



# Beyond the Book®



## **Keynote Address Dominique Raccah, CEO, Sourcebooks**

**Introduced by Kent Watson, Executive Director, PubWest**

M: Good morning, everyone. You'll see me grin from ear to ear today. This is a wonderful crowd. Thank you all so much for coming to Tuscon to attend PubWest 2009. From me and the board, we really appreciate your participation and your attendance in this event. I want to go over a few little housekeeping items before I introduce Dominique. First of all, I want to thank our sponsors, C&C Offset, CDS Publications, Color House Graphics, EVN Consulting, Friesens, Hercules Freight, Ingram Publishers Services, Lightning Source, Malloy, Spectrum Books, Thomson-Shore, and Worldcolor. As you all know, and I always preach this every single year, without our help from our sponsors and our exhibitors, we would not be here. So if you guys could give them a round of applause, I would appreciate it. (applause). I want to get Dominique up as quick as we can so she can spend as much time and answer questions.

Dominique Raccah is the publishers of Sourcebooks, the largest woman-owned publisher in the country. They publish about 300 books a year. She will be – her talk will be about thriving in an evolving future. She'll hit on things like ebooks. She'll hit on some of the new business models and from that, I'm going to leave this short and please give a warm welcome to Dominique.

RACCAH: Thanks. First of all, let me just say, book publishers, not known for being an up at dawn crowd. So this many people in a room, you are a dedicated bunch, right? OK, so a bit humbling for me, but let's see, I hope you guys get a lot out of it. For the last two years, I've been working 50-60% of my time in digital and so this talk is about kind of the overlap between the two companies that I run, the old media company that I run, which publishes, as he said, 300 books a year and the new publisher, the new media company that is actually being born right now. That is not going to work. All right, this is a very difficult talk to prepare and it cost me a fair amount of thought, which is a good thing. It's difficult because first of all, you're in the middle of transformation and when you're in the middle of transformation – we may want to lower the lights.

When you're in the middle of transformation, it's difficult to talk about the transformation, right? So you're in the middle of it, hard to talk about it from the outside, but it's also hard to know what it is that would be useful to you. It's hard to know what's idiosyncratic to my book publishing company versus would work for all of yours. So I took a stab at that, but you should think carefully about what's going to work for you, OK? And it is very much a work in progress, right?



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So we're not at the end of this. We're right in the middle of this and I define the problem as being a digital entrepreneur while running a traditional book publishing company. So you are entrepreneuring at the same time – full speed – at the same time that you actually have a business to run.

And what interested me the most were the overlaps because it turns out that the overlaps between the two companies is, at least so far, what I've seen as being the most fruitful. So I wanted to talk a little bit about that. I entered book publishing – no kidding. This is how old I am. It's true. I entered book publishing during the last great revolution, which was desktop publishing. That was the Mac we started on. It was a \$5,500 computer with yes, a seven inch screen. Yeah. It was a Mac Plus. And then I had a \$6,000 LaserWriter that did six pages a minute and I thought, my God, the world is mine. Sourcebooks is entirely bootstrapped. I started with no staff, no money. I mean literally no money. That's not a figurative. And the thing that I think turned out to be my greatest advantage, no knowledge of the industry.

And the reason that that was one of the great advantages was simply because I didn't know what couldn't be done and that turned out to be a big aid. Sourcebooks is entirely bootstrapped, as I said. Twenty years later, that makes me a pretty seasoned entrepreneur because I've been entrepreneuring at this point for 22 years. We publish 300 books a year. We have 1,500 authors. We have a dozen *New York Times* bestsellers. We're the third fastest book publisher in terms of growth in the first half of 2009. We're up 29% over '08. We're having a very good year. This will be the best year in our company's history. (applause) Thanks. It's actually incredibly hard to do. Unbelievably hard to do. And we have 75 people. So from – it's been an interesting journey from zero to here and I'm really interested in what comes next. I'd like to say today, we're all entrepreneurs.

We're now doing it over again. We are once again at the beginning of something completely new and the question is, do you know that? Are you working from that space? Or do you not? Because I have a lot of my peers who actually don't believe that they are now full fledged entrepreneurs and let me tell you, we really are. Today, all book publishers need to reinvent themselves and we can learn from each other's successes and failures and that's why I'm here, just so you know. I mean I do this because I want to work with you, I want to hear from you. The successes are going to come from surprising places. It's going to be incredibly exciting. It's an amazing future.

The other thing that's really exciting is we're now entrepreneuring, all of us are entrepreneuring, but we have some things that we didn't – like I didn't have when I started, right? We have cash flow. We have staff. We have authors. We have content. We have customers. I mean this is such a better place to entrepreneur



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from than any kind of startup that you might have. OK, so we're going to talk about digital product and the frame that I've been using for digital products, of which one class is ebooks. Ebooks are really – in this frame, in this way of thinking about it, ebooks are simply another class of digital products. And in fact, when I think about it, this is almost beyond ebooks. And what interests me is – and we're going to have this conversation, I'm sure we're going to have this conversation at some point about ebook pricing and how it works and what the margins look like and what royalties should be and OK, we can have all of that conversation.

But from where I stand right now, the big opportunity is not in ebooks. We'll make ebooks. I make – I think I have 1,800 of them now. So there's no lack of ebooks on our team, but that's not where I think the exciting new possibilities for book publishing exist. So you're going to be – we're going to be involving from book publisher to what? And I'm not sure I know what and that's OK. And that's one of the lessons, by the way. So let's start with talking about verticals. I'm using Mike's (sp?) definition of this. Verticals are categories, OK, the organization and delivery of stuff. You know? God bless Mike. The organization and delivery of stuff, including information is being realigned into verticals, that is subjects.

Now the thing that's interesting about verticals is they're very narrow. These are not – you need to think about this from a Google search point of view. It is not parenting, like when you sell into a bookstore, you sell to the parenting buyer, for example. Parenting is not what you stick into Google, right? When you sit down and you've got a problem on the parenting front, you write ADHD or baby names or you write – you know, these are very narrow verticals, right? These are very narrow topics areas. And you're looking at pockets of content where you, as the publisher, and I'm really taking sort of a publishers point of view here, so that's where I'm standing from. So where you as the publisher have a lot of content. So for example, Poison Pen, my friend over here, has a lot of mysteries.

So that's a very clearly defined vertical, but I bet that there are verticals within his mysteries. I'm willing to bet that exists and when I started this process, just so you know, I found that we at Sourcebooks had 43 verticals. Now that's obviously way too many to work on, OK? But we started by just pocketing our verticals and saying OK, what do we got? And in those verticals, you will be able to or we have, Sourcebooks has – we have defined a continuum of content. That is within those verticals, we can sell to customers lots of different kinds of content at different kinds of price points and I'm going to talk about the content continuum. So now you're talking about content delivery, right? Versus book publishing. It's not I publish a book, I publish a book, I publish a book. It's I have this bundle of content and I can provide it to you who want it in a bunch of different ways.



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So I'll start to talk about defining your verticals and here, I used four that Sourcebooks happens to have, but you should do this obviously for yourself. So and by the way, for a trade publisher, for a trade book publisher, you could have hundreds, right? Because you can publish in fiction, you can publish in nonfiction. And when you publish in nonfiction, you might publish in history and gardening and cookbooks, right? I mean just start adding that up and it turns into – and then go within those, right? Because nobody goes into Google and writes cookbooks or maybe they do, but more likely, they're saying Indian cooking, you know? Something pretty narrow. So as I mentioned, there were 43 verticals where we thought we had sufficient content to consider it as a vertical and here are sort of four of those.

And the way we judge this, the way we thought about this is we looked at it from a couple of different points of views. Your concentration, obviously what you have a lot of. The size of the opportunity, that is who are the readers because this is totally about the consumer. It's who are the consumers and how many of them exist. You might also think about the size of their need. Not just there's a lot of them, but if it's a very low level need, maybe not that interesting. You may also think about what are you selling? What is it that sells a lot for you and you can think about that in a couple different ways. I tend to use for almost everything, all the work I do, I almost always use POS units. And the reason I use – that's point of sale units, and the reason I use that is because I actually – the thing I care most about is not what we produce and it's not what the buyers believe will work, though I love the buyers and they usually have a very good gut sense, but it's what is the consumer responding to well?

So we start from gee, we have the number one in this category and we publish, for example, the number one college guide, the number one baby naming book, the number one – so we have, in these vertical categories, a bunch of titles where our content is very strong and there may be businesses where you have a lot of content, but the opportunity is limited. That's totally possible. I'm going to have an example of that in just a minute. And this sort of gives you a rank ordering of the biggest to the smallest. You can kind of do it however you do it, you're going to be able to rank order your content, but I have to tell you, that's not the only way to define verticals that you may be interested in. It's not just what you own, it's not just what you sell, it's also what are you expert at?

So I'm going to use Robert again. I would say he is an expert in the field of mysteries and any time you want a book in this category, ask him. So he's an expert at that. We had a kind of interesting opportunity on that. We publish poetry books. We publish *Poetry Speaks*, *Poetry Speaks to Children*, *Hip Hop Speaks to Children*. What we noticed when we did this exercise was that while we published no poets, not one – actually, that's not true. We publish one poet. We actually had



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all of the books that we produced in this vein, *Poetry Speaks*, *Poetry Speaks to Children*, *Spoken Word Revolution*, were bestsellers. And by bestsellers, they outsold the rest of the category about ten to one. The average poetry book sells somewhere around 1,500 copies. We've never published a poetry book that's sold less than 15,000 and we had – in *Poetry Speaks*, we had sold 180,000 copies and *Poetry Speaks to Children* was like 200,000 copies.

So something was going on in poetry for us. We were clearly doing something different. And so that was actually the reason that we started with [poetryspeaks.com](http://poetryspeaks.com) and last week, we launched [poetryspeaks.com](http://poetryspeaks.com), but it came from this thinking. The thinking wasn't, oh my God, we have lots of poets. We don't. We didn't even have – as I said, we had one. And then another question you might ask is so what communities are you an essential part of? So there are people who operate really deeply in the romance community, Harlequin for example. What communities are you really connected to? Let me show you an example. So I'm going to use baby names as an example and this is a content continuum, OK? And on that continuum is our number one, *Complete Book of Baby Names*, which sells a tremendous number of copies.

Then there is the mass-market version of that trade paperback, which is \$5.99. We have an ebook version of that, 25,000, which is \$4.99. So it's a buck less. It's interesting. The *Baby Name Treasury* came out of this thinking. It's a paper, you know, it's a p-book, but we were looking at this continuum and we actually have, by the way, I think seven or eight other products here with other authors, but I'm just using this example. And it was interesting to me. We were sitting around and thinking, gee, could we in fact create an upscale baby naming book and we created *Baby Name Treasury*, which is \$19.95. There had never actually been a book at that level, at that price point in baby names and it's now the number four book in the category.

So this content continuum thinking will help you also with your p-books because you can look at your content and say, OK, what more is there along this continuum? Can I make it cheaper? Can I make it – can I unbundle this piece of it? Can I – OK, then that's just the p-version of it. And obviously, as I said, in this approach, ebook is one kind of content and the question you're asking is, what are the strategic opportunities inside different verticals of content and this is actually where your new media company meets your old media company, OK? So you're talking about creating new ways of delivering that content and we started with iPhone apps. That's how we started. We started about two years ago, three years ago. Two years ago I think, doing iPhone apps, and it's one of the first things we did. And the iPhone app we created was called Most Baby Names and we have [mostbabynames.com](http://mostbabynames.com).



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It went live late February. It was really cool. Sourcebooks has an Apple developers license now, so we do a lot of different iPhone apps. We had 48 hours to approval, which – if you've ever worked with the Apple iPhone store, you know that it's really hard to actually get approval very quickly, but we got approved very quickly. We got rated very high. And this was profitable, almost immediately. It kind of worked out. We created – we're in the process of creating 23 iPhone apps. We have seven of them live right now. If you look at the content continuum, you add that, right? And we're going to have an iPhone app at 95 cents. Right now, our iPhone – this, Most Baby Names, is \$4.99. So you can kind of see how that works, right? And by the way, is there something up here? I have no idea, but that's obviously a question we need to ask.

So this then becomes sort of a vertical strategy and this is something that I drew at the end of last year, was thinking about OK, how do I create a vertical strategy and our community is – should probably be up there, but our community is soon to be parents, right? These are the people who we're interested in. And you can create, and we have not, and I'll tell you why in just a minute, but you can create a website with subscriptions, you have digital books, you have regular books, you can create a tiered pricing model. These are some of our bestselling titles. You can drive the whole thing from a marketing point of view with affiliates, AdWords, and publicity and your iPhone app just rolls through the whole thing. So this is a sort of wave mechanism, right? That continuously reinforces itself and drives you deeper and more fully into that community and you kind of come up – as you get to know these people better, you're going to come up with lots of different other things they need. Right now, this is what I believe they need, but I have no idea.

As soon as we actually were to do this, we're going to discover other pieces that we probably haven't thought of and it will, by the way, be completely obvious as soon as we discover it. And that is very frustrating. So with this conceptualization, we're not in the book business. We're not just in the book business. We are in, and can be in, many different businesses and the world just got a whole lot bigger and I have to tell you, that's the most exciting part of the work I've been doing for the last couple of years, is there's no question in my mind. The world is far, far larger than the world we were in as a book publisher with a set of accounts, selling in a very specific way two years ago. So let's talk about where old media and new media overlap. This is one of the things that we discovered. We didn't discover it, we just – as soon as we started working in this, we ran into some very old and highly appropriate rules of nature.

There are enormous advantages to category leadership. By enormous, I can't state that enough. This is where you're a leader in a vertical is critically important to you. It is not about, oh my God, I published this one book, which by the way is 400<sup>th</sup> in its category, it's about the top end of the categories. And the reason for



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that, and I'm on the – I'm the co-chair of the Book Industry Study Group. If you haven't joined or you haven't seen some of the work that they're doing, you might want to check it out, but one of the things that happened was that Anita, Professor Anita Elberse, spoke at the annual meeting of BISG and she talked about – she was actually sort of – I don't want to say refuting, but she was certainly giving you an alternative point of view to the long tale and by the way, the presentation is available on BISG, so you can just download it.

But what she said was there's this old law of consumer behavior. She had a lot of data, by the way, which – love data. So there's this old law of consumer behavior, which is called natural monopoly and natural monopoly is about the fact that light users, in every category – so just think about a category. And we can use ketchup as an example. It doesn't matter what the category is. It doesn't have to be books, but light users in every category are the majority of the users of a category. So heavy users, people who use a lot of ketchup, they're a minority and the majority of the world is actually people who use something less than that. And the same thing is true, for example, for baby naming books. So baby naming books, typically people buy one. That's a light user.

There is also this category of users who becomes expert in baby names. It really does exist. They buy 12, OK? They buy every name. They're going to know everything. That's cool. Light users, however, because they're not expert, tend to buy the most popular products because they're unsure. Just think about yourself. When you're not sure, you're going to look at – OK, what's the bestselling of this? What is it that this person who seems to know a lot recommends, and as a result, there's sort of an inherent monopoly of the most popular products. They keep being more popular because of the way that works. So most popular products have a tremendous advantage for light users. They're the majority of the users. And as a result, category leaders have a built in advantage and they have a built in advantage a couple different ways.

On the retail side, we all know that category leaders are disproportionately supported, right? I mean what is it that – if somebody's going to do an end cap on test prep, you know what the books are that are going to show up on that end cap, right? So it is very hard to break into test prep because there's a whole lot of books that already exist, that are part of that. So it's very much a case of the rich getting richer. Category leadership therefore is important for success, both in old and new media. Now this has a ton of implications and these are the ones that we drew from this work, but you should do whatever works for you. We decided that as a result of thinking this through at a management level, we were going to compete harder in fewer categories. It's really funny. When I started Sourcebooks, I used to say, we are anti-niche. We are the anti-niche publisher.



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We're going to publish in every category that works. We're going to publish every good book we find. I mean I remember saying all of these things. (laughter) It's true. And that's no longer where we are. Today, we're going to compete harder in fewer categories. We're going to operate in fewer verticals and we're going to intensely farm those fewer verticals, and I've sat in acquisitions meetings where people have said, hey, you know what? That's not a vertical for us. But the other thing that's going to happen is each project is going to become – as you mind this content continuum, each project is going to become more and more of an investment and so strategically, we've now become unbelievable – we always were very author-focused, but now it's really a question of partnership. I mean we really – we'll turn down projects if we say, hey, you know what? This guy's going to be with us this time, but he's going to move over here next time.

We're going to work with people who are going to partner us. So strategically, we've made that very clear to authors, agents, and others and the way that we think about that is we publish authors, not books. And we say that and we work that. So putting that together, I'm going to talk about the Gruber SAT. This is interesting because we weren't in SATs two years ago, three years ago. And so Gary came to us, he'd been published by Harper Collins badly for a number of years and we said, you know what? This is definitely some place we want to play. This is the continuum. So we started with one book. We started with that book, *The Complete SAT, Gruber's Complete SAT*. When I bought the book, Gary was like the number eight book in the SAT world. There's his ebook. We've now, from a strictly vertical point of view, just so you know, there are I think eight or ten Gruber products, but their thing is like this, *The SAT Math Book, The Word Master*.

So up and down this continuum. The next thing we did is – yeah, we like iPhone apps. The shortest SAT iPhone app, it's 99 cents and it will tell you some of the things that you need to work on. So if you take this 99 cent app, it will say hey, you know what? You need to really work in this area and this is an estimate of the kind of score that you might get and just so you know, we've sold a lot of these. But the thing that's really interesting to me isn't that we've sold a lot of these, which I mean at 99 cents, not a big deal, but what's really interesting to me is after they finish this, they go and buy the book, which is really a lot more interesting and not because of this, but I think because of all the work we've done with Gary, Gary is now the number four SAT book in the country. This is a big space and that's a big jump.

And we are head to head with Kaplan every week, and then that's in the space of two years. The other thing that you're going to see that we're doing is webinars in conjunction with online partners. So we're working that vertical very aggressively and so all of the time, Gary is talking probably once a month, twice a month, but he's online and it's stuff that we do. And we're creating online partnerships in this



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vertical, and I mean a lot of them. And yeah, this is one of the things that really, really excites me. SAT software, \$399. Slightly more than \$19.95, OK? I sell, right now, 60,000 Gruber books a year. I get 5% of those guys to convert to this product, do the math. So this is a new business with completely new business models. And you can see this is kind of what that content continuum looks like, right?

And I'm not going to spend a lot of time on it, but here is the kind of vertical strategy that you might have. Again, and this is one of the points I really wanted to make, ebooks are part of the story. Absolutely. We're going to have a lot of ebooks, but ebooks are not the only way to bring content to consumers. I'm going to talk briefly about enhanced ebooks. In fact, kind of more interesting to me, because I've been working in mixed media for 12 years at this point and we've had the bestselling mixed media books in the country have come out of Sourcebooks. That's book plus audio CD, book plus DVD. Those books have come from us.

So the thing that really interested me was actually enhanced ebooks. We tried this in October of last year, which is *Country Music: The Masters*. It was an incredibly dramatic end product. Marty Stuart, the eight time Grammy winner, 400 photos, audio narration, a video. You can demo it on our website, by the way, if you just go to [sourcebooks.com](http://sourcebooks.com), there's a digital piece that you can demo this. We also have done Shakespeare. The *Sourcebooks Shakespeare*, also with audio and with photography. These pop up. Where you've got the text of Shakespeare on the right hand side and you've got your notes on the left hand side and then you can just click on and listen to Shakespeare. And of course, other people are doing this too. Obviously the vook, and this is obviously – this has been coming out. The iPhone app from Nick Cave's, *The Death of Bunny Munro*, which is also text plus an audio book read by Cave, plus some music, plus video clips.

All of that, \$24.99, right? So pretty – as an iPhone app, pretty expensive iPhone app, so enhanced digital books, really, really interesting. Particularly in light of the mythical tablet. And I will simply say to you, I am a wholehearted proponent of the mythical tablet. I completely believe it's coming, whether it comes from Apple or somebody else, but I believe based on what I know, that Apple is going to have one. I believe it's going to come in January and I believe it will tip our industry and it will do so accidentally. This is not – the point of the tablet isn't to tip book publishing. I don't think they actually even know we exist. They're really interested in games and video. I mean this thing is being built for games and video, but anybody who's been reading on their iPhone and I read all the time on my iPhone, is going to know that once you build a slightly bigger product, this thing – it's over.



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So let me talk just a little bit about sort of the technical issues that have existed for ebooks, not just particularly enhanced ebooks. What we hit – these are the problems we hit, that they – our enhanced ebooks required you to download another platform and people just didn't want to do that. I mean that didn't work. So DRM, big issue. Pricing, big issue. And format. Can I just say this makes no sense? None. There are also content issues with respect to enhanced ebooks and I've been working on this for a long time, kind of where do you impinge on the book? Where do you take somebody out of a book? So you're reading a book, and you know what an immersive, engaging experience a book is. I mean you're in here because at some point, a book changed your life. That's what this is all about.

So what is it that – at what point do we stop being a book? And I always think about it as books create theater of the mind, that is that you envision the book as you're reading it, you know? And Andrew's vision of Harry Potter may look very different from my vision of Harry Potter and one of the things that happens when you have enhanced ebooks is that the heat of the other media that you put in is really important. It can create a situation and I think for vook, it really does. I mean vook really – I'm probably alone in thinking that it doesn't quite work, but it kind of takes me out of – I find myself watching the video and never getting back to the book and that's a problem. Harlequin tried an experiment where they put links into – and many other people have as well, going all the way back to Voyager, but they've put links in to tell you about – you'd be reading a passage and it said something about Napoleon and Waterloo and there was a link. If you wanted to know what Waterloo was, you would go to Wikipedia.

Well, again, it's a problem because if you leave the book, you really kind of curtail, you impinge upon that theater of the mind. So you really want to think hard about that problem and I think there are problems of engagement and immersion that exist in this space. So we've done an incredible amount of thinking about this because obviously this is the space that most personally interests me. Let me just tell you some things about managing experiments. Obviously you're going to manage – in this space, we've had to manage many different kinds of experiments. You really want to start with reasonable, small, inexpensive experiments. This is kind of an interesting approach to entrepreneuring. Try something until it works, you know?

You keep trying until something breaks and by breaks, I mean there's some heat to it. An example for me is [poetryspeaks.com](http://poetryspeaks.com), where every time I demoed this thing, people were wanting to touch it, play with it across the table. I didn't ever have a bad demo of [poetryspeaks.com](http://poetryspeaks.com). OK, that's a hint that there's something here that you should pursue. You're not going to be able to do everything or we certainly haven't been able to. So focus on your strengths. And that, from a leadership perspective, means you've got to focus your team, yourself, your initiatives. You



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really have to be focused because you need to really make sure you're not wasting a lot of time and money. I would urge focusing on your top verticals obviously. And you're experimenting not only with different kinds of products, but different kinds of business models.

And that I think is also really, really exciting. Can I create a space in which people subscribe to all of the ebooks that are in this space and it's a different kind of a model? And you want to judge your experiments. You want to figure out whether or not you should continue and you want to do it pretty quickly. Michael Kader (sp?) said this and I think Michael's a genius. It's really about the doing. It's why I spend so much of my time kind of doing in this space. Innovation is iteration. You're not – it's not about the first thing you do. It's about what happens when you iterate that thing. A unique advantage that an established publisher has is we can do lots of small experiments and they're relatively inexpensive. We don't have to gamble our company to do this.

I have to tell you about the stream. I prefer to have a good plan. Planning is really important to me and this is staggeringly difficult to plan because you don't know what the outcome is. So I use a lot of coaches and consultants. We have a ton of consultants that we work with and through Vistage mostly. At one point, my coach turned around to me and he said, Dominique – he's a very Zen guy – he said, Dominique, the problem you're having is you don't understand the strength. And I said what? And he said you're trying to get across this stream. From the far side, it looks to you like you have a direct and detailed way across the stream. Here are all of the little things that are going to get you across. You're going to get to the middle of the stream and guess what? It don't look like that anymore. It's just not going to look like that and you're going to need to get comfortable with the fact that you may go to the left, you may go to the right, you're going to – you know?

And for CEOs, and here I'm really speaking to CEOs and publishers, people who have the title publisher, it is very, very difficult because you keep thinking that, oh my God, we ought to be able to plan this out, we ought to know where we're going to be. No, it's not going to look like that and let me give you an example of that. OK, so at the end of last year, I decided that we had too many experiments. We needed to focus down. So we decided to work on three experiments. We worked on baby names. We said we're going to work in three verticals. Baby names, study aids, and poetry. Those are the three. And the reason that we made the decision of those specific three was that they had different business models associated with them.

So if you made a business model work over here, you could see it applying over there, but they were all very, very different. By the time we finished the iPhone app of Baby Names, we knew that was going nowhere. It was really clear. And



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this is what I mean about the stream, that that was really frustrating to me. You don't completely abandon a line of work, but yeah, we did. We completely abandoned it and put all of our resources into those two. So let me give you a vision for what that looks like. All right, and this is going to be kind of confusing and it doesn't work up there. So the slide says the evolution of digital at Sourcebooks. So in 2008, we had lots and lots of ideas. We had in fact 43 different verticals we'd identified and we came up with – I don't know – it had to be 60, 70 different potential ideas. I'm looking at my husband, but you know, we had really like a lot of ideas. Very blue sky. What could we do?

The beginning of 2009 or end of 2008, we're going to focus on three. Middle of 2009, three isn't working. We're going down to two. Those two are working like gangbusters. Like that's really working. OK, now we're going back out through all of our verticals to see if there are business models that we understand and that should say 2010. That – sorry about that. So those business models that we have over there plus the knowledge that we've gained and the relationships we've built have led us to, oh my God, we think we've got ten really big potential ideas and they're all revenue generating in this space. So now we're going back out to this. In 2010, we're going to go back out to ten really big ideas. All led by different people in our organization and I have no doubt, sitting right here, that at some point, we're going to say to one another, you know what? This doesn't work. This doesn't work. This doesn't work, but these seven, they rock. Now let's iterate that again.

If you haven't looked at this book, you might want to. By the way, the books I recommend, I don't publish any of them. This is one of the verticals we don't publish in. So you're looking for blue oceans and so this is really very much about blue ocean strategies. A couple of things that I just want to note before we wrap up and these are really management notes, just watching kind of what the process has looked like. We are an industry in transformation and that makes it really difficult to plan for. You don't know how fast it's going to change, how thorough the change is going to be. In five years, is digital ten percent of the market or 90% of the market? Ten percent is really easy to plan for. I mean I can plan ten percent right now. Ninety percent is a seismic upheaval in our industry. You have to make a bet about this and you're going to have to live with the consequences.

This is the bet I'm making. I expect that the fundamental nature of books will also undergo a change. When we make this transition, it's going to change everything I think. It's going to change whole categories of books that may transition to, for example, unpaid content online, right? I'm going to use this as an example. Joe Esposito said this on the last 2.0 (inaudible). He said, Wikipedia gets more readers in a day than all other encyclopedias have gotten cumulatively since encyclopedias were first published 250 years ago. That's an example of the multidimensionality



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of the problem, right? Today, we check Wikipedia for news, right? I remember when we started, I have a lot of friends – Encyclopedia Britannica is headquartered in Chicago. I have a lot of friends who work or have worked for them and I remember when this whole encyclopedias online started, that we were having a conversation about, did we need to update the encyclopedia annually, just like we updated the book?

Or did we need to do something else? Well, what do you think? Wikipedia has taught us about real time updating. That's a fundamental change, not only in the business of producing encyclopedias – hold on. I'm going the wrong way. It's both a change in the nature of an encyclopedia and it's a change in the business of producing the encyclopedia and the thing that really struck me when I was thinking about this was it wasn't the result of a strategic vision of an encyclopedia company, right? No encyclopedia company sat down and said, oh my God, this is the way encyclopedias are going to be from now, right? Rather, it was a natural evolution of how people use online products, with users defining some of the products they need within the verticals in which we operate.

And again, if you haven't read *Wikinomics*, it's really eye opening and again, I don't publish it. OK, so the fundamental business we're in may become different, and there's some real management challenges to that. So the company we run right now, the old media company, the book publisher we run right now, market conditions, difficult. Revenues, declining. Business model, challenged. Resources, constrained. Can we all agree on that? (laughter) Is this the world you're living in? Well, the new media company. Market conditions, dramatically changeable. They change in a day. Sometimes in hours. The revenues are near none. The business model, not only challenging, but by the way, it's models, plural, and the resources are few. If you're feeling tired, stressed, overwhelmed, this is why, right? In terms of what you're doing. This is the work you guys are doing right now.

So we're talking about radical change that impacts every department. So we're constantly changing as a book publishing company, and as a result, we have very limited resources and this, by the way, is very much my experience. There's also a really significant, and I think not often mentioned, leadership challenge. This is an important question and it's an important decision, OK? Are you birthing a new company or are you transforming the company you have? And those things are very different. If you are birthing a new company, there's some folks who work in the new company, they work in the new business. Those are the special people. They're really smart. They're really – they're go-getters, those guys. And then back at the ranch, there's the old media company people and they're just watching the new media company people and they're saying, you know what? I probably should be looking for a job, right? I should do something else.



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Because they know that at some point, you're going to let loose of the old company and they're not coming with you. Or are you transforming your company such that everybody goes with you? At Sourcebooks a year ago, when we were contemplating this, we decided that we were doing that. We're going to all move together to transform to the new company. Now this too has some really important implications. It means it changes the fundamentals of every job in the company. It means everybody is doing two jobs, not just me. It means that we all have to step up. It means that every department is undergoing constant change. It means an enormous amount of pressure, but I think that for our company anyway, this was the way that we wanted to go. And it has led to something really interesting. A culture that I think is now proactive, focused, optimistic, and possibility driven.

If you work with Sourcebooks, this I think is the experience people have because I've got a whole bunch of people saying OK, the future, it's coming. And it's coming now. And I'm going to be a part of it and that means that I need to learn and I'm not kidding, I've got people in PR learning about social media. I've got people in marketing learning about all sorts of web marketing tools. I've got people in production on start with XML Workflow. I've got – and we don't care where you sit and what your current title is. We are going and we're all going together. The other management challenge that I really personally experience is that when you're working in an environment where you've worked for a long time, so I've been 22 years a book publisher, selling to retailers who sell to consumers, you tend to be very inward focused.

I've spent most of my career, the last couple of year really before I got into digital, really focused on us, what we were doing, our authors, our agents, and our customers. I mean that's sort of the people that I really dealt with. But that's actually not going to work in a world where change is the only constant. The digital space is moving every day and on some days, by the hour. So you need resources for tracking change. I mean you really do need a whole set of resources or I'm experiencing that I need a whole set of resources that I just didn't have before. This, by the way, is just part of the list of resources that I use pretty much daily. It's just constant. Constant looking outside of our world, outside of our industry because it's not just about book publishing anymore. It's not just about the industry anymore.

So the management challenges, you're resource bound. There's, I think, a very important cultural element that we need to think about and it's outward looking. I'm going to leave you with a word from Mr. Bezos. Mr. Bezos was interviewed by *Business Week* on the subject of innovation and whatever you may believe about Amazon and whatever you may believe about him personally, I will say as an entrepreneur, he is one of the best entrepreneurs in the business. I mean he is a



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really fine entrepreneur and I found these two thoughts really heartening. My view is there's no bad time to innovate and you want to be doing it around the things that your customers care about, and that's exactly the experience we're having, and he said, I think frugality drives innovation, just like other constraints do and one of the only ways to get out of a tight box is to invent your way out. I leave you with that thought. Thank you very much. (applause)

M: Thanks so much, Dominique. I wish we had time for questions, but we're running a little late, so for those of you that are in salon E, you're here. So you don't have to go anywhere, but if you need directions, please step out. We've opened a back exit, so thank you and thanks so much, Dominique.

RACCAH: Oh my God. I used all the time?

M: Yeah, you're fine. You're fine.

RACCAH: I'm sorry.

M: We didn't want to stop you.

END OF RECORDING