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The Coming Restructuring of Library Book Vending

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The aim of this paper is to explain why academic library book vendors around the world must change how they do business. Their survival requires it. Restructuring a business model fashioned decades ago is not a job of tinkering with this policy or that practice, nor is it simply a framework to help cope with an environment that is highly complex and changing rapidly. It requires a new business model, from the foundation upward. New business models must emphasize vendor / library partnership, goal sharing, joint development, seamless process, and cost / benefit sharing.

Preface

> Here is Edward Bear, coming downstairs now, bump, bump, bump, on the back of his head, behind Christopher Robin. It is, as far as he knows, the only way of coming downstairs, but sometimes he feels that there really is another way, if only he could stop bumping for a moment and think of it.

These opening lines in A.A. Milne's *Winnie-the-Pooh*, published in 1926, perfectly encapsulate the "we need to find a new business model" thinking that has been bumping around in many heads for many years.

The aim of this paper is to explain why academic library book vendors in the US and elsewhere around the world must change how they do business. Their survival, and yours to the extent that you depend upon them, requires it.

Restructuring a business model fashioned decades ago is not a job of tinkering with this policy or that practice, nor is it simply a framework to help cope with an environment that is highly complex and changing rapidly. It requires a new business model, from the foundation upward. Over the past decade, library book vendors have acquired or developed competencies that have brought new value to their library customers. Restructuring must reflect this new work. *Evolution* might be a way to explain what must occur, except that *evolution* implies an unfolding, a continuous change from simple to complex. Restructuring is revolutionary. Its aim is to bring about major change quickly.

For a long time industry leaders have been warning of dangers ahead. The causes usually cited for the dilemmas vendors find themselves trying to cope with are escalating discounts to libraries and eroding discounts from publishers. We hope to go beyond the profit story. While it is true that library discounts are at record highs and book vendor margins are at a low ebb, the root of the problem is the failure to distinguish between delivering the right book, in a timely manner, at a fair price, from providing technological innovations and knowledge that enable the customer to achieve constant improvement in operational effectiveness.

Leaders who aspire to fashion a new business model should understand that a long thorny road lies ahead. Developing an action plan that moves from the old to the new is the central challenge facing the senior managers of those companies wanting to create their own future.

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The 1970s and 1980s

Business models rise up out of the assumptions made by senior managers. These assumptions are about the dynamic of the environment: complexity and rate of change. They are about customers' expectations: are the organization's services satisfying their changing needs? They are about the competition: who are they? where are they today in terms of product / service development? where are they heading? They are about an organization's strengths and weaknesses: how strong are the people? what are its existing competencies? what new competencies need to be developed? They define an organization's behavior and shape its policies and practices. The assumptions made by library book vendors in the early 1970s about the library environment (little essential change), about role (middleman), and core competencies (firm order, serial, approval) remained valid until the late 1980s.

Through these two decades, library and vendor environments could be best characterized as benign. Library budgets were strong (the damage really didn't begin until the early 1980s). Book vendors competed not so much with each other as with entrenched library acquisitions methods that favored placing pre-publication firm orders with major commercial scholarly publishers and trade houses. They also competed against the practice of establishing publisher-direct blanket orders with major university presses. Margin pressures were not great because publishers' discount schedules tended to be inconsistent and confusing when it came to both frontlists and backlists. Book vendors were able to offer an enormous advantage – consolidated shipments and a more thorough understanding of the customer. While this was sufficient for European vendors, competitive pressures forced US vendors to add attractive discounts to this advantage. In the US, new vendors thrived because libraries – academic libraries anyway – remembered the recent demise of the world's first global approval plan vendor, the Richard Abel company, and wanted to keep their money spread among many vendors to avoid risk of major loss.

Academic library book vendors were mainly specialists: university presses; scientific and technical publishers; medical; associations, societies, institutes. Competition among academic vendors was kept orderly by respective supply niches and because everyone recognized that the strongest competition came from entrenched scholarly publishers. This view of competition led to a strategy that focused on beating the hell out of the publisher rather than one another.

A book wholesaler's suppliers are publishers. While they compete fiercely with one another for authors and, less so, for editors, they are very powerful with respect to book vendors. Copyright protections grant them a monopoly for the licensing or sale of the intellectual property they produce. If a book vendor's customers require that they provide a specified title, they have only one realistic supplier – the publisher. So for the most part, publishers can dictate business terms to all but the largest booksellers, e.g., Waterstone, Barnes & Noble, or Borders whose in-store promotions can make or break a title.

Through most of the 1980s, publishers understood all too well that they would become more profitable and more powerful if they could sell around the library vendor. As direct sales efforts increased, publisher / vendor relationships became more confrontational. Some major publishers began, imperceptibly, to lower discounts, contributing to the erosion of vendor profits already being battered by escalating vendor-to-library discounts. But, despite these tactics, they failed to hold on to their library customers because they exhibited little understanding of the basic services librarians required. Nor did they understand the value-added services vendors were supplying.

But any vendor victory celebrations were short lived. Advances in technology, changing customer expectations, and the increased complexity of conducting day-to-day business had turned library and vendor environments turbulent by the late 1980s. Vendors shambled into the new decade with an already obsolete business model in tow and tried to cope with an environment that was changing rapidly.

The 1990s

We vendors, having succeeded in taking the middle ground between libraries and publishers, turned it into a battlefield. The prevailing competitive strategy turned from winning business from the publisher to winning business from other vendors – a strategy that increased the bargaining power of libraries just when it was needed most. Faced by their administration's continued budgetary pressures and demands for increased operational effectiveness, librarians were pushed to consolidate book vendors (sole source) and to look to their book vendor to perform functions long considered the sole domain of libraries. Outsourced functions were expected to be cheap and excellent.

In short, vendors increased services AND discounts, mortgaging their futures to gain market share. Even in much of Europe where pricing agreements had once prevailed (e.g. the Net Price Agreement in the UK), these also evaporated as retail booksellers and vendor competition increased. The result? Fewer, financially weaker vendors who now faced explosive growth in new transformational technologies like the Internet and the World Wide Web.

There is no one set of feet at which to lay the blame for the sad state of the academic book vending industry.

- Book vendors have contributed to the present state by allowing discounts to escalate in their quest to increase market share (growth came at one another's expense), and by undervaluing new competencies, e.g. outsourcing services and electronic services.
- Libraries, particularly consortiums and institutions, where "purchasing" is deeply involved, have turned books and technology-based services into commodities. Some librarians have demanded more services at higher discounts and played competitors off against each other. In some countries, e.g. Great Britain, consortial buying have produced extraordinary economic advantages for participating libraries and catastrophic margins for vendors.
- Publishers have learned that their real business is, as the CEO at Simon & Schuster put it, "developing and exploiting copyrights." So, we will see them begin to leverage their power through all media. Consequently, book wholesalers cannot look to better treatment from suppliers of the same intellectual property produced in alternate formats.

It's not a terribly profound observation that virtually all organizations today find themselves trying to cope with new marketplace realities. Initiating effective business model changes is of cardinal importance to management, especially to organizations that have been successful over many decades. Certainly, librarians, vendors, and publishers understand the importance of asking and answering the question, what business are we in? And, we all have come to realize that there are only two kinds of organizations – those that are innovating and those that are obsolescing.

The coming restructuring

Book vendors have played a vital role in building library collections. They spurred the development of information technology and electronic data exchange. They propelled closer working relationships along the library supply chain, resulting in increased library efficiency through higher quality and innovative services. Now, unable to recover cost by raising the price of books accordingly (publishers set list prices) and having undervalued technical and electronic services, managers are asking, what business are we in? Are we a bookseller? A bibliographic support service? An electronic services provider? An amalgamation of these and other services? What needs to be done?

The factors that structure the library book vending industry have changed considerably in the past 20+ years and more change occurs daily. Successful companies will read the changes and adapt. Several components in the new structure are emerging:

- Continued technical innovation: Meeting the technical requirements of library customers will continue to be a priority, as will taking advantage of every efficiency possible. Successful vendors not only keep pace with library developments but will share responsibility for providing innovative leadership.
- Increased globalization: As libraries and vendors integrate their systems ever more closely, both parties will be driven to extend the reach of these systems to materials both geographically and linguistically.
- Consolidation among vendors: Library book vending, once a labor intensive business, has become a capital intensive business. This voracious appetite for capital will require larger and larger companies with access to global equity markets.
- Higher prices: Most full-service academic book vendors are realizing pre-tax profit percentages at a level less than what you would get on your checking account balance at your local bank. Given the fact that publishers' discounts to book vendors are, at best, static, it is doubtful that this enterprise, over the long term, could survive given its current pricing policies to libraries; even if libraries' expectations had remained low-tech. In nearly all industries, a five percent pre-tax profit is considered minimally necessary for continued corporate vitality – and most of us are far, far from it.

> Going from razor-thin margins to five percent is increasingly becoming the major challenge facing book vendors.

In today's environment, book vendors seeking to change polices and practices might be thought by many to be engaging in foolery. Library book budgets are under siege and any change that diminishes the materials budget will not be seen in a positive light by some. Fortunately, others will view changes in policies and practices as tough decisions necessary to enable the company to emerge as a survivor.

A new business model

We are not prophesying. The dangers industry leaders have been pointing to for years (fewer players and a slowdown in innovation) have arrived. Vendors have tried to fund development of information technology and electronic data exchange out of book selling revenue. They have tried to rationalize the compression of profits by thinking "competitive advantage." It should be possible to share the cost of development across many customers, we all thought. Experience has shown that much of the development we all do at the behest of customers is highly customized. While many vendors have made the activities required to do business more efficient, all are frustrated by their inability to cascade gains to the bottom line. (Those gains get siphoned off by customer-driven technology initiatives.)

The quest for market share; the competitive-advantage rationalizing; the piggybacking of technological innovations on a business model designed to support the delivery of the right book, the first time, in a timely manner, at a fair price are strategies designed to fail.

We are not telling other book vendors what to do, and, if we did have the answer – some magic bullet we could fire at the problem – we would have fired it long ago. But we have some general principles in mind:

- We believe that every customer must be a profitable customer. That is, we must invoice them to cover their fair share of the costs and the profit we need to continue in business. Which of you is willing to subsidize another library's share?
- We know it costs a lot to build and maintain the knowledge base needed to serve our customers' needs today (far more than ever before). So, we will move from old to new by placing a value on knowledge and new work that enables the customer to become more efficient.
- The same goes for products and services. The costs of developing and implementing the new technologies are enormous. Their value must be recognized by our customers and priced correctly – fairly with respect to the value received and high enough to cover costs and reward innovation.

How Blackwell's Book Services, Casalini, Coutts, Dawsons and others move from point A to Z – if, in fact, they see a need to take action – is the central challenge facing their senior managers.

We do hope that this paper will stimulate dialogue. We are looking for opportunities to meet and discuss these issues with our customers across the country and around the world. We would hope to come to a better understanding of why the old model is obsolete and to work with them to shape the new model. Having said this, for a dialogue to be productive, notions must be suspended. So, let's push some notions off the table.

- Librarians have little understanding of business. Not true! Many librarians have adopted/adapted applicable business management techniques and have increased the operational effectiveness of their libraries.
- Book vendors are making big profits. Not true!
- Publisher/vendor relations remain confrontational. Not true! While publishers still do not fully understand the work we do, they are working more co-operatively with vendors – and libraries.

Let's put the following on the table: The fortunes of the library, the book vendor, and other supply chain enterprises are closely tied together.

Conclusions

As we move into a new century, one thing is clear. What worked well yesterday is not guaranteed to work well tomorrow. Perhaps it is the end of one hundred decades of history that is focusing the minds of leaders, in all walks of life, on bringing policies and practices and mission in line with the dynamic of their environments.

The library book vending business model fashioned decades ago – when doing business with libraries was far simpler – has remained in place too long. Arm's-length relationships and pricing as a discount from publishers' list price worked when the industry's structure was more benign.

But, today, this business model cannot guarantee a thriving industry. New business models must be developed. In the future we will recognize that the 1980s and 1990s were periods of uncertainty for all. We will see it as a time of consolidation in the book arena, swept along by business failures and mergers; and, hopefully, a period when book vendors and librarians begin to understand that "free, customized, and right now" is a lousy survival strategy. The time has come for new business models that emphasize vendor/library partnership, goal sharing, joint development, seamless process, and cost/benefit sharing.