

EXHIBIT 103

UNITED STATES DISTRICT COURT
SOUTHERN DISTRICT OF NEW YORK

J.T. COLBY & COMPANY, INC. d/b/a BRICK
TOWER PRESS, J. BOYLSTON & COMPANY,
PUBLISHERS LLC and IPICTUREBOOKS LLC,

Plaintiffs,

-against-

APPLE, INC.,

Defendant.

Case No. 11-cv-4060 (DLC)

EXPERT REPORT OF MIKE SHATZKIN

I have been asked by the attorneys for Plaintiffs in this matter to review the Expert Report of Gregory S. Carpenter and evaluate the relevance of his opinions for the publishing world.

Mr. Carpenter demonstrates a complete lack of familiarity with publishing and how it works, with the result that his evidence is largely irrelevant and his conclusions largely flawed as they are applied to this particular case. The role and behavior of "brands" in book publishing is somewhat unlike the way they play out in other consumer goods. The publishing ecosystem does not primarily recognize a corporate branding source, but operates within a trifurcated branding structure: the author, the imprint or series grouping within the publishing house by which the title is published, and then the publisher. Creators, retailers, and end consumers all play various roles within the tri-level world of "book marketing." As a result, a more classical understanding and definition of brand and brand-building behavior does not adequately explain brands in publishing and, indeed, can well be misleading, as it is in Mr. Carpenter's report.

Specifically, this report will explain the following:

1. How the multi-level branding -- author, imprint or series, and publishing company -- emerged and how it works in the publishing business.
2. How the relatively recent shift in the industry, due to a trend toward book purchasing online and the rapid growth of digital or electronic/e-books, has moved the focus from business-to-business branding to building business-to-consumer brands.
3. How the iBooks brand could have capitalized on its legacy to build a valuable consumer franchise had Apple not adopted the same name.

4. How Mr. Carpenter's unfamiliarity with publishing and marketing within that industry result in misstatements and erroneous conclusions.

I have reviewed and considered the Amended and Supplemental Complaint and Jury Demand, Answer and Affirmative Defenses, the plaintiffs' iBooks sales figures, and examples of the plaintiffs' print and electronic books.

The facts I call upon in formulating my opinions have been gathered both anecdotally and systematically through approximately 50 years of participation in the book-publishing industry, the last 40 of them continuously. I have been an author and have worked with most of the major players in the industry as an author, agent, packager, or consultant.

Expertise, Background, and Compensation

I have been employed full time in the publishing business since 1973 and have worked in a part-time capacity in the industry since 1962, while completing my formal education. For the first six years of my continuous work in the industry, I worked for a book-distribution company owned by my family, which distributed books on behalf of about 100 small publishers from all over the world. I managed all sales and marketing. Since 1979, I have primarily been a consultant, but have also written, agented, and packaged books. Starting in the mid-1990s, I have organized industry education events -- conferences -- mostly around the subject of "digital change in book publishing." I have also been an expert speaker on this subject at industry events around the world, including in London, Milan, Montreal, Toronto, Sydney, Frankfurt, Copenhagen, and Amsterdam.

Since February, 2009, my blog -- The Shatzkin Files -- has been published at my web site, www.idealog.com on a regular basis, and the complete archive is located there. I have thousands of regular readers worldwide. A more complete statement of my qualifications and speeches can be found at the www.idealog.com site. Exhibit A of this report contains my summary biographical page from the Idea Logical Company web site.

I have not provided any expert testimony in the past four years.

For my work on this case, I am being paid \$500 an hour (\$600 per hour for deposition and trial-preparation time and for deposition testimony; and \$700 per hour for trial testimony).

Multi-Level Branding

For about 100 years, consumer book publishers in most of the world have reached consumers through what is called the "book trade" (hence: "trade publishers"), which is a network of bookstores and libraries and the wholesalers that help serve them. In addition, the most important marketing tools have been reviewers and radio and TV shows that wanted to feature "book authors" as part of their programming. Until relatively recently, every important city in the US had a newspaper that did its own book reviews and local TV and radio programs that were happy to air appearances with authors published by known publishing houses.

enough to be a positive reflection on our brand to the gatekeepers we need to please consistently to be successful in business?

The big houses didn't need to worry about topical consistency. After all, for most of the past 100 years, the same book-review media and bookstore buyers would handle all topics and genres. They could ship in the same box from the publisher, and the retailer or reviewer would sort it out for the consumer.

Even before there was any formal awareness of branding among publishers, there was an instinctive understanding that authors were brands, because it was clear that readers, having read and liked one book by an author would be inclined to read another. Most authors automatically delivered the consistency of user experience that we now understand is critical to good branding, allowing the consumer to develop an expectation and have it fulfilled. Whether they understood they were doing it or not, publishers have cultivated authors as brands, both to their intermediaries and to the reading public, for as long as there have been publishers.

Between the level of branding afforded by the author and that associated with the publishing house's name, publishers also had branded "imprints" and "series." Imprints usually denoted a team of editors and marketers within a publishing house and were almost always intended to be B2B brands, communicating an editorial philosophy and marketing approach to the gatekeepers. Some imprints were created by preserving the name of a publishing company acquired by a larger one. That is how the Scribners imprint of Simon & Schuster started, as well as the Knopf and Crown imprints at Random House, and, for that matter, the Viking imprint at Penguin. Sometimes publishers created imprints to "brand" the output of a star editor. Series brands (Dummies, Hardy Boys) had both consumer identities and value with gatekeepers, but series creation was inherently limited to those circumstances where a formula could be replicated with commercial success across authors.

And so it developed that there were three levels of branding in publishing: the author, the imprint or series which operated *within* a publishing house, and the company name. Until recently, all of them were primarily employed to get publishers past the gatekeepers, although authors and series were recognized as having consumer value.

The Evolution To Direct Consumer Marketing

The decline of bookstores and book-review media and the concurrent rise of the Internet and social-interaction tools like Facebook and Twitter led publishers inexorably to the conclusion that direct contact with end users, which had never been an important component of book publishers' thinking, needed to be developed.** This was a jolting and disruptive change in thinking. It was something most publishers, and especially the biggest ones, had never done. It thus required big changes in orientation and workflow. But it also threatened publishers' trading partners -- their retailers -- because these retailers saw publishers now competing for the same consumer attention that they had heretofore depended upon the retail stores to provide.

Niche or genre publishers who had delivered a consistent content offering previously found themselves best positioned to change their businesses in this way. Romance and science-fiction

The Internet has had a lot to do with changing all of that. Newspapers have been famously challenged by online news sources, including their own online versions. Local TV and radio production is far less robust than it once was. And online purchasing of books has proven highly destructive to the bookstore network. Bookstore shelf space probably peaked ten years ago (although there are no precise industry figures on that or on most other subjects). Since then, the growth in online purchasing of print books, mostly through Amazon.com, and -- since late 2007 -- the migration of consumers from reading narratives in print to instead reading them on screens as ebooks -- has accelerated the decline of brick-and-mortar bookstores.* As a result, the trade that book publishers have depended on has been eroding: gradually and then suddenly. Since the arrival of the Kindle reading device in November, 2007, the pace of erosion has increased to the point where it can't be denied or ignored and, as a result, trade publishers have begun to recognize that if they are to survive, they must change as well. Digital books are growing inexorably, forcing publishers to rethink their strategies.

Today's book publishing was born in an environment where consumer branding was of little value to publishers. Consumers shopped at retailers. Retailers divided books into categories and book consumers, for the most part, chose from what the retailers they liked put on the shelves (in subject-defined store sections) where they were most interested in browsing.

The direct contact for publishers was not with consumers, but with gatekeepers: primarily bookstore/retailer buyers, book reviewers, and, to a somewhat lesser extent, those doing collection development (or buying) for libraries. To those people, the corporate brands mattered, but the characteristics that were important were usually not the same as what consumers would care about.

As all brand experts know, a key for brands is to deliver a consistent experience to their users. A consistent experience for a *reader* means a similar book: a consistent experience for a *gatekeeper* means a similar publishing procedure. To a consumer, it would undercut a brand's value to see a cookbook, a memoir, and a novel stamped the same way. But to a gatekeeper, if the publishing execution were similar -- consistent editorial quality, design sensibility, pricing approach, marketing effort -- the company's brand identity could be helpful, even if the subject matters and genres of the books were unrelated.

As publishing evolved in the century of trade dominance, publishers tended to become either "general trade houses" -- publishers who put out books on a wide variety of subjects -- or "niche" or "specialty" publishers who tended to confine their output to specific genres or topics. The general houses tended to become the biggest, although certain niche publishers like Harlequin for romance books, or Scholastic for books for school-age kids, also became quite large.

From the perspective of the biggest houses, such as Random House or Penguin, subject specificity was always a secondary concern. What they considered when they entertained a proposal for publication were two key questions: (1) Is this book *big* enough to be worthy of our company's efforts: Will it sell enough to be worth putting on our list?; and (2) Is this book *good*

publishers were the most advantaged, because they had large numbers of consumers who read multiple titles from their lists. Romance readers already knew the company name and imprint “Harlequin.” Science fiction fans knew Tor and Baen. The consistency of the content experience they offered had, without any elaborate effort on their part, built brand awareness that translated into online power.***

The niche publishers, and the niche imprints of general publishers, quickly established themselves as viable consumer brands as measured by online success: getting website visitors, signing up consumers for email notifications of new publications, and, in some cases, being able to spawn new enterprises on the back of the customer base their content consistency had created for them.

One great example of that is from a niche publisher called Hay House in San Diego: a publisher of “mind body spirit” books. Hay House built email lists earlier than most publishers and has used them for years to promote its new titles in a much more cost-efficient way than most publishers have available to them. It also started doing events where its reader base paid fees to spend time with Hay House authors.

Indeed, events have become an important ancillary business for some niche publishers, building on the base of enthusiasts their publishing has delivered them. F+W Media, a private-equity financed rollup of “enthusiast” (*i.e.* vertical or niche) publishers, has a whole events business serving multiple opportunities created by its disparate communities to assemble for paid gatherings.

The major publishers have recently started to join this trend. Because they are determinedly “general” (and because they are built on publishing the biggest commercial books, the likelihood of commercial success, not topic or genre, must be the dominant criterion by which they make acquisition decisions), they tend not to have large lists within topic areas the way a specialty publisher like Hay House or F+W does. But they often do have lists in genres, particularly in science fiction and romance, which have been the two biggest genres in the inexorable and fast-paced ebook evolution.

The iBooks Brand

The iBooks imprint published a large number of titles primarily in the science-fiction genre (665), followed by graphic novels, horror, and fantasy, which have turned out to be of substantial interest on the Internet and have sold well as ebooks. Although the sales of iBooks overall were modest (5,689,950 units, with sales of science-fiction titles alone totaling 1,944,314 units), particularly compared to a big general publisher, its specialization in a genre that is characterized by customers who make many repeat purchases in the genre suggests the potential for a core audience that would recognize it as a publishing specialist. It is thus reasonable to surmise that were there no distractions suggesting that the iBooks brand meant something else (namely, Apple and/or Apple's iBooks/iBookstore), it is likely that the publishers of iBooks would have had the opportunity to build on that awareness to create a powerful niche brand in the digital space.

Mr. Carpenter's Fundamental Lack Of Industry Understanding And Flawed Conclusions

Against this industry-specific background, the many errors in Mr. Carpenter's report are made plain. Intended as a tool to understand the branding issues in this case, his report is simply not applicable to the world of publishing. Mr. Carpenter's fundamental misapplication of general branding principles results in erroneous and misplaced opinions and conclusions.

Mr. Carpenter writes that "creating consumer awareness and recognition requires significant investment by the brand owner." (Paragraph 9.) That is not true in publishing where almost no money is spent -- or has been spent -- creating consumer awareness and recognition of brands. Publishing brands are built on the awareness of what is being published under the author, imprint, series, or publishing-house name. This imputed value of the brand from the content it delivers has been the method of building brand awareness for book publishers throughout the history of publishing, from when it was basically strictly marketing to gatekeepers up to the current era where consumers have become direct targets.

Mr. Carpenter posits that "by selecting target customers, developing a unique value proposition to those target buyers, and delivering that value consistently, an organization can endow a brand with meaning and hence value." (Paragraph 11.) This actually turns publishing practice on its head. What happens is that publishers deliver a "value" -- a kind of book -- consistently under an author, imprint, series, or company brand. The audience *self-selects* around the content, and the value of the brand is created over time by the *experiences* readers and consumers have with the published books.

Mr. Carpenter states: "in working to build a brand that is recognized by consumers, companies need to engage in a variety of activities to educate consumers and create awareness of that brand." (Paragraph 12.) In fact, I am not aware of any publishing brands -- not Dummies, Harlequin, or others -- that have built their brands that way. Their brands were built on the strength and consistency and ubiquity of their content; other activities might have a brand-enhancing effect, but in publishing they are actually new-fangled exploitations of the brand, not efforts to build it.

Mr. Carpenter goes on to say: "Possible means of establishing brand recognition include advertising, marketing and other promotional activities; creating personal experiences in which consumers interact with the brand; and combinations of those methods." (Paragraph 12.) This has not been the history or experience of publishing. Advertising for brand building is virtually non-existent, as is brand-focused marketing. The creation of personal experiences for interaction is a recent development around new opportunities (such as live events); it has not been an established method for building awareness to sell books.

Mr. Carpenter writes that "Creating a brand requires educating buyers about the meaning of a brand, and continually educating new buyers as they enter the market." (Paragraph 14.) Again, this does not describe the reality in publishing. Publishers sell books. If a reader consumes enough books that deliver a consistent experience under the heading of an author, imprint, series,

or company, that heading becomes a brand with meaning. There are not, nor have there been, independent efforts in publishing to educate about brand meaning, and certainly no efforts to build brand awareness for people who haven't read any of the books.

Mr. Carpenter quotes from a book from The Free Press (a strong brand in intellectual and academic circles based on a consistent publishing output over the past 50 years, with no money spent on brand promotion *per se*) as follows: "Strong brands do not just happen. Rather, they result from the creation of winning brand strategies and brilliant executions [sic] from committed, disciplined organizations." (Paragraph 14.) This is not how Harlequin or Free Press built their brand. Their brands *did* "happen," because they were publishing books that consistently appealed to similar audiences.

Mr. Carpenter explains the difference between a "push" strategy and a "pull" strategy for sales of branded products. (Paragraphs 16 and 17.) He posits (perhaps correctly for industries other than publishing) that Lays sell potato chips by advertising heavily, in effect coercing the retailers to carry their product ("pull"), and that Kettle achieves sales by getting better placement with the retailer ("push"). These dual strategies do not exist contemporaneously within the publishing world. The presence of both strategies in publishing is illustrated only in the field's evolution, where it mirrors the shift publishers are being forced to deal with. To use Mr. Carpenter's terminology: publishing has always been primarily about "push," getting the retailer to influence the consumer; the internet and social media, by which publishers can now communicate with end users, gives them a start on "pull," influencing the consumer so that the retailer will want to capitalize on the publisher's marketing.

Mr. Carpenter's unfamiliarity with book publishing is further evidenced through his suggestion that because there are more than 100,000 imprints and establishing brand requires some critical mass, then no single imprint can have much recognition. (Paragraphs 19 and 20.) What he fails to take into account is that publishing is a niche business. Many readers specialize in what they consume. A science fiction reader isn't contemplating the offerings of 100,000 imprints; there might be three or five or at most 10 or 15 that produce the majority of the books they read. So the establishment of meaningful branding can take place within the niche audience far more readily than Mr. Carpenter's paradigm, which sees publishing as one big amorphous industry, would imply. His paradigm is akin to describing the difficulty of establishing the brand for a Cabernet Sauvignon as though it had to compete with all the possible brands under which people buy food and drink.

Mr. Carpenter's utter lack of grounding in publishing is illustrated through his building a straw horse about branding with the six largest consumer houses (often referred to in the trade as the Big Six) as examples.¹ (Paragraph 21.) He calculates the probability of gaining the same renown as they have achieved at approximately .008%. Here, though, the facts left out are more important than the facts included. A list of the brands that would work best for

¹ Even the way he describes them -- butchering their very identities -- underscores that he is an outsider. He refers to Penguin as Penguin Putnam, which it was called only briefly after Penguin acquired Putnam a decade or more ago. He refers to Holtzbrinck Publishing Holdings, which has been renamed Macmillan. He calls one of the companies Time Warner, which sold its publishing interests to Hachette about five years ago and is now called the Hachette Book Group USA.

direct-to-consumer efforts would include *none* of the Big Six houses he cited. Rather, they would include Harlequin for romance and Tor for science fiction, as discussed above. They would include Abrams and Rizzoli for art books. There are other players in romance (Ellora's Cave) and science fiction (Baen) that are relatively tiny players but, because of their consistent offering in a niche that has many repeat buyers, have more recognizable brand identities than the big corporate names with many consumers.

*Exhibit B: "Technology, curation, and why the era of big bookstores is coming to an end" (from *The Shatzkin Files*)

**Exhibit C: "Selling direct will become an essential capability for publishers to have" (from *The Shatzkin Files*)

*** Exhibit D: "Publishers, brands, and the change to btoc" (from *The Shatzkin Files*)

Opinions and Conclusions

The iBooks imprint has reached thousands of its niche readers. The records show that during the period when Byron Preiss owned and operated iBooks, it sold about 5 million units, of which nearly 2 million were in the science-fiction genre. Given the propensity of science-fiction readers to stick to their genre, it is reasonable to assume that many thousands, perhaps tens of thousands, of science-fiction readers purchased and read several iBooks titles and thus recognized the iBooks imprint.

In addition, iBooks published works by some very significant science-fiction authors, including Ray Bradbury and Arthur Clarke. This further supports the assumption that the imprint would have been known to science-fiction devotees, who pay attention to substantial, recognized authorship.

Because of its specialization, such a niche reader group is aware of authors and individual imprints within the genre -- more acutely so than is a general readership. The specialized nature of a genre, such as science fiction, results in a focused reader circle, attuned to the authors and publishers within the particular field.

As a result, at the time the entire industry turned its attention to consumer branding (which can't be assigned a precise date, but which started to happen in the later part of the first decade of the 21st century, and with accelerating speed after Kindle was launched in November 2007), the owners of iBooks would have found themselves with a strong foundation on which to promote iBooks directly to consumers as a science-fiction brand. They had big authors and a big backlist, and they had undoubtedly sold multiple titles to enough people -- many thousands, if not tens of thousands -- to enable that. As previously observed, publishing brands are defined by the content they publish. However, for iBooks, promotional efforts targeting end consumers did not make economic sense, because in the interim Apple had created such a strong (and overshadowing) alternative identity for the word iBooks.

I declare under penalty of perjury that, based upon the information available to me, to the best of my knowledge, the foregoing is true and correct. I reserve the right to supplement this report.

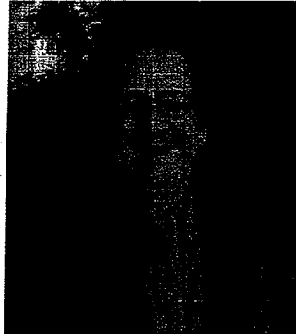
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About Mike Shatzkin



Mike Shatzkin, Founder & CEO of The Idea Logical Company

Mike Shatzkin has been involved in the publishing business for nearly 50 years. He has written or co-authored six books that have been published by established companies and just issued his first self-published ebook, a collection of two years of his blog posts called "The Shatzkin Files, Volume 1."

For the past two decades, he has been a thought leader and among the most prominent observers of the industry's transition to the digital era. He founded and leads The Idea Logical Company, a consulting firm working on strategic issues for

publishers and their trading partners and he is co-founder, with Michael Cader, of Publishers Launch Conferences. PLC stages industry education events exploring digital change from a global perspective.

Mike organized many industry conferences before PLC was organized and has spoken at industry gatherings across the globe. His work has appeared regularly in trade journals for decades. The client list of The Idea Logical Company has included all the top publishers in the US, many in the UK and elsewhere, leading wholesalers including Ingram, leading retailers including Barnes & Noble, and numerous suppliers of technology and other services to publishers including big systems providers (Klopotek and Publishing Technologies), specialized digital services (netGalley and Vook), and industry services and not-for-profits (BookScan, Copyright Clearance Center, and Book Industry Study Group.)

Mike's experience in publishing is as varied as it is long. Aside from his author credentials, he has been an editor, a production manager, a sales director, and has sold rights in many venues, including for Hollywood development. His early experience, including a stint as sales and marketing director for a distributor, was with lots of small publishers. Since he was engaged for several years by John Wiley starting in the mid-1980s, Mike has worked primarily with the world's largest houses as clients or on behalf of clients.

Mike's specialty is "change", particularly as it relates to digital strategy and the publishing supply chain.

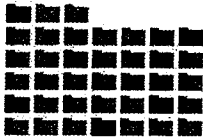
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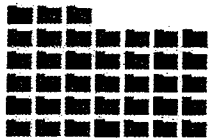
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The Shatzkin Files

Technology, curation, and why the era of big bookstores is coming to an end

Posted by Mike Shatzkin on June 7, 2011 at 9:29 am · Under Autobiographical, General Trade Publishing, Publishing, Publishing History, Supply-Chain

I stumbled across a Sarah Weinman post from a few months ago that posits the notion that the chain bookstore (by which it would appear she means the superstores of the past 20 years, not the chain bookstores in malls that grew up in the prior 20 years) perhaps had a natural life cycle which is now coming to an end. She points out that the investment by Wall Street in the concept of massive destination bookstores enabled their creation, but ultimately resulted in great excess: too many stores with too many square feet to fill and too many books in them that don't sell.

This is a really good and thoughtful post and I think the observation that the availability of capital built the excess which is now partly responsible for dragging down the structure is correct. But it triggered some additional thoughts that make me want to again trace the history (which I believe has called for smaller bookstores for several years) from before the 1990s when Sarah's post picks it up and to look at bookstore history through the lens of tech development, which I think both enabled the massive bookstores and is now bringing about their demise.

The core challenge of bookselling — in the past, present, and future, online and in stores, for printed books or digital ones — is curation. How does the bookseller help the reader sort through all of the possible reading choices, of which there are, literally, millions, to find the reader's next purchase?

In a shop, that curation begins with with what the store management puts on the shop shelves. The overwhelming majority of customers in a brick bookstore who buy something choose from what is in the store.

The second line of curation in a shop is in the details of the shelving itself. Is the book face out or spined? Is it at eye-level or ankle-level? Is it on a front table in a stack? Is it displayed in more than one section of the store, which would increase the likelihood it will be seen?

And the third line of curation in a brick bookstore is what the sales personnel know and tell the customers.

In the period right after World War II, there was virtually no technology to help booksellers with curation at all. Sales reps would call (or not) and show catalogs of forthcoming books from which the bookseller would order. There were hundreds of publishers any full-line bookstore would have to do business with. But there weren't very many full-line bookstores then. Departments stores and small regional chains (Burrows Brothers in Cleveland, Kroch's & Brentano's in

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Chicago) were the principal accounts.

Frankly, what was stocked in most stores then had a huge randomness component. This was the world my father, Leonard Shazkin, encountered when he became Director of Research at Doubleday in 1954 and, a few years later, created the Doubleday Merchandising Plan. By offering the service of tracking the sales in stores, using reps to take physical inventories in the days before computers could track it, Doubleday took the order book out of the bookstore's hands for the reordering of Doubleday backlist titles. That solved the problem of breaching the first line of curation. And the reps, now freed of the enormously time-consuming task of selling the buyer on backlist reorders title by title, had more time to affect the second and third lines of curation: the display of the books in the stores and the knowledge the store personnel had about Doubleday books. Sales of Doubleday books exploded, approximately quadrupling for the backlist.

In the early 1960s, Len saw the impact of increased selection from the bookstore's side of the table. He had moved from Doubleday to Crowell-Collier/Macmillan, which owned the Brentano's chain. He was put in charge. At first, Brentano's weakest store was its outlet in Short Hills, New Jersey. They doubled the selection of books and, almost instantly, Short Hills became the best-performing store in the chain.

It took until the late 1960s, when shopping centers were springing up across the country, for the first two national book chains, Walden and B. Dalton, to develop and become a serious force in the industry. And in the early 1970s, Ingram and Baker & Taylor became the first national book wholesalers to cover the country with a wide selection of titles. Dalton and Ingram became industry leaders and both were boosted by technology breakthroughs.

Dalton installed smart cash registers that enabled them to key in a number for each book, telling them what had sold. They didn't use ISBNs, which were in their infancy; Dalton assigned their own SKU (stock-keeping unit) numbers which were stickered onto the books. The system was far from perfect, but it was revolutionary. For the first time, a bookseller and its publisher suppliers knew some real sales data in a timely fashion (Dalton's numbers were tallied weekly). And the system also enabled Dalton to keep books that were selling in stock through automated means as well.

Ingram was the first wholesaler to employ microfiche technology to tell booksellers what was available right now in their warehouse. The weekly microfiches were, of course, primitive signals of availability compared to today's instantaneous online capabilities, but this was also a revolutionary breakthrough. It enabled rapid resupply for all stores, including the chains, of the books they sold each day..

In the late 1970s, scanning technology had developed so that the Dalton key-in-the-SKU system could be leapfrogged by Walden using ISBNs at the register, which could often be scanned into the computer record. Also being developed at that time were various methods for automated order processing between publishers and their customers. By the middle of the 1980s, just before the period when Sarah's narrative begins, bookstores were growing rapidly. The cost of putting the books on the shelves was dropping in relation to sales and the ability to put the right books on the shelves at the right time was enhanced for everybody. Good curation became much cheaper and much easier and, not surprisingly, sales of books grew dramatically.

Paradoxically, the decline of mass-market paperback distribution created new opportunities for the biggest publishers in hardcover. Mass-market grew on the illusory efficiency of forced distribution. For the first two decades after World War II, the rack-sized paperbacks would show up in the pockets at your local

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drug store or five and dime without a local buyer having to make a selection. That, combined with a much smaller share of margin going to the retailer, paid for the inherent inefficiencies of ham-handed curation. (And, let's remember, only the covers had to be sent back for "returns".)

But as paperbacks became more important and more mainstream, the biggest customers of the local wholesalers who racked them wanted better margins and more control. And the sales volumes had built to the point that many of them could now afford a buyer to deal directly with a number of mass market publishers, so the best accounts started shifting to direct. This weakened the original distribution network, but it opened up the opportunity for publishers to put books other than the rack-sized paperbacks into what had been rack-only accounts.

The first probes with larger trade paperbacks were with romance authors like Rosemary Rogers. The mass channels were more comfortable trying an experiment with format and price with authors they already knew.

The first great exploitation of mass distribution for what was really a trade book was by Peter Mayer (the boss) and Bill Shinker (the marketer) at Avon with the book "The People's Pharmacy" in about 1975. Avon, a paperback house that published a lot of romance titles, had been one of the pioneers putting the larger books into the mass channel.

Bantam then used the technique for hardcovers, again starting with authors the mass channel already knew like Louis L'Amour and Clive Cussler, before hitting a massive all-channels mass-market home run with "Iacocca" in 1985. (And thanks to Jack Romanos, who was running things there then, for helping me get my recollections straight.)

The increased efficiency of distribution through technology and disintermediation in turn enabled discounting. Crown Books built a chain in the 1980s which mostly sold remainders and bargain books but carried a good selection of current titles with bestsellers deeply discounted. This fueled a further increase in unit sales.

Meanwhile, independent bookstores beginning to use primitive computerized inventory management systems were proving repeatedly what Brentano's had demonstrated to Len Shatzkin in 1963: a big selection of books attracts a very substantial clientele. So technologically-driven efficiency lent a hand to delivering a more attractive selection (curation) by making it a bigger selection.

And in the late 1980s, these two things — the Crown discounting attraction and the independents large selection attraction — were combined by entrepreneurs in Austin, Texas, who created a store called Bookstop that provided both. Bookstop became the prototype "super" bookstore and, before long, Wall Street money was financing Barnes & Noble (which had bought Dalton) and Borders (which had bought Walden) to roll out these bookselling behemoths nationwide.

Which is where Sarah's post kicks in. But in the context of what came before, I'd add one element she didn't to the analytical mix. It created a paradigm shift in curation using technology. It's called Amazon dot com.

While even the largest bookstore had shelf space limiting its title selection, Amazon did not. Through good luck (licensing the Baker & Taylor database which contained a lot of out-of-print titles), good thinking (providing a clear "promise date" for the available books and assisting people's search efforts by telling them explicitly if a book was *not* available), and brilliant execution (Amazon's hallmark from its first moment until the present day), Amazon completely shifted the psychology of book shopping.

Amazon as a threat to steal big titles from big publishers is still a ways off | The Passive Voice on Amazon as a threat to steal big titles from big publishers is still a ways off
Mike Shatzkin on Things to think about as the digital book revolution gains global steam

Until Amazon, if you wanted any particular book or if you didn't know exactly what you wanted, your best strategy was to go to the shop with the biggest selection to try to find it. Once Amazon happened, the magnet of in-store selection lost its power for many customers. If you knew what you wanted and you didn't need it right this minute, the most efficient way to buy it would be to go to Amazon and order it. Customers who would have been browsing store aisles and, if necessary, placing special orders with their bookstore, now just shopped online.

I first saw what is clearly the impact of this through some work I did with Barnes & Noble sales data for university presses about a decade ago. In the recent years before that work, starting in the late 1990s, Barnes & Noble had tried to expand its selection of university press titles. This was applying a time-honored understanding of curation to improve the store selection.

But the results were beyond disappointing. Sales were not rising for the university presses; returns were. What became increasingly clear was that professors, the biggest market for university press books, were a leading edge demographic shifting their buying online. Makes sense, really, considering that they were often finding out about the books they wanted to order through something that had occurred online!

It was at that time — about 2002 or 2003 — that the late Steve Clark, then sales rep for Cambridge University Press and one of the publishers I was working with, told me that Amazon was a bigger account for his company than all other US retailers combined.

This was a big “aha” for me. I had grown up with the Brentano’s “selection” story and had seen it demonstrated over and over again throughout my career that increasing the title selection in a location increased the traffic and increased the sales. Technology had changed the reality. The magnetic power of a physical space full of books to bring in shoppers had been weakened. The surest way to find something that wasn't as ubiquitous as a current bestseller remained a visit to the store with the most selection. But that store was no longer in a building. It was in your computer.

And, ultimately, that is the single most powerful force bringing the era of the super bookstore to an end.

Of course, massive selection is only the first aspect of curation and the other parts are not nearly so well done online. Or, at least, they haven't been yet. This is a major conundrum for the industry as bookstores fade and it's the reason three big publishers have financed the startup Bookish. The stores depend on the publishers' metadata to do this work and the publishers' depend on the stores' systems and merchandising creativity. Perhaps partly because the necessary collaboration hasn't occurred, an effective online equivalent to in-store browsing hasn't yet been developed.

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Amazon's use of discount pricing as its dominant curation strategy may very well backfire. Users currently do use the Amazon bestseller lists to seek out books they might want, but if Amazon keeps loading up its bestseller lists with cheap crap that lands there because marginal publishers are willing to give up profits in the hope of getting market share, buyers will stop using those lists as a resource. Amazon's affinity engine has always done a rotten job of presenting past buyers with books they might like.

So Amazon might find itself like many a Web-dominant player losing its market advantage when a new, more successful paradigm emerges. The shift to e-books and the accessibility of ebooks on android devices makes that more likely as it lowers the barriers to entry for other players who don't have to compete with Amazon's warehouses anymore..

Who it is who will eat Amazon's lunch is up for grabs. It's going to take someone serious web smarts—almost certainly NOT a publisher—to come up with a destination site designed in a way that it does for book selecting what eBay did for collecting

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A debate across panels is coming at our London show on June 21 »

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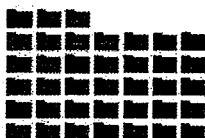
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Selling direct will become an essential capability for publishers to have

Posted by Mike Shatzkin on June 18, 2012 at 9:58 am · Under Direct response, eBooks, General Trade Publishing, New Models, Supply-Chain

One question on which I have had a long-standing difference of opinion with most of my friends in the biggest publishing houses — or at least with their publicly-stated views — is whether it is sensible for them to sell direct to end consumers.

That conversation was joined last week among three very smart people with very different perspectives. Madeline McIntosh of Random House, who added the title COO to her business card last week, expressed the opinion at the IDPF event at BEA that Random House would not “add value” by selling direct. This was in the context of whether it made sense to remove DRM, which, it has been suggested would help make it possible for publishers to transact ebook sales with consumers. (Some of the strongest advocacy for removing DRM certainly comes from publishers like O’Reilly and Baen who have built up robust retail businesses. F+W has a direct business across their two dozen or so verticals, and they sell DRM free.)

At the same event, Sourcebook founder and CEO Dominique Raccach enumerated useful things her company is able to do because they have direct customer contact, including testing out ideas for covers with live potential customers.

And following that, Andrew Rhomberg, a founder of the fledgling ebook bargain and conversation site, Jellybooks, took up Dominique’s side of this not-quite-engaged discussion in a post on the Digital Book World blog to make the point that the data publishers can gather through experimentation makes it worth having the direct customer relationship.

I agree with Andrew that publishers should sell direct, but the experimentation and data-gathering arguments he made — which actually resonate with the Jellybooks mission to improve discovery through both a different merchandising approach and by creating Groupon-like “deals” to entice purchasers — don’t strike me as the most persuasive arguments to make the case.

Partly that is because some of what Soucebooks accomplishes, like getting consumer reaction to covers, could be achieved without selling direct. Macmillan has told us that they have millions of email names (and the right to send them missives: what Seth Godin dubbed “permissions”) and has demonstrated that they can get a lot of response if they ask for an action. All that has been happening without them selling direct. (Macmillan will be starting to do that. Their VP, Fritz Foy, announced last week at our Pub Launch BEA conference that they’ll shortly be opening an ebook store, DRM-free. Hosting that event was the reason I didn’t hear Madeline and Dominique speaking around the corner.)

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Our friends at Vogue Knitting Magazine use their Twitter followers to get opinions about how they should handle certain editorial choices they face for their magazine, just by asking.

Madeline was not saying that Random House shouldn't have conversations directly with the readers of the books they publish. And they are certainly familiar with the point about data made by Dominique and emphasized by Andrew. They are, after all, the publishers of "The Lean Startup" by Eric Ries, which emphasizes the use of feedback loops to shape business strategies, including for the launching of the book! And everybody who knows Random House knows they are an analytical, systematic, and data-responsive organization.

What I took away from what I read Madeline saying was "we don't have to execute the transaction in order to have direct customer contact and knowledge." And what I also took away is, "whether it is because we don't want to hurt our intermediary retailers or because we don't want them to hurt us, we'd rather avoid competing with them. And if we sell our books direct, we are competing with them."

That's a powerful concern and it is built into the DNA of the biggest trade publishers. Selling direct works against the magic of trade publishing, which is the leverage provided by so many intermediaries helping reach the end consumer. I remember five years ago, when I was running most weekends with a Big Six C-level executive, telling him that I had just come around to the point of view that publishers should sell direct. He hadn't then; he may not have yet.

I once had the (on more reflection) crazy idea that if all the publishers sold all the books of all the other publishers, there would be such a vast array of deal choices in the ecosystem that it would undercut the attempts of retailers to win share by selectively cutting prices.

But agency pricing changes that game because the price of an agency-model ebook is the same in all sales venues. In that case, does it reinforce the old logic of pushing sales through the intermediaries (as my running partner then and Madeline now apparently believe) or does it point to the path Raccah and Sourcebooks have taken, that Macmillan seems headed for, and which Rhomberg supports?

I think the latter. Here's why.

We're at the point now where *all* publishers understand that direct customer *contact* is essential. They may not all be fully aware that they are in a race with authors to gather the lengthiest list of useful customer contacts, but they are. The conversations between agents and publishers will very shortly start addressing how many names and permissions the author has with the number of names and permissions that apply to the author's book the publisher can provide.

If a publisher works with the agency model — and Random House is a uniquely privileged publisher at this moment because they *alone* sell on the agency model without any pressure from the DoJ to change their practice — they can sell direct at their established price with the confidence that no retailer will embarrass them to their audience by undercutting them. That means there are three highly compelling reasons to sell direct:

1. If you have engaged in a dialogue that has "made" the sale, you don't want to take the chance it will get "unmade" by sending the customer to a retailer with a vast array of choices, often suggesting other publishers' books right on the same page which houses your book. There is wisdom that says every required click costs sales. Sending the purchaser to a retailer to execute a sale you have made not only lengthens the click stream, it introduces distraction and competition.

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2. When an agency publisher makes a sale through an intermediary, it pays the intermediary 30% of the customer revenue for execution. Making the sale directly, adding that 30% to the 70% which would otherwise have been the publisher's and author's revenue, adds *nearly 43% more* revenue. Nobody is expecting publisher-direct sales to become a big share quickly, but a 43% increment is large. In some genres and niches, publishers might get to 20% direct sales in the next few years. In that case, selling direct would add more than 8% to their income, and to the income of any of their authors working on a percentage of the publisher's net ebook revenue (which is almost every one that has earned back their advance).

3. It is much easier to execute further engagement with direct customers than through intermediaries. And further engagement is soon going to be desirable and before long will become essential. For example, an author could write a new ending or epilogue to a book (think non-fiction, not just fiction; this is already a big deal at tech publisher O'Reilly) that the author and publisher would want every prior purchaser to have for free. Easily done if the customers are yours; a huge pain if they aren't. Or a publisher next year might be happy to provide non-DRM'd ebooks for customers who previously bought protected versions. Or a publisher and author might want to try an experiment of sending a sample of half the author's next book for free to the readers of the last one. It will be far easier to get retailers to play along on things like this if they have to do it to remain "competitive" (more reminders that competition won't just be about price!) with what the publisher provides its direct customers.

No retailer jumps for joy about publishers selling direct. Those publishers that do now, including Sourcebooks, the enthusiast publisher F+W Media (our partners putting on Digital Book World), and others, are usually publishing titles that are outside the circle of highly price-promoted big books. They're managing to do it even without agency pricing. (I can't resist noting that the DoJ doesn't seem to care that Amazon won't let these publishers use agency pricing, even though they might work that way with other retailers and, in my opinion at least, putting them at a disadvantage against their larger competitors).

But one clear lesson we should have all learned by now about digital change is that the bright lines that divided the author function from the publisher function from the retailer function are progressively being erased. It is possible for any of these players to perform any of these functions. (Indeed, a key idea behind Joe Regal's new Zola Books business is that authors can do their own curation and become *retailers*, an idea everybody will have to wrap their head around just when we're getting used to the idea that authors can become *publishers*!) Amazon isn't shy about publishing; publishers need to overcome their reticence about retailing.

The guess here is that the ability to sell direct effectively will be seen as a necessary survival skill for publishers by two years from now, if not sooner.

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Stephen Bateman

Great Post Mike.

I agree that creating the connection and providing the environment to sell digital formats direct to consumers needs to be a top priority for publishers.

The biggest danger about relying on others for distribution is that you can not build an enduring content platform on someone else's real estate.

Publishers need a strong homebase of their own so that they can develop their reputation and community, with their readers and the search engines that steer traffic and prospective customers their way.

Most of all the online centrepiece needs to be at the heart of new product development, where commissioning and managing editors foster the customer conversations that spark the new product ideas that morph into stronger "co-created" publications of the future. (I encourage everyone to read "We Think" by Charles Leadbeater, or at the very least watch the video on YouTube)

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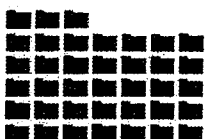
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VOL. 6: FEBRUARY 2009 - FEBRUARY 2011

Written by Mike Shatzkin
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Publishers, brands, and the change to b2c

Posted by Mike Shatzkin on September 6, 2010 at 12:58 pm · Under Community, General Trade Publishing, New Models, Publishing, Supply-Chain, Vertical

I've been in the book business for a long time, more than 48 years since my first job on the sales floor of Brentano's bookstore. For over 37 years it has been my fulltime occupation. My father started his career in books just before I was born, so I have been meeting publishing people more or less since I was in the cradle. And it isn't that big a business. So, over the years, I've gotten to know many people in the industry.

But I hadn't met Markus Dohle, the relatively new CEO of Random House, until we had lunch last month. He proved to be a very sharp, informal, and relaxed companion, very open with his opinions and observations and very straightforward. And since his prior experience was outside trade publishing (the reason I'd never previously met him), he brings a completely fresh personal perspective to the business.

One thing Markus said really struck me because I agree with it so wholeheartedly and because I hadn't ever heard it said so explicitly by any of his counterparts. "We have to change from being a b2b company to b2c over the coming years," he said. He expanded on this when I asked him whether I could attribute the quote for this piece. (I don't want to disappoint my readers, but I make a living as a consultant, not a blogger, and my career would be crippled if I couldn't have a conversation with an executive without a looming fear that whatever s/he said would end up in print. If some readers wonder why the sources of some comments remain anonymous, that's your answer.)

Markus replied that he was fine being quoted because he was "convinced that publishers have to become more reader oriented in a marketing and trend finding/setting way rather than in a direct to consumer selling way." I welcome the clarification and believe it is right in its emphasis on marketing over sales even though I think that sales, inevitably, becomes part of what a publisher has to do too. And direct contact with and tracking of individual consumers both seem absolutely essential.

(The politics of this are worth a digression to spell out. For several more years at least, big trade publishers will continue to depend primarily on a retail network to reach readers. Despite the fact that all the big retailers, in their way, compete with publishers to control content at its source, they are universally resentful if publishers compete with them to serve consumers. On the other hand, it is increasingly apparent that the retail network is reducing its size and scope and, unless publishers develop alternate channels to consumers, they'll be reduced in size and scope as well.)

Although Markus was the first CEO whom I ever heard say explicitly that the shift to b2c was in any way a priority, there is evidence in other houses that the

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importance of direct consumer contact is on the radar. A senior digital officer at another large house is directing a wide-scale effort to organize their consumer contact names — which he found, as he would have in every other house — to be scattered, unorganized, and largely unusable. Pulling names together is one of a number of “first steps” the big publishers must take to act on Markus’s insight.

But there are other “first steps” that are just as important as rationalizing the contact database for consumers. Two of them are related. One is being committing to owning specific groups (or, in the current parlance: communities) of interest. This is what I refer to as “verticalization” and I have written and spoken about it exhaustively. But the commitment to verticalization, in order to be captured and turned into real equity going forward, must be expressed in *branding*.

The names of publishing houses and the imprints they create are their brands today. (Authors are brands for consumer marketing purposes, but publishers don’t own those brands: the authors do.) What publishers own really do work in a b2b context. Bookstore buyers, book review editors, and collection developers at libraries can discern meaning from company names and imprints. They work the way brands are supposed to work: as shortcuts to establish expectations. Brand tells an informed buyer to expect high-quality writing in a Knopf book and high-quality reproductions in an Abrams book. Brands will also signal them, before they see a finished package, whether a book is likely to feel overpriced or underpriced, and whether the publisher’s claims for promotion and media are likely to be fulfilled.

But most of these brands mean nothing to consumers. And mere knowledge of a brand doesn’t necessarily tell you what to expect if you buy it. Nor would knowledge necessarily provide you with a motivation to get “closer” to it.

The one consumer brand in publishing that means the most and provides the most equity to its owner is Harlequin. Consumers recognize it and have understandings about quality and price based on it. But because they also know that the Harlequin name means the “romance” genre, and because many romance readers buy and consume dozens, even hundreds, of titles in the genre every year, they have logical reasons to visit Harlequin’s web site repeatedly and to request and open email reminders of new publications from them.

In fact, Harlequin’s brand is so clear and so powerful that they can get people to *subscribe* to their books. When you think about alternative revenue sources, that might be the Holy Grail. It will certainly help publishers stay on the right track if they focus on creating brands and clusters of books around them that could conceivably deliver customers for a subscription proposition.

The Penguin brand is perhaps equally well-known, but it isn’t nearly as well defined. Penguin Classics certainly have a collective meaning, but many books are published under the Penguin imprint that aren’t classics. And while it is likely that sometimes the purchasing choice between one edition of Robinson Crusoe or Hamlet and another might be influenced by familiarity with the imprint, it is not clear that the “quality” signal is important there (because, after all, the words were set down long before Penguin or its competitors existed) as it is for a new romance novel. And it certainly would be harder for Penguin to attract regular web traffic with its brand or to make sales through an email list of brand adherents.

A brand that is in between these two is “Dummies.” It definitely creates a meaningful shortcut for a consumer; they recognize it and it tells them “this book explains the basics on the subject in a way that requires you to bring almost no knowledge to it for it to be useful.” But because Dummies covers many subjects under the sun, it would be difficult to make use of it for audience-gathering or direct marketing the way Harlequin is employed.

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 still a ways off

You wouldn't "subscribe" to new offerings, sight unseen, from either Penguin or Dummies. That means that, in at least one very important way, those brands aren't as useful as Harlequin. Why? They're too broad. General Motors wouldn't ever have sold nearly as many cars if they called all the cars "GMs" to create a megabrand and had lost the distinction between Chevrolet and Cadillac. Trying to create "one big brand" if it captures unrelated content or unrelated audiences could be "one big mistake."

My own theory is that publishers have to completely re-think their imprints in light of the need to move from b2b to b2c. Imprints at big houses are almost always silos with no discernible b2c meaning. In fact, the names of smaller houses, because smaller houses tend to focus on subject areas, can more readily have meaning to consumers.

In fact, Random House just faced a branding question of exactly this nature and got it right. They had acquired a smaller, subject-dedicated company, Watson Guptill, a couple of years ago and had some overlap between what WG published and what Random House already did within their Clarkson Potter imprint. RH executives engineered a solution by which they preserved the venerable Watson Guptill name for "hardworking" instructional books on art and photography — WG's strongest historical categories — and made made Potter Crafts a subimprint of WG. They invested in building the crafts list to triple the previous output of WG. The two thirds to three quarters of the WG list that is not crafts will still be WG imprint books. By making Potter Crafts, which they owned before, a part of Watson Guptill (joining Amphoto, the well-known photo line, and WG's other subimprints), they might get the best of all branding worlds.

And it is further worth noting that tripling down on title output to become a serious player in a niche is probably a move very few Big Six companies would be making these days, but it is necessary to think that way if you're serious about making substantial b2c marketing efforts. Building a subscription business would almost certainly imply a growth in title output in any vertical.

Random House's clarity on how publishers should structure brands to have content-specific meaning is still unusual. (There are other examples: Hachette's invention of "Springboard", a brand to do books for baby boomers, is a nod in the same direction.) Publishing Perspectives, the thoughtful online publication operated by the Frankfurt Book Fair, offered a piece on the subject six months ago that was locked into what is still publishing's more normal b2b way of thinking. The catalyst for the post you are now reading, actually, was their editor Ed Nowatka's piece with the provocative headline asking "Does a Publisher's Brand Equity Translate to the Digital Age?" which (with all due respect, of which I have plenty, to Ed) I thought really didn't address the question. But at least he asked it. I don't recall ever reading a single piece on the subject of this one: how do what have always been b2b publishers create b2c brands?

This is a subject that has been on my mind for a long time. I wrote a post 18 months ago about an imprint started at another house that I considered to be, similarly, the product of the same b2b thinking that characterizes the Publishing Perspectives piece. And about a year ago, I stressed the importance for publishers of building b2c brands going forward.

I believe Markus's insight is the necessary first step that others haven't yet taken and, whether or not it started with Markus, the awareness of the need for consumer focus certainly helped Random House make sensible decisions to exploit the brand equity in the WG name they had acquired. Once publishers accept that being consumer-focused is essential to their long-term survival, it follows logically (although not automatically or instantaneously) that they need to think about discrete audiences on more than a book-by-book basis; that they need to gather those audiences on web sites and in mailing lists; that they need to publish books that satisfy them repeatedly, not occasionally; and that all these

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efforts will make more sense if each separate audience has a brand facing them with real meaning. We're seeing that from the big publishers right now in genres; they are trying to build science fiction and romance communities and branding them. Random House built a vertical in travel earlier in the decade, developing business models out of a critical mass of content that went beyond simply selling books. That, and the efforts at Random and other big houses to build communities around genres, is a start. But a lot more development of this kind is going to be needed to replace the marketing clout being lost as the old channels to consumers wither in the months and years to come.

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marytod

Hi Mike – I enjoyed your post as always. I have a thought for publishers who are working hard to collect data about readers/customers/consumers in the new B2C world. They should look at the banking world to understand what NOT to do. Big banks happily collected customer information over the years then discovered to dismay that each line of business had separate data about the same customers. They then launched complex, costly and time consuming efforts to integrate crag old databases into a seamless, high-functioning systems to serve their customer well as the banks. Publishers with multiple divisions and imprints might fall into the same trap.

My second point is the use of the word 'owning' as in your phrase 'one is being committed to owning specific groups'. I find this word offensive and used to say when I worked at IBM, an organization that loves to talk about owning their customers. No company owns its customers. Perhaps other words like serving, engaging, attracting, linking might be better. A private peeve of mine :)

Mike Shatzkin

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