of reproduction essentially negligible. So cost-driven prices might potentially be extremely low. Closer to home still, storage costs were minor. The warehouses that were required were server farms, with enormous economies of scale. Actual stores serving as depots of merchandise, with all their associated costs, were unnecessary (given discovery, of course). Bricks-and-mortar retailers might have taken some comfort from the Kindle's initial difficulties. (Direct competitors did not do much better.) But the sense that the wind blowing was chill must have been chastening.

The real challenge on the Kindle's potential sales came when Apple introduced its iPad in April of 2010. The iPad was basically an unusually thin and light computer which had been carefully designed, hardware and software, to function well as a reading device if used for that purpose. But it could be used for many other functions as well and was, in the usual Apple fashion, elegantly designed for all of them. Apple made efforts to be an easy supplier of text; but

41 Codex Group surveys suggest that in the first year of sales the Kindle achieved less than 1 percent penetration of the book-buying population and indeed that only 46 percent of Amazon website visitors reported awareness of it. Sales only really began to pick up when Amazon began advertising more broadly on the website, began selling it in more traditional channels (e.g. BestBuy), and began cutting the price.

texts from any source could be read. The iPad rapidly dominated the Kindle in the marketplace overall, though Kindle sales appeared from consumer research to begin to grow substantially with subsequent product revisions. (Amazon remained very coy about revealing sales data.).

The old means of collecting statistics on the sales of long-form reading matter were breaking down, but the impression they gave in this period was of an essentially flat market. Publishers were concerned, not just because of the fading growth prospects but also because of their fear that Amazon's growth as a channel of distribution. Amazon was known as an aggressive bargainer. If it came to dominate sales in the only growing part of an otherwise stagnant market, the publishers would be at their mercy.

The publishers' fears did not lessen as Amazon began demanding pricing power and rights to early dissemination of texts in electronic form that threatened publishers' traditional use of intertemporal price-discrimination to extract value from best-sellers. The publishers saw correctly that Amazon could envisage a world without much role, and certainly without much profit, for them.[42]

Amazon was indeed aggressive in its negotiations. It wanted to be able to offer electronic versions at the same time as the publishers first offered their initial hardcovers, the latter traditionally priced to skim surplus off readers who wanted to read books as soon as they appeared. At the time a typical price for a new hardcover was $35. Amazon also wanted to be free to price the e-books at $9.99. The publishers saw this less as channels than as a potential breach in a dike. But they also felt they could not turn their backs on a potential clientele.

They were, of course, desperate for another means of access. Apple's chief executive Steven Jobs, no stranger either to maneuvering for position and hard bargaining, was willing to offer terms in order to boost the value, and so sales, of his firm's device. The terms were that the publishers could set their own prices for e-books but that Apple would take a 30 percent cut. This was, for a decreasingly relevant comparison, a better deal than wholesalers got (40 percent) and the publisher desperately wanted to be able to control the discount relative to hardcover list prices presenting itself to potential customers. It struck many publishers that this was the only way forward compatible with their independence (and, indeed, with even the possibility of their long-run survival); and a number of them agreed to do it.[43] Nonetheless, Apple's iBookstore appears not to have been a market success: Amazon's sales of ebooks through Kindles appear quite dominant.[44]

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42 Amazon had in fact been alluding to this in its annual reports more or less from the beginning.

43 The Justice Department eventually (April, 2012) sued Apple and the publishers, construing the so-called agency pricing arrangement their contracts embodied as a conspiracy in restraint of free trade. Many industry commentators thought this an instance of the mote in thy brother's eye and the beam in thine own, since the defendants' objective, even if it actually was a matter of conspiracy and not just independent actions by precisely symmetrically situated actors, was to prevent a pending larger monopoly by Amazon; and commentators farther afield speculated darkly about whether the decision was driven by election year political considerations. Eventually, all of the publishers settled, agreeing to fines and a two-year period of firmly hands-off wholesale pricing. Apple did not agree, went to trial, and lost. The remedy is still with the courts as I write.

44 Codex data.

While all of this was going on device sales proceeded. It remained unclear whether these purchases represented the tidal wave of competence-destroying technical change (more precisely: technical change destroying the value of competences) commentators initially had suggested or were rather a new (and not necessarily economically insignificant) niche which would not prove the undoing of the old order. Only time (and perhaps the development of personal computing technology and usage patterns) will tell.[45]

The real question remained how readers would choose to read and to acquire their reading matter. Here the evidence available to public view was (and remains) misty (in major part because Amazon, presumably for competitive reasons, does not reveal key statistics). Reported growth of e-book sales has at least recently tapered off sharply. Either the statistics are missing major channels of growth (self-published titles through Amazon does not seem a plausible candidate) or the niche view may be correct. But this, whatever it is, was not visible in 2008 and 2009.

Operationally, Borders made outward gestures of continuing to scramble. Efforts—modest compared to Amazon's but not insubstantial—to learn something from the website and from the behavior of Borders Rewards customers continued. An initiative to push "Make" books i.e. to use Borders reputation with its own customers to create best-sellers was initiated. (It was publicized as a return to "hand-selling" books, though these books were selected in a centralized way and the idea was to recommend them to customers on the basis of that decision rather than, say, in response to descriptions of interests and experiences from customers. Floor space devoted to e-reading devices continued to expand. An investment with the Canadian firm Kobo amounted to an alliance with an e-reader manufacturer and access to a library of titles for Borders customers. This was at least not branded to a competitor. The timing of December 15, 2009, was hardly optimal, however good or indifferent a deal it was.

But Borders had more primitive challenges. Comp store sales went into negative territory: -10.8 percent for 2008 and declining. Net income the first quarter of 2008 was slightly better than its counterpart a year earlier, the second quite sharply better. But the year-on-year comparison was down 9 percent in the third quarter, the quarter of the financial crisis, and the figure for the final quarter of the year—the quarter in which the bulk of the profits are generally made—was down by more than half. Inventories appear to have been slashed to free up cash for other uses, but losses for the year 2008 as a whole nonetheless widened to $187M. In March of 2009, it was announced that Pershing Square, would extend its loan as the company seemed to have been unable to roll over the debt with any third party. The stock price in fact in December dropped briefly below $1 a share, triggering concerns about delisting from the New York Stock Exchange and inevitable anxiety along the supply chain.

Jones was ousted on January 5, 2009, and replaced with Ron Marshall, a private equity executive with turnaround experience. Seven of the 10 members of its board of directors left the

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45 It may be only an amusing coincidence, but at least one commentator seized on the announcement that Kindle activations were up twenty-four fold on Christmas Day 2013 to analogize the device to fruitcake—something one might buy as a gift but would never purchase for oneself—see http://www.businessinsider.com/more-proof-that-the-kindle-fire-is-the-fruitcake-of-tablets-2013-12.

retailer, including the chief financial officer of many years, Ed Wilhelm, the EVP of Merchandising and Marketing, Rob Gruen, and the EVP of stores, Ken Armstrong Total severance payments were in excess of $3M.

By this stage if not before, the choices facing the executives were limited and unappealing. All major options had terrible costs. The major categories of expenditure were rent, inventory, and labor. Without a Chapter 11 bankruptcy filing and the judge letting the company break leases, the rent costs were substantially fixed. Less inventory and the fundamental reason potential customers came to the stores diminished its appeal. Lower wage bills and there were fewer and less knowledgeable hands to sell the books or even to make sure the potential customers could find the books on their own. (Given a choice between staffing the registers and checking the stocks for alphabetization within categories, what manager would leave the registers unstaffed?) In the extreme cases, new stock remained in boxes longer than it should, again frustrating the potential for sales: books on shelves sell while books in boxes do not.

Marshall stayed at Borders for only a year, abruptly leaving, apparently of his own volition to be CEO of A&P, at the end of the fiscal year in January of 2010.[46] Borders had reduced debt and improved cash flow during his time. The results for his first two quarters had been savage but so also had been the triage measures put into place and the second half of the year at least showed marked improvement relative to the previous year. Nonetheless, the holiday season, with net sales down nearly 14 percent on the preceding year, couldn't be spun more optimistically than quite disappointing. Superstore sales per square foot for the year, which had dropped a relatively precipitous 11 percent the preceding year, were down another 15 percent to $173, a level less than half of peak and, though closer, still far below the $255 recorded the year before the macroeconomic troubles started and all that followed them began to emerge. There had been more closures of small, relatively unproductive stores. But there had also been more carping from analysts about Borders remaining a store company at all. Marshall was replaced by Michael Edwards, the executive vice president who was chief merchandising officer and an experienced retailing executive, on an interim basis. (Edwards ended up staying for the duration.). Marshall's first measures, within days of his appointment, involved a 10 percent headcount reduction of the corporate staff.

The chairman by that point was a thirty-two-year-old graduate of Princeton and the Harvard Business School, Mick McGuire, a nominee of the Ackman interests. (He had succeeded Lawrence Pollack, an experienced retailing executive who had been a director of Borders since 1995 and served in the role from 2006 through 2009.)

February saw Ackman telling journalists that he thought a bankruptcy unlikely. March saw an announcement of a renegotiated commercial credit facility of $700M, with the term of the agreement extended three years from 2011 to 2014 and a separate new $90M loan facility. The press release also announced the repayment of the Pershing Square loan. Perhaps this was Ackman protecting his investment but also getting his investor's loan money out while he could.

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46 Marshall's skills were not sufficient help at A&P, which filed for bankruptcy later in the year. But he may have thought he could do more with that situation than with this one; executives moving into such situations can often negotiate attractive terms; and in any case his position with the Borders board may have become untenable.

Perhaps all these measures were designed to defuse the formal announcement of 2009 results: losses had narrowed but net sales were down again, at about 16 percent roughly the same decline as the year before. Cash and cash equivalents on hand at the end of the fiscal year were dwindling, down three times as much as in the previous year.

The crisis of the years since 2008 had been real for Borders in the sense of being profound but also real, as the environmental challenges of this period unfolded, as being a notably multi-faceted degradation of the company's prospects. The preoccupation of management changed from keeping Borders growing to keeping Borders going. On April 1st, 2010, executives gave an investor conference call describing a strategy of how they intended to "transform the Borders brand". The choice of date was unfortunate but the tone of the remarks was entirely earnest. Perhaps the measures were proposed in earnest too.[47] But they did not represent any radical rethinking and it was not clear to commentators who the executives could expect to share their expressed optimism. The feasibility of survival, never mind its probability, seemed to commentators to be the most open of questions.

47 The measures included buying out leases, though it is unclear how much cash was in fact ever made available for this purpose.

The passion (from Greek πάσχω, 'to suffer'): Final collapse, the aftermath, and the prospects going forward

Borders net sales had grown every year through fiscal 2007 but then began what became a steady decline. The time series of net income results was less monotonic. It peaked first in fiscal 1999, then declined, then peaked at a higher level in fiscal 2005. But from there the decline was steady. Losses began in fiscal 2007. They lessened slightly in fiscal 2010. But then the situation got much worse.

The investors were increasingly disappointed and measures announced by management sometimes seemed to teeter between the anxious (announcing targets rather than measures) and the frantic (e.g. cutting 1,500 jobs in November, 2009). Whatever was tried, the hedge fund Pershing Square was not able to sell off its position on acceptable terms. It had basically been forced into loaning cash in hopes that something would turn up; but nothing ever did. Time passed (and Harry Potter presumably passed out of adolescence) but no replacement blockbuster products materialized. The financial vulnerability of Borders increased. There was a new hedge fund investor, a group controlled by the tobacco executive and corporate raider Bennett LeBow, in May of 2010. The investment was on very aggressive terms: $25M in cash made LeBow's vehicle, the Vector Group, the largest single shareholder once warrants were exercised (as they were in due course). But accepting the investment was an impulse born of desperation, as might have been expected given the particular investor's history, and he was promptly installed as board chair and CEO.[48] (The salary entirely aside, Edwards, the onsite general manager, thus reported directly to him.) A visibly weak 2010 IV created great uneasiness in the Borders supply chain about its future.

The position of those supply chain firms was not simple. The publishers were, as they long had been, dependent upon the bookstores for effectively persuading customers to try their wares and for holding stocks of copies in readiness for impulse buys. In effect, the bookstore owners' investments were part of the publishers marketing budgets. They wanted to be very cautious about actions which might destabilize bookstores, especially large and important ones like Borders. The wholesalers, who were sometimes large vendors to booksellers in general and Borders in particular, were in much the same position. On the other hand, they were in general unsecured creditors, far down the priority list. They risked losing their money, with (to add insult to injury) their merchandise actually sold off to satisfy some higher-priority creditors' claims. So they monitored the situation carefully.

In May, Borders announced that it would begin selling the Kobo dedicated electronic reading device, a relatively inexpensive competitor to Amazon's Kindle, Barnes & Noble's Nook, and the more general-purpose iPad albeit one with less elaborate features than the competition. There would be a tied ebook store. When the store went live in early July, the company announced that its target was a 17 percent of ebook market share within a year.[49] In

48 LeBow had, for example, previously been sued by a group of Liggett (tobacco) Group shareholders for misappropriation of funds and settled out of court for $16M and relinquishing some pending compensation from the firm.

49 Barnes & Noble had recently announced that by the end of its first 6 months of ebook sales it had a 20 percent market share.

mid-July, the company announced that it had sold Paperchase to a British private equity firm for $31M. A further round of Borders corporate layoffs were announced ten days after that and soon thereafter a company spokesman told the local newspaper she didn't think the company was going to talk about such matters going forward. THE CFO resigned "to pursue another employment opportunity the following week. Two weeks later, Borders posted (another and slightly worse) second quarter loss. Online sales were up but amounted to only 3 percent of the company total. The company would focus on improving its in-store experience and pursue more "non-book products".such as games, toys, and notions. A redesigned website launched in mid-November Three weeks later, Ackman, in an apparently desperate move, announced that he would be willing to finance a Borders bid to buy Barnes & Noble. Three days later, the company posted a loss for the third quarter and acknowledged the possibility of a cash crunch early in 2011.

The 2010 III results announcement in December of a loss of $74 million, with same store sales down 13 percent, had been discouraging in itself. The company announced at the end of the month that it was delaying payments to vendors, that this was part of an effort to efforts to refinance its debt and that it had notified the publishers with which it is seeking to restructure payments. Debt covenants, the company announced, might be breached if no resolution was obtained. Trade finance discussions conducted under such circumstances are always strained. Borders initially was asking for a delay in payments scheduling in order to preserve cash while it reorganized. The publishers wondered whether to extend more credit without evidence of a clear plan was a wise step. Some speculated openly that a bankruptcy filing might be a superior option, enabling the firm to close stores and take other measures important for longer-term viability. The company hadn't posted positive net income for several years at that point, but the net loss of nearly $300 million it reported for fiscal 2011 when it finally filed its 10-K was by far its largest loss to date. Borders secured debtor-in-possession financing from GE Capital and filed for protection under Chapter 11 of the bankruptcy code on February 16th, 2011.

The point of Chapter 11 is to allow a firm with value as a going concern to seek a reorganization of financial claims and perhaps operations. For an extended period after the filing, management has the exclusive right to propose a reorganization plan to a committee of the creditors and management held tight to that. There was pressure all springtime from the creditors and maneuvering—struggling over reclaimable surplus—by various deep-pocketed outsiders. But in the end, there was no acceptable plan and no real bidder, so not even an auction. In the end the only actual path forward was liquidation and the bankruptcy judge agreed to it in July.

The bankruptcy had consequences, direct and sympathetic. Borders owed $272 million to its 30 largest unsecured creditors, with many prominent publishers among them. It owed $41.1 million to the Penguin Group alone and to its top five creditors, all publishers, about $160 million. These receivables, and the display space, were losses the publishers could ill afford. It is generally thought that Barnes & Noble got some of the Borders business but Amazon more and independents at least a little.

Amazon was expanding vigorously throughout, quite apart from any effect of this sort; and the cash flow from incremental capture of Borders clientele would only have strengthened its hand. In an important initiative in electronic text bookselling, it had begun selling electronic

book texts at $9.99. It began to demand from publishers the ability to sell recently published books for electronic download at that price even as the publishers were trying to price discriminate and sell hard-cover editions at three and four times that sum. Amazon was thought at that time to command 90 percent of the e-book market. The publishers saw the demand as an attempt to engross their profits, such as those had been, and resisted as fiercely as they could. But by this stage they needed Amazon badly to reach potential customers. Not until the 2010 launch of the iPad did they have any real means of resistance.

Kobo had not been large enough to be anything other than a marginal actor in the script of the electronic reading drama which had started playing out, so Borders and its owners had played no central part in that. Barnes & Noble was situated differently. Having confronted a challenge from dissident shareholders, the company did not sell and instead ramped up its floorspace initiatives and doubled down on Nook-related investments. The major publishers acted inframarginally, so to speak. There is some dispute as to how the actions came about, but the end result was that a number of them signed agreements to sell through Apple at prices set by them rather than the retailer (so allowing them to maintain some element of their old price discrimination strategy). But in March of 2012, The Department of Justice filed a complaint against Apple, Hachette, Harper-Collins, Macmillan, Penguin, and Simon & Schuster—most of big American publishing—claiming collusion to violate the antitrust laws, in particular to force up the price of e-books. (This surely was their objective, at least individually. The question was whether it was a conspiracy.) It was widely remarked that the real threat of monopolization was coming not from Apple and the publishers but rather from Amazon. But the threat of litigation represented a serious threat. Three of the Big Five settled promptly and the other publishes did so after a time.[50]

Electronic reading and sales of e-book texts continued to increase, albeit apparently at decreasing rates. That was modest good news for the publishers and perhaps for the bookstore owners too. Evidence began to accumulate that electronic media were, perhaps surprisingly, not a very effective means of new product discovery in this domain. This alarmed the publishers greatly, though it may have given the booksellers some cheer. Perhaps the publishers would need them more than previously realized.

It is interesting to contemplate the landscape at this point. Borders is gone. What is left in its wake?

Curiously, the surviving independents number among them firms with good survival prospects. Some at least have survived because they have, through location or long investment in customer relationships and community presence, developed a defensible position in their local market. The sub-segment did well in 2012 IV on a year-on-year basis and it is said to have done well in 2013 IV, to the surprise of many observers. Perhaps it was less surprising in the stores.

Barnes & Noble remains a national chain and a going concern. It still has its routines and its economies of scale, also a substantial clientele for physical books and stores in good locations

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50 This narrative has made no real reference to the strategic behavior of the wholesaling firms. That has a very interesting history which is analytically not unrelated to my discussion here and important in understanding the larger industry evolution. I am, after a hiatus of some years, pursuing it in a separate paper.

(albeit stores with more leased floorspace than it really needs to sell physical books). It also has an uncertain but surely expensive future selling texts through reading devices. Whether that future is viable in the longer term is profoundly unclear. The company's December 2012 results were discouraging—markedly less good than the independents—and its electronic business did worse at a 12.6 percent decline than its stores (down 10.9 percent). Sales of digital content were up 13 percent. The problem was the devices, the key to profitability in that business. In late February, the company filed notice with the SEC that its founder, largest shareholder, and board chairman planned to propose to the board that he purchase the assets of the retail business. What complicated play this represented never became clear. By the following December, the proposal had effectively been withdrawn and the Nook business looked even more problematic. The company is not abandoning the project but appears to be outsourcing most of the work.

Amazon, in the meantime, has been booming in electronic distribution of both physical and electronic texts. It has begun publishing programs. It has cut deals with some individual celebrity authors, though the financial success of these ventures overall and their prospects remain very uncertain. It gets paid comfortably to sell merchandise it does not own and is building out its warehouse network with an apparent view to offering not merely overnight but potentially same-day rather than one- or two-day delivery service in many markets. Perhaps the aggressive pricing bought competitive position.

Or perhaps not. Amazon is not the only online company now intently focused on electronic texts and contemplating—and even launching in a test city—very rapid delivery services.[51] One can imagine a world in which some physical bookstores retain a clientele and viable business but in which much of the long-form text buying involves purchases from Amazon or Google. It is not a future publishers would wish for. But it may be on the way.

51 Hayley Tsukayama, "Google Testing Same-Day Delivery Service," *Washington Post* March 28, 2013. See also "Alexia Tsotis, "Google Is Building A Same-Day Amazon Prime Competitor, "Google Shopping Express," *Tech Crunch* March 4, 2013.

Epilogue

When the Borders superstores began to fan out across America, it seemed to many local potential customers as if an angel had appeared in the night, intervening in their lives. Suddenly God's plenty was there before them, in windows, on shelves, and laid out upon counters, to be discovered, browsed, and purchased if the impulse struck; and while overall transactions in sufficient volume were clearly a condition for stores' viability, what was on offer was not strictly transactional. The comfortable chairs scattered throughout the stores were a piece of this atmosphere, as was the helpful attitude of the staff and their knowledge of the contents of the books which were available. But this was certainly not all of the atmosphere. Borders did not seem to be flogging stock. The stores seemed set up to develop the customer's tastes and to give the customer what he or she truly wanted. The stores seemed genuinely curious.

In this last it the intent at Borders was probably not different from Amazon. Anticipating the customer is, after all, central to success in retailing. Still and all, the impression of Amazon often seemed quite different. This was not just a matter of automated recommendation lists which, for all the clever data-mining that was said to go into them, often seemed curiously misguided. The difference was sometimes palpable and seemingly deeper. Amazon product (i.e. title) pages began, and begin, with editorial reviews. There was from the start a button for "All editorial reviews". But what clicking this button showed was very far from off from all the reviews: it showed only the selection Amazon chose to display and that selection had a certain style to it. The style was enthusiasm. Dust jacket blurbs, elicited by the publisher with the unambiguous intent of encouraging sales, were for example often quoted there. Critical reviews, even from authoritative sources, seem to have been rigorously excluded.[52] In Borders, even if the staff did not know some individual recently published title, one could go back and forth between the magazines with good book reviewing sections on the magazine shelves and the bookshelves proper. It wasn't a library, with a well-informed and empathic librarian who actually knew the books and knew you too; but it really was, in its early expansionary years, a reasonably successful impersonation of one.

The local potential customers who liked the stores so much and stood by loyally even as the merchandising struggled in the later years could be forgiven for feeling some post-traumatic shock after the experience of the bankruptcy. The thinning stocks and staffs were followed by garish yellow-and-black banners proclaiming "Going Out of Business Sale!" The sale involved not just the explicit pricing of culture but sharp discounts which increased at short intervals until the books were nearly being sold for paper. The bookshelves themselves went. So did all the other fixtures which could find buyers. The receivers would have sold the industrial carpeting off the floors and even the paint off the walls if they could. That was their job. What departed was not just inventory. What remained was cavernous, empty, and cold. It felt a terrible void.

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52 This fact about the selection of reviews is the large point completely missed in David Streitfeld, "Giving Mom's Book Five Stars? Amazon May Cull Your Review," *New York Times* 22 December 22, 2012. For a vivid example, see the review (unexcerpted and not even alluded to by Amazon) of Simon Schama's *Rembrandt's Eyes* by David Freedberg (who ran the Columbia Art History seminar on Rembrandt with Schama and whose view of the book was, while overall admiring, basically "sound on everything I don't know about but unsound on everything about which I do") in *The New Republic*, 6 December 1999, 44-51. See also the correspondence published in the issue of 27 December 1999.

The leases were abandoned in the teeth of a deep recession. Some sites found other tenants promptly but others lingered, hulking wreckage of the depressed economy. Some found temporary tenants. During the October following the bankruptcy, my local Borders became a temporary Halloween costume store. The following late November and December, it sold what I suspect was remaindered furniture. Then the space was once again simply empty, and unlit, all through the winter, springtime, summer, and, the weeks before Halloween again aside, most of the fall.

In the run-up to Christmas 2012 it once again had a tenant. Remarkably, the tenant sold books. There was nothing affixed to the exterior of the building beyond a banner tacked to a white background which must originally have given the name and phone number of a leasing agent. The banner said "Bargain Book Warehouse". Stenciled signage filled the windows: "Our Prices Can't Be Beat" "Discount Books Up To 90% Off!" "New Stock Every Week" "No Frills or Fixtures!"

The offerings which first met the eye, entering into the space, were sobering. The floor, completely open now, seemed vast. The coffee table books of various sorts flat laid in endless displays near the registers were not so much a grim reminder of what had gone as nearly an irrelevance to it: more akin to the calendars and candy bars near the registers than to the bulk of the old store's stock. Beyond them, rank upon rank, were odd miscellanies: children's books and Young Adult titles, cookbooks and wine guides, arts and crafts and auto and motorcycle repair manuals. Ascending to the second floor, one found more fertile prairie: fiction, non-fiction, reference books, and smaller categories which might elicit a broader flicker of sympathetic interest spread out over the vast floor. The books up there, laid out on what were clearly supposed to look like tables but were in fact stacked pallet flats, wrapped round with black plastic in a way clearly intended to suggest a cloth table drape, with brown butcher paper standing in for a cloth table covering itself, were in one's and two's, with only the occasional half-dozen and larger stacks rarer still.

A great deal of what was on display upstairs was middlebrow; but there were serious works as well. I should not exaggerate: there were many copies of *Bob Hope: A Tribute* (New York: Pinnacle, 2008) at 475 paperback pages plus inset photographs. There were vampire novels in series. And there was also a large Romance section, complete with titles in the apparently now obligatory sex-and-bondage genre. (In the offering doubtless actually written by Mr. and Mrs. Feisty's daughter Lilli, the action opens with the white urban sophisticate female protagonist, fatefully named Joy, at a museum benefit. She is there for work purposes, strictly on a professional basis, though as it happens she is also in a general way in search of a man [and not just any man but one "with green eyes to die for and a long, lean body she would never forget"]. She meets an artist, curiously also an ex-SEAL, and soon finds herself in a private gallery with him. On close examination, the sculptures in the gallery—which are, amazingly enough, his—have more in common with the Läocoon than the Pieta: "It was a sculpture of a man and a woman, their elongated limbs entwined, wrapped around each other. Rope bound them, wrapping and dipping between the forms and appearing and disappearing in the crevices of the sculpted marble." The sculptor swiftly gains her attention [conversationally, also pheromonatically] and she his. The conversation soon gets to "Tell me what else you like." And so on. [And off. And on. And off again, in all senses of the phrase.]) The variety the space's new tenant was offering was very great, indeed enormous. The casual customer could almost

imagine that the past had been recaptured. There weren't new arrivals daily: the routine was new arrivals weekly, the sign to the contrary notwithstanding. But the staff moved stock around on a daily basis with a view to creating that impression.

In one section of the second floor there was even poetry, indeed quite a lot of it. There was Shakespeare, of course, but also Leopardi, Frost collected but also Berryman's *Dream Songs* and an FSG Classic of Lowell's *Life Studies* and *For the Union Dead*. There was Heaney—not *The Death of a Naturalist*, not *Field Work*, not *Station Island* nor *The Haw Lantern* or *The Spirit Level*, not even his translation of Beowulf, but nonetheless *North*, *Electric Light*, and *District and Circle*—a real selection of first-class poetry from one of the greatest then living poets writing in English. There were volumes of Ted Hughes, the difficult sad survivor of Sylvia Plath. There was Donald Hall's small but plangent collection of poems on his wife Jane Kenyon's illness and death and the aftermath. There was even a respectable en face edition of the *Duino Elegies*. This last seemed unfortunately neatly stacked on the shelf, undisturbed, an unapproached wallflower. Perhaps these volumes were all publishers' original misplaced enthusiasms and dashed hopes or low incremental cost reprintings from old plates produced in vain hopes of sales piggybacked on some newly published and widely reviewed biography or volume of collected letters, some magazine article, or perhaps a movie with modern marquee actors playing historic characters in fancy dress.

Borders was gone from my Main Line suburb; but the inevitably speculative make-to-stock model apparently remained alive. The sort of living thing the angel once left behind lay before me, only no longer intriguing and inviting, no longer even fresh, no longer even healthy. Once at least struggling vigorously to keep up appearances, the volumes now could only gasp for breath: as commercial objects they lay very nearly still, their owner desperately hoping for custom at some positive price (as the tragic third act closed, so to speak). Angels are perhaps not the simple if majestic creatures they once seemed.[53] Any potential customer could read the truth of the matter in the poetry section: there was an obvious moral and you could read it in the Rilke book. Jeder Engel ist schrecklich.[54]

I was in Ann Arbor for a memorial service in the following February, a month or so after walking the Bargain Book Basement store. The town of Ann Arbor remained in many respects, and in particular in many of the respects a market research survey would attend to, much the same as it had been in 1971: the town's life was dominated by the presence at its center of a major research university, whose combined enrollment and staff had grown to nearly 65,000.[55] It was altogether a large and comfortably off community of people who still read a great deal and still prided themselves on discovering the new and reading it curiously. And yet all the old bookstores were gone and none had replaced them. There was nowhere in the downtown or

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53 Compare any Christmas card, or even Florentine Renaissance, angel with Milton, *Paradise Lost* II 305 (Satan).

54 Rilke, Duino Elegies II:1.

55 *The Michigan Almanac* (Ann Arbor: University of Michigan Office of Budget and Planning, January, 2013), 9. About two-thirds of this number were students. In the 2010 Census, the town's population was about 114,000.Those affiliated directly with the University (i.e. students, faculty, and staff but not those merely members of their households) were thus about 57 percent of the local population. These direct affiliates are certainly an underestimate of the potential customer population.

nearby on the far edges of the University with remotely generous merchandising in which a would-be reader could buy a new, or even a classic ex copyright, at retail.[56]

Presumably the counterparts to the old potential customers are still buying books. Perhaps the actual retail distribution of books in Ann Arbor had fallen predominantly into the hands of Amazon. There surely are efficiencies to consolidated massed reserves.[57] What one might worry about—as publishers certainly do—is discovery. Electronic media do not appear to be good at eliciting discovery.[58] In the early days of Amazon, its search and suggestion machinery attracted much attention (or at least commentary). But consider Dr. Johnson's talking dog. It would be interesting to probe into the information Amazon undoubtedly has about who acts as if the suggestions are valuable to them and how profitable these customers actually are. One sole individual of my acquaintance acknowledges finding these referrals of much value.

At breakfast in Ann Arbor before the memorial service, the economic historian Paul Rhode probed. Wasn't I being a little romantic? Were bookstores ever in serious competition with late twentieth-century automobiles to be the real Third Place?[59] (It must be said that Professor Rhode is a California native.) Perhaps bookstores were only ever real Third Places for a subset of the population, --at best, rather larger than its core, but clearly a minority of the general population. But it was important. John Dewey taught us that education was about exploration and developing predispositions, not about the transfer of knowledge.[60] It is still true.

After the service I walked past the old store itself. The signage on the façade was long gone. (The individual letters had been for sale on E-Bay over the holidays, for nostalgiasts of one sort or another I presume—certainly the B was attracting by far the highest bids.) I could only barely detect, through outlines left by sun and weathering, where they had been. The stenciling was still on the display windows, I saw, in startled recognition, in the distinctive old typeface. But the windows themselves had been blacked out, with heavy dark plastic reminiscent of garbage bin liners, taped to the inside. In one window a corner of the plastic hadn't been properly secured and one could look in. The sprawling interior space, once dense with shelves and tables, just stuffed with reading matter, was now an abandoned, exploited hulk, stripped down to the sub-floor, with bare steel structural supports visible where the architect had put them to hold the structure up and some sheet-rocked perimeter walls visible in the distance. More or less nothing much else of the interior structure and fixturing remained. There wasn't activity visible, or even traces of recent activity that I could make out; though photocopies of formal letters identifying owners, contractors, and city permissions taped to the closed front door attested that some process of creative destruction, or at least transition, was under way. Inside,

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56 This situation finally changed, with the opening of a small independent store on the far edge of the downtown area, the following April, very nearly two years after the bankruptcy auction.

57 Walter Oi, "Productivity in the Distributive Trades: The Shopper and the Economies of Massed Reserves," in Zvi Griliches, ed. *Output in the Service Sectors* (Chicago: University of Chicago Press for the National Bureau of Economic Research, 1992), 161-193.

58 Peter Hildick-Smith, private communication concerning Codex proprietary research, April, 2012.

59 Oldenberg op. cit.

60 See e.g. John Dewey, *The Child and the Curriculum* (1902) and *Experience and Education* (1938).

the only element reminiscent of the space's particular past was a grouping of three incongruous wooden Windsor chairs, perhaps a nice touch in the stores once upon a time but now doubtless not acquired by the owners for the comfort of the work crew and equally doubtless much used by the workers, for sitting, talking, and understanding the contours of the world which confronted them, when the bosses weren't around. From one perspective, yes, angels are terrifying; but what I saw went beyond mere terror. "Now I am become Death," Vishnu says in the Bhagavad Gita, "the destroyer of worlds."[61]

Articles in the local papers in the weeks before and after gave more hope of a sort.[62] A developer had purchased the property. The 44,000 square foot interior was being subdivided. Restaurant and retailers would be moving into the ground floor, two office-space tenants upstairs. When Robert Oppenheimer gazed out over the Trinity site and quoted Vishnu—on hearing about which many Americans learned for the first time of the very existence of the Bhagavad Gita, a text which, some years later, could easily have been browsed and purchased in a local Borders store —he saw, and foresaw, only destruction. Here there was more, if also less. The landlords would not go penniless indefinitely.[63] But the readers of America were not wrong to feel a real loss. That loss had complex roots in what had charmed those readers in the first place and in how that grew. Another great poet, opening the second part of his second masterpiece, wrote "In my beginning is my end."[64] And yet. And yet. The problems of Borders cannot be reduced to Amazon. There was also agency. About this we might think of the beginning of Heaney's elegy for Robert Lowell: "The way we are living/timorous or bold/will have been our life." There were problems other than the competition strictly so-called.

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61 Bhagavad Gita X.34.1-2.

62 Lizzy Alfs, "Ex-Borders redevelopment will bring restaurants, retail and office space [sic] to downtown Ann Arbor," annarbor.com [formerly the *Ann Arbor* News] January 22, 2013 and J.C. Reindl, "New Tenants Transform big-box spaces left by Circuit City, Borders," *Detroit Free Press* February 6, 2013.

63 Indeed, since that visit two independent bookstores have opened in Ann Arbor, one only a little farther away from the central campus than the old Borders site.

64 Eliot, "Four Quartets: East Coker," I.1.