SGMT 6000 – Group Project

Indigo Books & Music Inc.

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Indigo Books & Music Inc. ("Indigo") is in the midst of a drastic and difficult transition period. From its role as Canada's premier bookstore chain, Indigo has found itself in a revolutionized industry of large global competitors marked by three major changes: (1) online distribution of books fuelled by Amazon (2) e-books and e-readers replacing physical books and (3) diversification in sources of media resulting in a reduced demand for reading material overall. These factors have resulted in Indigo witnessing declining profits and margins in the recent past. As such, Indigo's CEO Heather Reisman has launched a series of strategic initiatives, moving away from its traditional business model in hopes of overcoming the challenges currently faced by the company in its current industry.

The following is an overview of the strategic history and strategic initiatives currently being developed and implemented across Indigo, along with an analysis of the assumptions implicit in these actions.

COMPANY MISSION

Indigo's mission is, "To provide our customers with the most inspiring retail and digital environments in the world for books and life-enriching products and experiences. (Indigo Books and Music)" This mission clearly outlines the key focus for the organization which although centered on books now clearly articulates the new realities of both the digital world and shifts the focus towards areas outside of the publishing industry. Although the company doesn't articulate a clear short-medium term plan, this Mission Statement can be considered to be a relatively clear high-level direction for the company and its employees.

STRATEGIC HISTORY

The first Indigo store was opened in 1997, offering books, home décor and gifts. In 2001, Indigo Books, Music and More merged with Chapters, Inc. forming the largest book retailer in

Canada: Indigo Books and Music, Inc. The acquisition of Chapters improved the stores' offering of mass-market paperbacks and significantly increased its number of stores from 15 super stores to 93, along with 240 traditional bookstores as well as Chapters Online Inc. Although the company's original product offering included books, home décor and gifts, the acquisition of Chapters made Indigo primarily a book store (Funding Universe, 2013).

Through the following decade, Indigo expanded its distribution capacity across the Canadian market and online but did little to expand its product mix. In 2002, Amazon entered the Canadian market and became a significant online competitor; heralding the beginning of a downturn in the physical book publishing industry. During this time, Indigo also developed a number of programs and alliances focused on books and the publishing industry. The most significant was the Indigo Love of Reading Foundation, which commits $1.5 million dollars per year to high-needs elementary schools across Canada. Other examples included alliances with environmental partners to reduce the use of paper containing fiber from endangered forests, as well as educational discounts and book clubs (MarketLine, 2013).

In 2009, Indigo founded and developed the Kobo e-reader which introduced the company into the rapidly growing eBooks market. Released in May 2010, Kobo remains the best-selling e-reader in Canada with a market share of 46% (Ispos Reid, 2012). While Kobo e-readers are still sold through Indigo stores, the company sold its majority stake in Kobo in 2012 to a Japanese electronic commerce company, Rakuten, significantly bolstering its balance sheet. Heather Reisman, Indigo's CEO has stated that this sale was completed in order to raise the capital required to fund the company's current strategic transformation (Reisman, Indigo sells Kobo: A Q&A with Heather Reisman, 2011). This move raised capital for the company's efforts in redefining its offering as 'life-enhancing merchandise' categorized by books, lifestyle, technology and kids.

US MARKET

Similarly to the Canadian market, the U.S. book market has also seen drastic changes over the past decade. The decline of the book publishing industry in the U.S. started earlier and has been even more accelerated than what has been seen in Canada. Borders Group (the second largest book chain in the U.S.) has filed for bankruptcy protection and is closing hundreds of store locations and laying off thousands of employees while Barnes and Noble (the world's top book retailer) is attempting to identify buyers – with very limited success (Stauss, 2011). The implication for the Canadian market is much of the same. Although slower on the uptake of digital media, Canada is showing signs of change as the percentage of digital books approaches 12 percent (Stauss, 2011). Heather Riesman has clearly taken note of the changes afoot in the American market and is attempting to move Indigo in a direction that seems to be having some retail success in the U.S.

FAILED INITIATIVES

Although universally regarded as a great leader with fantastic skills, qualities and a philanthropic background (Hoovers, 2013), Riesman has had her share of failures. In 2000, Indigo purchased a Toronto area gardening company named Cruickshank's in an effort to expand its product offering, but ultimately failed (Kingston, 2012). Pistachio, another failed initiative, a high-end "eco-stationary and gift shop company", was set to open eight locations was also recently closed down and a wholesale deal that was made between Pistachio and Barnes and Noble also fell through (Kingston, 2012). Although both initiatives were unsuccessful they illustrate Reismans' determination at identifying new ways for Indigo to grow through expanded offerings.

STRATEGIC INITIATIVES

In light of the dramatic change in the book publishing industry, Indigo has undertaken a significant shift from its core business model of being Canada's leading bookseller (in 2012) to transforming into the world's first 'creatives department store' (Indigo Books & Music Inc., 2013). While the transformation is still in its early stages, management's vision is for Indigo to become a lifestyle store, expanding offerings into gifts, toys, and other lifestyle items including technology, while aiming to keep books, writers, artists and designers at the heart of their company. In doing so, Indigo hopes to reduce its reliance on book sale revenues, thereby mitigating some of the potential losses associated with the erosion of the publishing sector in Canada. Implicit in this strategy is the notion that the 'lifestyle store' concept will be a sustainable and lucrative strategy for Indigo to redeem its position. While gifts, toys and technology are definite steps away from the book industry, the assumption is that there is a way for Indigo to maintain a differentiated strategy in these industries in order to be successful. It is evident that Indigo does not believe it has the ability to redeem its physical books segment.

As such, the company has taken on several strategic initiatives to pursue this vision:

SHRINKING BOOKS SEGMENT

In order to shrink the size of the books segment in Indigo's product mix, several steps have been taken:

- Reduced floor space allotted to books
- Shortening of minimum shelf life from 90 to 75 days, and most recently to 45 days

- Assumed control of display space (traditionally publishers would buy display space and Indigo would order the appropriate number of books; now, Indigo makes its own display decisions and adjusts according to sales performance)
- Introduced a marketing charge of 4% to publishers on every book (Indigo has faced significant resistance from the publishing industry with regard to these initiatives)

BUILDING PROPRIETARY PRODUCT DEVELOPMENT CAPABILITY

One aspect of Indigo's vision is to differentiate itself by designing its products in-house. As such, Indigo set up a new design office in New York in fiscal 2011 with a full line of proprietary merchandise developed and marketed through their stores. The company is in the process of launching in-house brands such as Indigo Tech, Indigo Kids and Indigo Home.

EXPANDING PRODUCT MIX BEYOND BOOKS

Indigo has undertaken an aggressive strategy to increase its product mix beyond books, having dedicated toy sections within 95 of its superstores, with expanded toy offerings in all other stores. During fiscal 2013, 25 superstores were transformed to showcase home and fashion accessory categories. Furthermore, the online website is being redesigned to place a heavy emphasis on gifts, paper, toys, and gift products such as home and fashion accessories.

IMPROVING AND EXPANDING DIGITAL CAPABILITY

The mission statement of Indigo has been updated to include not only retail environments but also digital environments for their customers. Indigo has expanded their online channel dramatically, offering consumers an increased number of titles along with a broad range of general merchandise. At the end of fiscal 2013, the company began this process by improving the online visual presentations of these new categories, implementing a simplified checkout experience and enhanced mobile experience, adding a comprehensive gift finder, and creating an innovative drag and drop capability to ease online shopping. Indigo launched “buy online, ship to store” in fiscal 2013. In September 2010, the company opened a new distribution facility to service their online business. The company’s future online plans include social media integration of Facebook, Pinterest, and Twitter (Indigo Books & Music Inc., 2013).

FOCUSING ON TECHNOLOGY SEGMENT

In June 2013, Indigo announced that, alongside the Kobo e-reader, it will be selling Apple products including iPads and Apple TV in 40 stores in 2014 (Shaw, Indigo to open 40 Apple in-store shops as retailer works through ‘difficult transformation’, 2012). This is part of their new program ‘Indigo Tech’, which essentially means an expanded technology area in these 40 stores. (Cabot, 2013)

STORE FORMAT

In addition to reducing the amount of floor space allotted to books, Indigo plans to revamp many of its large-format stores. The stores will be redesigned to showcase a cluster of smaller shops focused on in-house brands, following the "store within a store" concept that has been growing in popularity with large retailers (CBC News, 2013). Nearly a decade after limiting in-store seating to café areas to reduce loitering, the company increased the amount of comfortable seating in its stores in 2011 (Yahoo News, 2011). During fiscal 2013, the company did not open any stores and closed nine small format stores (Indigo Books & Music Inc., 2013). As of March 30, 2013, the Company operated 97 superstores under the banners Chapters, Indigo and the World's Biggest Bookstore and 134 small format stores, under the banners Coles, Indigo, Indigospirit, SmithBooks, and The Book Company (Indigo Books & Music Inc., 2013).

GLOBAL EXPANSION

In 2013, Indigo announced plans to expand globally within two years. Expansion outside Canada is seen as a means of strengthening performance results while continuing to expand its product offerings. While Resiman has not elaborated on specific target markets, she has advised that there are no plans for any acquisitions abroad (CBC News, 2013) and plans to grow organically from its current operating structure. Clearly, Reisman believes that Indigo has the capabilities to expand globally and be successful in doing so.

EXTERNAL ANALYSIS

Indigo now considers itself to be in the broader retail industry due to the market forces mentioned earlier. Their recent strategy moves them into toys, consumer technology, home gifts and décor. All of these industries are competitive and the threat of substitute products is high making the industry itself very susceptible to online marketers. A Porter's Five Forces Analysis (with the addition of a sixth dimension) has been outlined in Appendix A and used to drive the below analysis.

Indigo is the largest player in the Canadian book industry and has very little threat of competition from other specialized retailers however this is an industry that undergoing a digital revolution with both online sales and ebooks. Discount retailers (WalMart) and online retailers (Amazon) have a very strong competitive presence and their low price points from economies of scale do not make it easy to compete with simply based on price. Customers choose where to purchase books based on price and convenience. Even with the sale of its share of Kobo, Indigo is still able to compete in the lucrative ebook market which now makes up approximately 15% of all book sales in Canada (Booknet Canada, 2013).

In the toy industry there is also one dominant specialized retailer, Toys 'R' Us, and discount and online retailers are also strong competitors who sell products at low prices making it difficult for specialized retailers to compete only on price. Similarly, the consumer goods industry where Best Buy (owner of Future Shop) is the dominant specialized retailer which is undergoing its own share of problems from strong competition that includes discount and online retailers.

Home gifts and décor has a broader range of competitors with multiple stores in the market including HomeSense and Home Outfitters. However, discount and online retailers are continually present. In order for retailers to compete in these industries they must differentiate themselves on something other than price. Differentiating based on higher quality products, or perceived higher quality through better service, reduces the competitive threat from discount retailers.

In order for new entrants to successfully enter and compete in all the industries listed they would require significant capital and a strong distribution system. Due to the nature of the requirements there is very little risk of new entrants however, Indigo, which is already an established retail company would be able to leverage its existing capabilities and well recognized brand in order to successfully move into these markets.

Customers do not have significant buying power in retail and this holds true for books, toys, consumer technology and home décor and gifts. With the exception of Apple in consumer technology there aren't any barriers to switching between products or retailers and consumers are largely driven by price and convenience. Creating a narrower target market and differentiating on quality removes some competition from very strong discount retailers and reduces the amount of substitutes available.

A review of profits shows that gross profit margin (GPM) ranges from 24% to 40% across these industries. Books are on the low end at 26% GPM and Home Décor and Gifts is much higher at 40% GPM.

THE INDUSTRY LIFE CYCLE

Indigo has traditionally competed in the book store industry (NAICS 45121). According to IBISWorld and MarketLine, the book store industry in Canada and the US are both in a state of decline, with expected declines in total industry value of -0.8% and -2% from 2013 – 2018, respectively (IBISWorld US, June 2013) (MarketLine Advantage, 2013). In contrast, the Chinese book store industry is classified as mature and is expected to continue to grow at a reduced rate of 7.3% from 2013 to 2018. (IBISWorld China, 2013)

DEMAND GROWTH

By 2017, the Canadian books market is forecast to have a value of $1.6 billion, a reduction of 3.8% from 2012. This continues the downward trend in the industry from its peak of $2.7 billion in 2010. Overall, the value has been on a steady decline since Comparatively, the US and Mexican markets will grow 0.7% and 4.8% respectively, over the same period, to reach respective values of $26.4 billion and $1.5 billion in 2017. (MarketLine Advantage, 2013) This may help explain the company's plans to expand beyond Canadian borders. It must be noted however, that the American market is being served by the likes of Amazon and Barnes and Noble both of which have sizable strength. Furthermore, the Mexican market will also see drastic changes as more of their citizens move towards middle-class and an ever-increasing portion of their population obtains access to the internet.

KEY SUCCESS FACTORS AND INDUSTRY EVOLUTION

The book store industry has five major external drivers: per capita disposable income, consumer confidence index, external competition, e-commerce sales, consumer time spent on leisure and sports (IBISWorld US, June 2013) Please see Appendix A for a detailed explanation of each.

With Indigo's move towards a higher-end market with increased differentiation, a decreased focus on publishing and a relatively contentious relationship with publishers, Indigo must have a clear pulse on the key external drivers. Their reliance on the consumer's willingness to spend will result in greater volatility in For Indigo to be successful, the organization must take into consideration the capabilities and the social environment. Some elements of the environment especially when considering other implications of education, literacy and its implications on social areas make the book and publishing industry very susceptible to not only government interference but actual support.

CREATION AND DIFFUSION OF KNOWLEDGE

The population of e-book readers is increasing rapidly. From 2011-2012, the total number of people who read e-books increased from 16% (Americans ages 16 and older) to 23%. Concurrently, the total number of people who read physical books in between 2011-2012 fell from 72% (Americans ages 16 and older) to 67%. (Duggen, 2012) It is becoming increasingly clear that Indigo is competing in an industry that is going through a period of rapid change. This change is not expected to cease in the near or long term. Based on the identified trends it seems that the dominant design in the book store industry will likely be a shift to the e-book consumption method. With the ease and convenience of the plethora of devices which can host the content, a technical standard will likely not emerge as the competition between the many electronic device makers will allow the content itself to be consumed in a multitude of formats.

The book store industry is clearly unattractive. The increasing intensity of rivalry from the various e-retailers who enjoy a significant cost advantage over Indigo are making it virtually impossible to compete in a focused book store product line. However, by entering into the specialty department store industry Indigo is now entering an extremely global and scaled competitive landscape occupied by the likes of WalMart, Target and Macy's. These industries are already crowded with both physical and online competitors with low barriers to entry. Indigo needs to establish a strong point of differentiation in order to be competitive and successful.

CORE COMPETENCIES

Core competencies and points of leverage for Indigo include:

- Strong Canadian brand with community support and trust
- Physical locations secured are in high volume, convenient locations for consumers with legacy stores
- Deep knowledge of publishing industry and trends in terms of book content
- Credited with founding most popular e-reader in Canada (technological expertise)
- Established and loyal consumer base

ANALYSIS OF STRATEGY

Based on the external and internal analysis conducted, Indigo's multi-faceted strategy is analyzed below.

Product Differentiation & Horizontal Integration

Indigo Books and Music Inc.

Indigo has publically stated that it is now focusing on changing from a store that only sells books to the world's first creative department store, featuring sections for tech, home, style, paper, books, baby, kids and Canada. (Kopun, 2013) The introduction of the new product lines amounts to an effort to horizontally integrate into new product markets. However, this strategy, if not done appropriately may alienate their core loyal consumer base who associate the Indigo brand with the lifestyle of reading and the enjoyment and tranquility it provides. By reaching too far away from that core value proposition, Indigo may differentiate itself into irrelevance. Additionally, while Indigo is seeking to reposition itself as a department store, it should be noted that the US department store industry, reflecting Canada's industry is also in a period of decline as it is facing the exact same challenges that Indigo is trying to move away from: consumers are going to big box stores less and less and are choosing instead to use electronic means of purchasing the goods they are seeking out. Weak consumer confidence and low disposable income deterred households from making discretionary purchases during the recession, causing demand and sales for traditional department stores to fall substantially. However, these negative conditions have not necessarily translated into lower profits. In contrast, industry profits rose from 2.9% in 2008 to 4.8% in 2013, during the peak of the recession. This was due to a sales mix of high margin items and expense management. Recent improvements in economic conditions are expected to relieve some of the industry's overall struggles and revenue is estimated to grow 2.2% in 2013. (IBIS World US, 2013) To enter a new business to diversify without a clear differentiation strategy will likely end up another disastrous decision for Indigo. However, if Indigo is able to appropriately build off of its brand and loyal consumer base, it may be able to capture some of this increased profitability.

The ultimate goal of a company's strategy is to make the most of the resources it has at its disposal. Indigo understands that it must move away from the book industry, but it is unclear what direction the company is going towards.

With the move towards selling the digital reader Kobo a few years ago, it has secured itself a certain amount of capital to be able to make a transition, but to what industry is uncertain. The company still possesses a well-respected brand and can transition towards many industries but the company's indecisiveness can be a potential problem.

STRUCTURE

The current industry structure where Indigo operates is in a massive state of flux. The industry is moving away from Bricks-and-Mortar and is forcing participants towards competing on efficiencies and scale. This change is affecting the entire retail landscape. 56% of Canadian internet users purchased something online in 2012, up from 51% in 2010, and the value of the goods purchased online rose 24% to $18.9-billion. (Bury, 2013)

Unfortunately for Indigo, this is becoming an industry where Amazon has become the dominant force due to their overwhelming cost savings, scale and overall dominance in the online arena. Indigo will not be able to compete with Amazon and will need to push their focus towards a new market position. At the annual general meeting in June, chief executive officer Heather Reisman said she plans to transform Indigo from a store that sells books to the world's first creative department store, featuring sections for tech, home, style, paper, books, baby, kids and Canada. (Coupon, 2013) The concept is moving away from one large store to many stores within a store. The company is still in a "massively difficult transition" and they are struggling to move beyond just books into a category that focuses on gifts. There is widespread belief that the company could turn it around and could even start off-shoot chains for niche markets.

(Shaw, Indigo shares plunge more than 18% as bookseller doubles net loss in Q2, suspends dividend, 2013) Indigo is pushing into market for gifts in a very large way. Moving towards the higher end from shops such as Toys ”R” Us and other smaller retailers, Indigo is looking to be a very big presence in this industry. The most recent example of this is their foray into the agreement with American Girl boutiques. Many analysts agree that this may boost offerings and profits. (Ratner, 2013)

Additionally, the company wishes to focus on Poppin Office Supplies, Apple items and increase number of health-related technologies for personal use. Their non-book revenue now accounts for 78%.

Interestingly, even as the company moves away from books towards other areas, it is still not moving beyond the goliath of the industry, Amazon. Amazon Canada signaled that they are moving into toy market as well by quickly becoming the biggest toy retailer with the largest selection. They are said to be, “Continually, changing the face of Retail.” (Shaw, Amazon Canada taps toy market with ‘largest section of toys’ in country, 2013)

The strategic implications of this shift are monumental and the company is certainly feeling financial pain. In a release issued in the most recent quarter, Indigo reported a net loss of $10.1 million for the 13-week period ended Sept. 28. That’s a net loss per common share of $0.39, compared to a net loss of $4-million, or $0.16 per common share a year earlier. The company also cancelled its dividends recently, leading to a drastic fall in stock price. Naturally, most of these actions are due to the transition the company is making however, there is no indication that they are strengthening their foothold in any industry in particular.

All in all, the industry that Indigo is moving from and the one that it is moving to are not likely to be profitable. The value being captured by the customer is continually increasing and the landscape is increasingly moving towards the digital arena. This includes price comparisons through the internet. The last thing that Indigo wants to do is enter a situation similar to BestBuy where customers do all the comparison shopping and review in-person, only to then make the purchase online with Amazon. From a bargaining power perspective, Indigo will never have the advantages of the scale that Amazon has and will never be able to compete from a value chain perspective and will thus need to compete on differentiation.

With the move towards differentiation there is definite cause for concern as Indigo's strategy is not focusing on a single battlefield, but rather looking at several. The lack of clear focus will impede Indigo from obtaining the necessary efficiencies, operational clarity or flexibility to effectively compete with Amazon.

INTERNATIONALIZATION

"Chief executive Heather Reisman said Tuesday [June 25, 2013] that the company plans to launch brick and mortar stores outside of the country in about two years, though she declined to say which markets the retailer is considering." (CBC News, 2013)

INDUSTRY CONDITIONS

International industry environments can be characterized along two dimensions (Wesson, 2013):

Need for Local Responsiveness – increased based on differences in tastes, product standards, market histories/traditions, channels, regulatory requirements

Need for Globalization – increased based on economies of scale in product design, development, manufacturing, marketing; learning curve effects; locational differences in product cost or input quality

As a consumer goods retailer, Indigo has neither a greater need for local responsiveness or for globalization. In order for the company to provide products (as well as stores and sales staff) that are harmonized with (and therefore in demand in) local cultures, the company must be locally responsive. However, the need for globalization is not negligible for Indigo, as this aspect of international corporate structure would yield economies of scale relating to distribution and marketing. Therefore, if and when the company begins to expand internationally, Indigo would be best served by employing a balanced approach to being locally and globally responsive which will allow the company to adjust to local consumer purchasing trends and preferences while leveraging global elements of its growing corporate structure to remain cost competitive.

ENTRY MODES

In the Reisman quote opening this section, "outside the country" undoubtedly refers to the United States ("US"), given the similarities of the US market (i.e. business environment/structure, culture, etc.) to that of Canada. Industry analysis do not seem convinced with Ms. Reisman's plans to expand beyond the border. There is a lack of understanding as to why Indigo would open new stores outside Canada when its base is not stable. (Shaw, Indigo to open 40 Apple in-store shops as retailer works through 'difficult transformation', 2013) Because Indigo is undergoing a transformation toward becoming a "lifestyle store", expansion into any markets that differ even modestly from that of Canada could be risky, since the company would have to contend with not only a contrasting business environment/structure, but more importantly the culture. Assuming international expansion would therefore begin with the US, Indigo could enter into that market in one of several ways:

Exporting – in the context of Indigo, exporting to the US would likely be a web-based endeavor. Although the newly redesigned *indigo.ca* website is well established (representing approximately 10% of total company sales), competing with US online retailing giants such as Amazon would be an unlikely success.

Licensing – employing licensing as a mode of international expansion is generally appropriate for a business model or brand that has a considerable amount of equity which cannot be easily duplicated, which is largely inapplicable to Indigo and thus not recommended.

Joint Venture – given the right partner, expanding into the US via a joint venture could be a viable option. Indigo has recently established partnerships with Apple and American Girl (opening "stores within stores" thereof); these relationships (or others perhaps forthcoming) could be leveraged to give Indigo a unique platform for entry into the US market.

Acquisition – although Reisman recently indicated that Indigo has "…no plans for acquisition right now" (Strauss, 2013), the company's largest would-be competitor in the US, Barnes & Noble, has been struggling significantly as of late. Having absorbed what was left of Borders in late 2011, Barnes & Noble is now applying significant focus to their Nook e-reader, sales of which are quickly tumbling, along with Barnes & Noble share prices (Strauss, 2013). The current Barnes & Noble position seems eerily similar to that of Indigo just a few short years ago, although the US retailer has not yet realized that it is outgunned and outmaneuvered in the e-reader and online retail categories, and is not making the strategic transformations (like that of Indigo) that will be necessary to secure its future. Although the current market capital of Barnes & Noble is roughly four times that of Indigo, it could be a potential acquisition opportunity for the latter if the former continues to struggle.

Foreign Direct Investment ("FDI") – entering the US market head on, opening bricks and mortar Indigo stores would be a capital intensive process. Under current conditions, it is questionable whether Indigo could support a FDI expansion campaign. The company has closed

17 stores in the past three fiscal years (231 open as of March 30, 2013), and has not opened a new store anywhere in well over two years (Indigo Books & Music).

INTERNATIONALIZATION: SUMMARY & RECOMMENDATION

Given the currently tenuous position of Indigo, not only in terms of fiscal performance but more importantly with respect to its ongoing identity transformation, the company is not well positioned for international expansion at this time, and any push thereto in the near future could be a product of the growth imperative. While it could be argued that Indigo has a unique offering that is not well represented in the US (or elsewhere), Indigo must complete its current transformation and solidify a new identify (i.e. re-establish a firm foothold in the Canadian market) before attempting to expand internationally.

STRATEGIC ALTERNATIVES & RECOMMENDATION

A few strategic alternatives available to Indigo include the following:

INCREASE RELIANCE ON BOOKS

This strategy re-establishes the company by increasing focus on Canadian market and reestablishing a relationship with book lovers across Canada as well as mending the strained relationship with publishers. This alternative has the benefit of returning to the company's roots but does not bode well with the introduction of internet based retailers or the long-term sustainability of the company when considering the decreasing profitability and lack of forecasted growth in the book retail industry.

STATUS QUO

This alternative is for Indigo to continue with its current initiatives as described earlier.

STATUS QUO WITH AGGRESSIVE CROSS-BORDER EXPANSION

The strategy of moving across the border towards U.S. is not widely acknowledged to be a positive move by most analysts. However, if the company is to consider the continuing down-fall of Barnes and Noble, the relationship Indigo has with Starbucks and other premium retailers such as Apple, the move makes some sense. Although treading on Amazon's turf, the company may have a strong bricks-and-mortal position by leveraging the lifestyle brand in much the same way Starbucks did in the early 2000's. Their move into Mexico is a little more strained as the socio-economic barriers are much higher and business practices are not as standardized as they are in Canada and the U.S. Also the company loses a tremendous amount of capital when moving into the Spanish language arena.

NARROWING FOCUS AND CREATING DIFFERENTATION IN CANADA

The fourth recommendation is for Indigo to narrow their focus and to create a level of differentiation while staying in Canada for the medium-term. This has been chosen as the best alternative and described in detail in the next section.

RECOMMENDATION

Indigo is in a very turbulent state at the moment and while the company has a clearly defined vision, they lack a certain level of focus and differentiation that is necessary for success in the industries they are targeting. At this point, Indigo is planning to become a 'lifestyle store' for books, home décor, technology and kids – it seems as though the company attempting to be all things to all people which could significantly impede overall execution. The gift industry (especially toys) has many of the traits associated to the book industry and Amazon's quick dominance is very indicative of how quickly market share can be lost. Using the terminology presented in, "Can you say what your strategy is?" (Collis & Rukstad, 2008), the company does a good job of showcasing a vision and clearly has very positive and ambitious values but somewhat lacks an understanding Indigo's scope and their overall advantage over other competitors.

FOCUS AND DIFFERENTIATION IN CANADA

To be effective Indigo should stay within the Canadian border for the medium-term where its brand recognition is high, and focusing their strengths differentiating their offerings through their in-house design capabilities i.e. build a line of 'Indigo' branded products distributed through their stores and website. By leveraging their strong brand equity to create differentiated Indigo branded products, Indigo will capture (and not alienate) their loyal consumers and hopefully attract new consumers as well. In doing so, they can also consider backwards vertical integration to expand product lines and establish exclusive rights to market certain products that will ideally be co-branded. In doing so, Indigo is not directly competing with large-scale retailers such as Amazon, Best-Buy and Walmart. Instead they are capitalizing on the strength in their brand as a competitive advantage. The company will most certainly need to streamline their internal processes in Canada to establish a strong base before even considering any type of expansion beyond the borders. By clarifying their value proposition, they will be better positioned for expansion where culture differences add a further element of complexity as described in the internationalization section.

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