

Book-Busters

Corporate Consolidation in Book Publishing and Selling and the Decline of Diversity

by William Petrocelli

HERE IS THE DISHEARTENING NEWS in the bookselling business:

- Chainstore expansion in the last decade has doubled the amount of retail bookselling space in the United States.
- The decade has also witnessed a decline in the number of books sold per year to adults in the United States.
- Book sales are starting to shift from mid-list, quality books to a limited number of bestsellers.

More stores and less books? More celebrity bestsellers and fewer quality books? How can this happen?

Some industry observers are inclined to blame the reader. The *New York Times* recently cited a study showing a drop in young adult reading habits, pointing to the computer as the culprit.

But this explanation is too easy. Reading grew in the United States during the heyday of radio, movies and television. Why should the computer have a worse impact on book sales?

Those in the book industry who blame declining book sales on readers should look closer to home. The problem can be more easily explained by the monopolistic forces in the book business — forces that are shrinking the choices available to readers while working overtime to manipulate public taste.

William Petrocelli is co-owner of Book Passages, an independent bookstore in Corte Madera, California, and an attorney.

MORE BOOKSELLING SPACE — FEWER BOOKS SOLD

The contrast between the expansion of bookselling space and the contraction of book sales is startling.

In 1985, before the chainstore expansion began in earnest, the United States led all nations in book title production. From 1986 to 1990, publishers' revenues grew at a 12.1 percent compound annual rate. Shipments of adult trade books — the key book category for bookstores — advanced by 14.6 percent. Publishers' pre-tax operating income grew at a rate of 10 percent, operating cash flow at 13.3 percent, and assets at 9.4 percent.

In the early 1990s, however, Barnes & Noble and Borders embarked upon a major superstore expansion. From 1991 to 1993, the amount of square footage in the United States devoted to the retail sale of books doubled. The major U.S. publishers went all-out in support of this chainstore expansion, giving the chains special terms and lavish promotion (leading to independent bookstore charges of antitrust violations and ongoing litigation). The major publishers cranked up their print runs and title production to meet the business expansion that they all believed would accompany this chainstore growth.

That market expansion never occurred. By 1995, publishers' growth rate was down to 2.1 percent, the lowest growth in 10 years. The increase in outgoing book shipments to the chains simply resulted in an unprecedented level of books returned to the publishers. People in the book industry still talk about the day — perhaps apocryphal, but it has the ring of truth — when more than 60 Barnes & Noble 18-wheelers pulled up to the Random House warehouse loaded with books to be returned.

Within a few years, the market had become saturated and

could not nearly fulfill the promise of the superstores' selling capacity. Publishers saw margins fall sharply in 1996, dropping to five-year lows. Operating income margin and operating cash-flow margin each decreased 2.5 percentage points. Compared with 1992, 1996 operating income and operating cash flow margins declined 4.7 percent and 4.4 percent — this in an industry already famous for slim margins. From 1994 to 1997, trade book unit shipments

decreased at a 2.1 percent annual rate. By 1997, the sluggish growth of 1995 and 1996 deteriorated to an actual market contraction, as sales of consumer books fell 2.7 percent. Over 1995 and 1996, net shipments of adult trade books dropped 10 percent. Perhaps the most astonishing part of this contraction is that it occurred during an economic expansion.

The ill effects were not limited just to sickly financial

CITIZEN UPRISING DEFEATS INDUSTRY MERGER

BARNES AND NOBLE'S November 1998 announcement that it would buy Ingram Book Company, by far the largest U.S. book wholesaler, sent shivers down the spines of independent booksellers, and sparked an organizing campaign that eventually contributed to a Federal Trade Commission decision to oppose the merger. With rumors that the FTC would formally oppose the merger reaching high pitch in late May, Barnes & Noble abandoned its acquisition plans.

The independents' fears stemmed from Ingram's dominant role in U.S. book wholesaling and its power over independent book stores. From the independents' point of view, there were numerous ways Barnes and Noble could leverage Ingram's power to wipe out small competitors.

Many stores — particularly smaller booksellers and booksellers in smaller geographic markets — buy almost 100 percent of their books from Ingram. A great many of these stores have no viable alternative, since other sources of books are not available to them. In terms of market percentage alone, there are several areas of the country where Barnes & Noble would have gained a clear monopoly if it could have controlled or eliminated Ingram's sale of books to independent booksellers.

But Ingram's power within the book business goes far beyond its market percentage, because of the unique services it provides. Even stores that buy books directly from publishers are dependent on Ingram. When bookstores need to re-order fast-moving titles, they usually buy the books from Ingram because it has more titles than anyone else and faster delivery. If independent stores had lost Ingram as a source of books, their ability to meet customer needs would have been seriously impeded.

Ingram has also induced many booksellers and publishers into arrangements of

near-exclusivity by which it has become the only conduit for certain books. Ingram operates a Vendor of Record program, through which it has persuaded booksellers to drop their direct accounts with smaller publishers in exchange for better terms if the books are purchased through Ingram. Ingram also operates the innovative Lightning Print Co., through which it has obtained the exclusive right to print and sell certain books through a print-on-demand process. These books are usually not available anywhere else. These Ingram programs and similar programs underscore an important fact: smaller publishers are particularly dependent on Ingram, since Ingram is often their only effective method of distributing their books to bookstores.

Ingram's power within the book business extends down to the intimate operations of bookstores. Ingram has distributed and promoted the IBID computer system, which is now one of the most widely used point-of-sale operating systems in U.S. bookstores. Booksellers using this computer program are dependent on Ingram for maintenance and for software updates. Furthermore, Ingram is connected by modem to the operating system in most stores that use this program, and it obtains from such systems detailed sales and operational information about the store — information that goes well beyond the books that Ingram itself sells to such stores.

Even stores that do not use the Ingram-IBID computer system are dependent on Ingram for book research and information. Ingram owns and operates the software containing current books-in-print information, and the Ingram system is the only one that is compatible with most bookstore computer systems. Ingram also operates and provides the title-base of books that is used by many booksellers in the operation of their websites. This information is crucial to the

functioning of the search engines and order-taking procedures on the websites of independent stores.

Most ominously, Ingram has collected and maintains detailed financial information about almost every bookseller with which it does business. Before issuing an adequate line of credit to booksellers, Ingram has required them to provide detailed financial and operational information about their stores — information that could have been used against them with devastating effect if it fell into the hands of a competitor like Barnes & Noble.

The independents' dependence on Ingram is itself a consequence, in large part, of concentration in the publishing industry. As publishers have concentrated their sales efforts and promotional money over the last decade on chain booksellers like Barnes & Noble, they have cut back their direct sales efforts to independent bookstores. Most publishers have drastically reduced their sales force and have dropped many customers with the expectation that those booksellers would buy their books through Ingram and other wholesalers.

In this context, it would have been particularly devastating for independent booksellers to have their principal supplier fall into the hands of a competitor like Barnes & Noble, which gives every indication of trying to force them out of business. At the very least, Barnes & Noble intended to redirect Ingram to fulfill the company's own direct sales needs over the internet, suggesting service to independents would falter. At worst, independents feared the bookselling giant would purposefully use its new-found added power to discriminate against independent booksellers and to use its status as a wholesaler to secure discounts from publishers for Barnes and Noble sales that would not be extended to independents.

— W.P.

reports. By the time the chainstore madness had taken its toll in 1995 and 1996, the United States had dropped from first to fourth in the number of books produced each year.

Worse, perhaps, than the decline in the number of titles published was a dramatic shift in sales among the books that were published. The book business has begun shifting even more heavily towards celebrity-driven bestsellers. The number of bestsellers (books that sold 100,000 or more copies) grew substantially in the 1990s. When that fact is juxtaposed against an the overall decline in book sales, it is clear that mid-list books are falling off the edge. Good fiction, investigative reporting and other quality books are simply being squeezed out of the market.

The fruits of monopoly

The shrinkage in book sales is happening at the same time as concentration is increasing at all levels of the book business, and the two phenomena appear intertwined.

Concentration of power is occurring in a major way at the retail level. While the chainstore expansion hasn't led to an overall increase in book sales, the chains have grabbed a bigger piece of the pie. Between 1991 and 1997, trade book sales of the major chains rose 58.5 percent, while the sales of independents dropped by 27.3 percent. The market share of independents has dropped from about 32 percent to 18 percent or less, reversing the relative market position of the two groups.

Independent stores argue that this concentration of power in the hands of chains was not inevitable, but was rather the result of illegal price and promotional concessions given to the chains by publishers over a period of many years. Courts that have considered the issue have agreed with the independents, and several publishers have been forced to accept consent decrees designed to curb further abuses. None of this has solved the problem, however, and the issue is once again before a U.S. District Court in San Francisco in an action filed by the American Booksellers Association and several independent stores against Barnes & Noble and Borders.

Increasing concentration at the publishing level is just as troubling. Merger mania has gripped publishing executives in recent decades, and each wave has left the publishing business with fewer major players. Despite many rounds of consolidation, there were still 10 major publishers in the United States five years ago: Random House, Bantam-Doubleday-Dell, Viking-Penguin, Putnam, Simon & Schuster, Scribner, Harper-Collins, Time-Warner, Hearst Publishing and the Holtzbrinck Group. These 10 publishers have now been reduced to six, and in all likelihood it will soon shrink to five.

The biggest merger occurred in March 1998, when German publishing giant Bertelsmann, which already owned Bantam-Doubleday-Dell, purchased the largest U.S. trade book publisher, Random House. At the time of the acquisition, Bertelsmann was already the third largest U.S. publisher, and the newly combined company — which uses the name Random House — is now the dominant U.S. publisher. Bertelsmann went into that deal owning the Bantam, Doubleday, Dell and other well-known imprints, and it came

out with the names of Random House, Knopf, Crown, Ballantine, Fodor's, Del Rey, Fawcett, Times and Pantheon added to its list. All of these were once independent publishers.

Bertelsmann is not alone in acquiring formerly independent publishers. UK publishing leader Pearson, Ltd., owner of Viking-Penguin, acquired Putnam and now operates the two companies under the name Penguin-Putnam. Rupert Murdoch's News Corporation, which owns Harper-Collins, has recently announced plans to acquire Avon, Morrow, and the rest of the publishing imprints from the Hearst Corporation. Viacom, owner of Simon & Schuster, which acquired Scribner a few years back, now appears to be headed for an operational merger with Time-Warner and its two imprints Warner Books and Little Brown. The Holtzbrinck Group is the only company not involved in recent mergers, but it had previously acquired St. Martin's, Farrar, Strauss & Giroux, and Henry Holt. This ownership consolidation has, incidentally, left most U.S. publishing in foreign hands. Only Viacom and Time-Warner — now rumored merger partners — are under U.S. ownership.

Merger mania has taken on a vertical dimension as well. In 1998 Bertelsmann acquired a 50 percent interest in Barnes & Noble's Barnesandnoble.com. Thus, the world's largest publisher became the partner of the world's largest book retailer. Within a month, Barnes & Noble announced that it was purchasing the book wholesaler Ingram Books. This acquisition would have united under one series of agreements the world's largest publisher, the world's largest book retailer and the world's largest book wholesaler. This latter move raised a firestorm of protest among independent booksellers, authors and readers — more than 100,000 wrote in protest to the Federal Trade Commission about the merger. In a rare step, the FTC staff recommended that the Commission block the move, and B&N withdrew the proposed merger.

Despite their acquisition of power within the book business, most of the major players seem wary of the prospects for books. Only two major corporate parents, Bertelsmann and Pearson, have been bullish enough to make books a central part of their business. The other major publishers are owned by larger conglomerates, and the portion of the overall business represented by book sales is relatively small. Simon & Schuster, for example, represents less than 7 percent of the revenues of Viacom, its corporate parent. Likewise, Harper-Collins accounts for about 6 percent of Rupert Murdoch's News Corporation. At the retail level, Barnesandnoble.com has recently announced that it would be giving a major push to CD and music sales on its website, mirroring Borders, which has always given equal prominence to music. The king of product diversity, however, is Amazon.com, which seemingly adds a new line of products every month. At Amazon, books are starting to look more and more like a loss leader.

The threat to diversity in literature

The monopolist's handbook has a couple of simple rules: To gain a monopoly, flood the market with goods and

cut prices; to exploit a monopoly, restrict the amount of goods and raise prices.

Concentration of power in the book business goes hand in hand with the bestseller syndrome. Any corporate bean counter looking at the book business would immediately conclude that a publisher or retailer can make more money on a small number of bestsellers and that it should downplay the larger merchandise base of slower selling titles. In a competitive environment — where lots of publishers and lots of stores are competing for the same customers — this scenario is unlikely to unfold. Customers can go elsewhere and get better service. But as publishing falls into fewer hands and bookstore chains become more and more dominant, the temptation to cut back drastically on the number of titles is too great to resist.

Apologists for economic concentration in the book business say that no one should worry about the emphasis on bestsellers by the publishers and chainstores, because readers can always buy the other books somewhere else. But that is not how the book business works.

The way books are sold at retail determines which books are published. If buyers for the large chainstores refuse to buy a particular book, the publisher may decide not to publish it at all. Publishers frequently pre-screen books with chain buyers, and if they get a negative reaction they sometimes decide not to publish. After a while, some publishers don't even have to ask what the chains want or don't want: They have internalized the chains' preferences into their own decision-making process. Even when a book passed over by the chains is nevertheless published, most publishers will downplay the book, hold back on the promotional money, give it a small print run — all of which means that it will go out of print quickly unless it is rescued by some enthusiastic readers.

The effects of monopoly can be seen in quality as well as in quantity. In a business where each book is a unique creation — something that cannot be measured in barrels or bushels — quality is the true test.

While there may be a demand for books in general, there is no demand for a book by an unknown author who never gets published. If quality diminishes, society loses something without really realizing it. The important category of mid-list fiction — high quality writing that is unlikely to draw a huge audience — is already being subjected to inordinate pressure. Writers are getting one chance to score with their first book, but small sales may doom the publication of future books no matter how high the quality of the writing.

The main beneficiaries of the bestseller syndrome are celebrity non-authors who command large advances and promotional expenditures far out of balance with anything they might have to say. The most blatant example of the best-seller syndrome in recent years was the O.J. Simpson case, in which anyone who had even the most tenuous connection with the matter was paid handsomely. The best-seller syndrome makes the book business just another branch of show business, diverting money from the publication and promotion of books by talented authors.

Both Alex Haley and Louis L'Amour reportedly received

about 200 rejections before they were published. Mary Higgins Clark was rejected 40 times, and Dr. Seuss was turned down 24 times before being successful. Nothing like that could happen today because authors in that situation would run out of potential publishers before they reached the one that would take a chance on their work. As publishing becomes more and more concentrated in a few hands, the odds against authors get even worse. As one literary agent put it, "Every time I look in my Rolodex, I see fewer editors I can call."

In theory, an author can submit a manuscript to different publishing divisions within the same company, but the real question is whether these divisions will act independently of each other. Sooner or later most large publishing companies issue a rule that these divisions cannot compete against each other for a book.

Authors need diversity at the bookstore level just as much as at the publishing level. The bookstore buyer is usually the first reader of the book and the one who can begin the process of making it a word-of-mouth success.

But there is a big difference between a buyer who buys for a chainstore with 1,000 outlets and 1,000 buyers each buying for their own stores. Any buyer can overlook an important book. But when a chainstore buyer makes a mistake, an important book will be shut out of the entire chain. The mistakes of buyers for independent stores will usually be cancelled out by other buyers who see the worth in the book. Chainstores frequently pass over important books, only to buy them later after the books have built a word-of-mouth following in the independent stores.

Many authors know that without this word-of-mouth phenomenon in independent stores their careers would never have gotten started; authors like Barbara Kingsolver, Amy Tan, Anne Lamott and Faye Kellerman have publicly acknowledged that fact.

It is the sheer diversity of independent stores that gives worthy authors a chance to be heard and a chance to develop a following. No two independent stores look alike, and the inventory that they carry is likely to reflect the values and interests of both the owners and the people who shop there. Stores with different specialties help create a demand for different kinds of books and encourage authors and publishers to publish books that meet the needs and interests of their customers.

Bookstores specializing in travel books, mysteries, children's books, quality fiction, New Age books, feminist books, environmental books and many other specialties have all had a pro-active role in encouraging good books. Not content just with the books handed down to them by the big publishers, they have worked from the ground up to develop books that were more responsive to their customers' needs and interests.

Diversity is the key. The book business can only thrive when there is diversity among authors, publishers, booksellers and readers. When monopolization starts to choke the business, the result is what seems now to be taking place; a sad, painful drop in the number of books that are sold and read. ■