

Beyond the Book

A Podcast Series on the Business of Writing and Publishing

”Merchants of Culture” Revealed Interview with John B. Thompson

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KENNEALLY: A book publisher working after the Civil War in the mid-19th century and one working after the Second World War a century later would have recognized each other as colleagues. But something happened in the 1970s that began a transformation of the book publishing business. That something, of course, is digitization, not only of content but of every aspect of the production and sale of books.

Now comes John B. Thompson, a sociology professor at the University of Cambridge and a fellow of Jesus College with the first major study of trade book publishing since that transformation began. *Merchants of Culture*, just out in the U.S. from Polity Press, reveals a business in search of dry land as it wrestles with the perfect storm of the digital revolution.

And John B. Thompson, welcome to *Beyond the Book*.

THOMPSON: Thank you very much. It’s a pleasure to be talking to you.

KENNEALLY: We’re very happy to have you join us from your offices at Cambridge College today and to talk about this new book, which I found a fascinating bit of detective work, here. You really kind of get behind the buzz of the digital revolution in book publishing and all the excitement around e-books and really dissect how this has all had an impact on the business.

There’s so much to talk about but it seems to me the starting point is – at least as far as the public is concerned – is the rise of Amazon. Some digital aspects of production in book printing had already kind of come into place, but with Amazon, we saw something really that was the beginning of – perhaps the beginning of the end. There’s some wonderful quote from Winston Churchill about this is not the end. This is not even the beginning of the end, but it may be the end of the beginning, I think is how it went. And it seems to me that the arrival of Amazon was the end of the beginning of digitization.

How did it change the publishing sales channel? And at first there was excitement, but that then evolved.

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THOMPSON: Well, the rise of Amazon is a phenomenon that dates from the middle of the 1990s. It began, as many people know, as a very small online retail operation run from a garage in Seattle by Jeff Bezos. And it grew very rapidly and this was happening at a time when there were major transformations taking place on the retail side of the book publishing industry.

The most dramatic of those changes had been the rise of the book retail superstore chains – Barnes and Noble, Borders and others – a development that dates from the late 1970s, early 1980s. And these big retail superstores had been rolled out across the United States in the course of the 1980s and 1990s and had had a dramatic impact on the landscape of book retailing. They involved the opening of large bookstores in many urban centers across the United States, but the other side of the coin was that many of the small, independent booksellers had been forced out of business by this dramatic transformation of the retail landscape.

Now, the rise of Amazon occurred in that context, and for many book publishers, the rise of Amazon was a very welcome addition to the retail mix because while the large retail superstores like Barnes and Noble and Borders had many very attractive features about them, they also meant that there was a strong focus on the frontlist bestselling titles and it was harder to get your backlist books into those chains and it limited the options for certain kinds of books. It concentrated decision-making in the hands of central buyers and so on and so forth.

What happened with the rise of Amazon was that you had a new kind of retailer out there where the visibility and availability of books was not linked to their physical presence in a bricks-and-mortar bookstore. Their presence was virtual. They were simply being listed on a website and in many cases, Amazon didn't even stock those books. They were listing their availability and if an order came in for those books, they would source that book from a wholesaler or someone else in order to supply the customer.

So now you had a fantastic new retail space where all the books that were being published could be made visible in this online database, essentially. So for publishers, this was a very, very welcome addition. It created a major new retail channel for them and indeed, the growth of Amazon was itself quite phenomenal so that, although it began in around 1995, three or four years later it had become the third largest book retailer in the United States. So it was a dramatic growth.

KENNEALLY: And for the publishers, John, it must have been very exciting because they had a very strong, very close relationship with the bookseller community for so many years, but while they had sort of grown and lived with that, they must have felt constrained by it, and

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as you say, along comes Amazon, an opportunity to at least move beyond that model and into a new space.

THOMPSON: Yes. And you have to remember that many booksellers were – that many publishers were dismayed by the demise of the small, independent booksellers because the small, independent booksellers were an extremely varied sector of the retail market, but there were many out there who were passionate about books and who hand-sold them to customers and were prepared to stock experimental, idiosyncratic books of one kind or another. And as these small, independent booksellers went out of business in the course of the 1990s, many publishers found it more and more difficult to get their more experimental, smaller books into the retail space. And so the emergence of Amazon was a very welcome addition for many, many publishers.

KENNEALLY: I guess the point you're making there is that they began to feel that they were chained to the chains if you will.

THOMPSON: Exactly.

KENNEALLY: And Amazon helped them or gave them the idea that they could break those chains. But now they see things a little differently. What's the reassessment about at this point?

THOMPSON: Well, it's very simple in the sense that in the early days, Amazon was a newcomer. It was a very small player in the field. Quickly became a more important player, but still, was a relatively small addition to the retail landscape and did not have the scale and the power of the large retail chains like Barnes and Noble and Borders.

However, by 2000 and the early 2000s, that situation began to change and Amazon became increasingly important, and by the end of the first decade of the 2000s, Amazon had become a major retail outlet, a key retailer for many publishers. In some cases, they were the most important retailer, but even for the large trade houses, they were one of the two or three most important retail channels for the publisher.

And as they became larger and more powerful, so their position of strength in a very competitive field grew and they were able to use that strength to try to negotiate better terms with the publishers, who were their suppliers, and they did try to do exactly that. And so as they become more powerful, they also become – in the eyes of many publishers – something of a risk because they can use their power to place pressure on publishers for better terms.



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Then, there was a further key development that occurred in 2007, which was the launch of the Amazon Kindle, the e-book reader, and this was also a very significant additional development because it meant that what had now been one of the key retail channels for physical books was also a key player in the emerging e-book market. With the Kindle, essentially, Amazon sought to achieve a dominant position in the e-book marketplace. They produced the hardware – that is, the e-book reader, the Kindle – and they entered into agreements with publishers to supply book content onto this reader.

Now, this was, again, for many publishers, a very welcome development because it was a very big investment and they welcomed the emergence of an e-book marketplace, but the more powerful Amazon became in this marketplace, the more worrying it became for many publishers because they feared that what had become a key player in the physical book market would now become a key – perhaps even a dominant – player in the emerging e-book market.

KENNEALLY: And John, I wonder whether, too, the emergence of this successful e-book reader – because of course, there had been attempts before that to get the e-book revolution started, and it really wasn't, as you say, until 2007 that this was a real successful launch. I wonder whether now the book publishers are also concerned about the business model that's built on the bestsellers. You refer at the beginning of our interview to the chains and how they were concentrating sales on certain types of books.

The bestsellers were paying for so much. Now with the e-book distribution, that physical store goes away, the virtual store is now much more dominant than ever, so it's beyond Amazon itself and physical books being purchased, but the digital books are there. How is the business going to support itself if the revenue is being spread more and more thinly across so many more titles rather than concentrated in the bestsellers?

THOMPSON: Well, there are many complicated issues tied up in that very interesting question. Let me try to disentangle them a little bit by first of all saying something about the rise of the bestseller, or what I call the preoccupation with big books in the trade publishing industry.

KENNEALLY: It's a wonderful phrase.

THOMPSON: This is a very important development that pre-dates significantly the digital revolution. It goes back many years, even decades, and I trace this development through the 1960s and '70s and link it to the growing importance of the large publishing corporations.



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With the development of the large publishing corporations, you have a growing emphasis on the need to grow the publishing company, and this emphasis on growth focuses the publishing organizations, especially the large corporate houses, on big books. And it does it for a quite simple reason, and the reason is this.

If you are a chief executive or a senior manager in a large publishing corporation in the 1970s, '80s and '90s, you are required by your parent company, your parent corporation, to achieve significant year-on-year growth, maybe 10 percent or something of that scale, and to also try to achieve significant profit margins.

Now, the problem in the book industry is that the marketplace is largely static. That is, it's growing, but only by about the rate of inflation, so that creates a fundamental conundrum for all senior managers in large publishing corporations. How do you achieve growth in a largely static market?

Now, it might seem easy to solve that problem. Namely, you just publish more books. If you could put more books through the system, you presumably could grow. But most of the large corporations found that that answer didn't work. And it didn't work, again, for a simple reason, and that is, those corporations had gotten large by absorbing many other publishing houses and they had also, having absorbed those publishing houses, tried to create economies of scale by rationalizing their sales forces – combining sales forces, laying people off and so on.

Now, this meant that your sales forces were being forced to carry a very, very large number of titles. So if you take a large publishing corporation like Random House in the United States, they are publishing 5,000 to 6,000 new books every year. If you break that down into three sales cycles, you realize they have to sell about 2,000 new titles every sales season, and your sales force simply can't cope with all that. They can't take more books on. They have to take fewer on or focus their attention on fewer titles rather than more.

KENNEALLY: Just to simplify it, John, they can only place so many bets.

THOMPSON: Exactly, exactly. So, they decide, therefore, to focus their attention more on the books that they think they can do really, really well with and to cut out what they call the midlist. So they focus their attention on what they call big books, that is, try to sell more copies of a fewer number of titles. That becomes the kind of key mantra within all the large publishing corporations. That's the preoccupation with big books and bestsellers.

And so it turns out that all the large publishing houses focus their attention on a smaller number of books, which they push very, very hard in the marketplace and seek to turn into



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bestsellers. And these frontlist bestselling titles, the ones that become bestsellers, become more and more important in the industry in the course of the 1980s, '90s and early 2000s and you see that this becomes a kind of critical feature of the evolution of the industry over the last couple of decades.

It's not so much a winner-takes-all market, but what I call a winner-takes-more market. That is, these key titles, like *The Da Vinci Code* or *Harry Potter* and so on, become more successful over time, and then a large number of titles become less successful.

KENNEALLY: And the business becomes a prisoner of the big book, doesn't it?

THOMPSON: In many ways, yes, because it's like a drug. You become addicted to it and your business becomes focused on it because most of the large publishing houses are very much frontlist-driven houses. That is, the frontlist accounts for perhaps 60 to 70 percent of their revenues and the backlist only 30 to 40 percent of their revenues, so they have to reinvent themselves – or 60 to 70 percent of themselves – every year, and that means they have to find more big books. So it becomes like a treadmill. They become very fixed on the search for and publication of these big books.

KENNEALLY: Right. We are talking on *Beyond the Book* with John Thompson, author of *Merchants of Culture*.

And John, I want to sort of explore this further. It's a fascinating discussion and we've got so much we could talk about, but I think this is the topic of the moment right now, so I'd like to try to search into it further with you, and that is, do you believe – or what are your thoughts on how the e-book sales structure and just the way that e-books are becoming more prevalent and being distributed in various channels – through Amazon, through the iBookstore, and even from book publishers themselves. Is that going to threaten the big book? Will the big book be possible in that kind of environment, and if not, what's the book publishing business going to do then?

THOMPSON: It isn't necessarily going to threaten the big book, because if you look at what's happening with e-book sales in the United States, you see that it is the frontlist bestsellers that are doing best in the e-book format, just as they were doing best in the printed format and continue to do best in the printed format. So, it isn't necessarily going to undermine the focus on big books. It's just a different means of distributing those big books.

KENNEALLY: But discovering those big books, John, just to say, is so much easier in the physical world because you walk in – you wander in, if you will – into Borders and the stack of *Harry Potter* meets you at the door.

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THOMPSON: Yes.

KENNEALLY: That doesn't necessarily happen in the digital environment.

THOMPSON: That's an excellent point, and I think what it shows is that the pattern of sale of e-books at the moment is, to some extent, parasitic on the methods of marketing and forms of visibility that have emerged out of the print book sector, like the emphasis on front-of-store displays in the bookstores like Barnes and Noble and Borders.

So, you're right that as those bookstores become threatened, that could have a complicated set of implications for what happens in the e-book marketplace. No one knows what the consequences of these things would be. It's just too early to say, but I also would caution against overly apocalyptic views of what might happen in the bricks-and-mortar retail environment.

I think it is clear that Borders is undergoing a very difficult time now, and it's not at all clear how they will emerge from this very troubled moment. But it's not – one should hesitate about concluding from that that all bricks-and-mortar bookstores or retail chains are going to experience an equally difficult time or are going to find themselves forced into closure in the coming years and decades. That's not at all obvious at this point in time.

KENNEALLY: Right. Well, as you say, it's all very early at this particular point, 2011, but the transformation is accelerating. I'm thinking, it was only a year ago, almost exactly, that Steve Jobs held up the iPad for the first time, and now it seems to be a fixture of the landscape that one hardly can imagine without it. While you say that apocalyptic visions are perhaps premature, I guess we can expect a lot of if not apocalypse, maybe chaos for the next 12 to 24 months.

THOMPSON: I think you're absolutely right about that. I think this is a critical juncture for the book publishing industry and it's a critical juncture because what we're seeing happen now is the convergence of two very significant developments.

One is the unfolding of a series of social and economic transformations that have changed the nature of trade publishing profoundly over the last two to three decades, the kind of changes I was alluding to earlier like the rise of the large publishing corporations and the emergence of the large retail superstore chains.

On the other hand, interwoven with these developments in a very complicated way is this tremendously significant digital revolution, which began to change the book publishing industry in the 1980s and has an accelerated series of consequences over the last few years.

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We don't at this point in time know how these transformations are going to affect the character of the book publishing industry over the next few years, let alone the next decade. But we should expect there to be substantial additional change and I think at minimum, we will see a growing proportion of sales occurring in e-book formats, and that will have to be factored into the publishing industry in terms of the impact that that will have on their financial structure and their financial models. Those implications at this stage are not entirely clear, but there will be profound implications.

So I think – go ahead.

KENNEALLY: I'm sorry, John. Finish up. Well, perhaps what I can do is to point out to people that you are not only a scholar of the book publishing industry, but you're a scholar of the media and its influence on society and the relationship between media and society. You've been talking about what this all means to someone sitting in an office building in New York, but what does all of this mean to the reader, wherever he or she may be, whether in Cambridge, U.K. or in Cambridge, Mass.?

THOMPSON: I think readers are going to be faced with a growing proliferation of possibilities in terms of the ways that they read and consume the written word, and people will make different choices about that. I think what we will see is some readers will migrate effortlessly into an electronic environment and will welcome the emergence of a variety of different ways to read texts online or in dedicated e-book readers or on iPads or other forms of device that will enable them to read in different ways and different contexts.

And this will come comfortably to some readers and they will relish this opportunity. It will give them more choice, more variety. They may find books take on new forms. They become integrated with multimedia formats of one kind or another. They become more portable and so on and so forth. So some will welcome it.

Others will find it less attractive and will continue to value some aspects of the printed book that are important to them, because for many readers, books are not just reading devices. Books are cultural artifacts. They are social objects. They are indeed forms of art, which they like to own and possess and to put on a shelf and display and to share with others and to return to time and again and read on various occasions in the future. And they will continue to cherish that physical objective character of the printed book. And so, some will not choose to read in an online or an electronic form, because for them, the book matters as an object.

And in this respect, books, I think, are rather than different from music, where you don't see that same kind of physical artifact type character that you have in the world of the book.

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And then there are others who will happily move between both of these forms of reading and they will choose to read printed books on some occasions and they will be very happy to read books electronically on a reading device in other occasions. An obvious example might be the reader who likes to have a physical book at home to read, but when they go on vacation, want to take a dozen books with them and don't want to lug all those heavy books along. So they will instead prefer to take a small, compact reading device while they go on vacation.

So, you could easily see that as this environment changes, it will offer more possibilities to readers and readers will choose how to take advantage of those possibilities depending on their own preferences and tastes.

KENNEALLY: Well, John, I guess what you're saying is that we can have reading devices, but we can also have books, and I like the idea that a book is not a reading device. It's something else entirely, an artifact, an object, a piece of art. Wonderful thoughts to leave us with today.

We have been chatting on *Beyond the Book* with John Thompson, a sociology professor at the University of Cambridge and a fellow of Jesus College, author of the new book from Polity Press, *Merchants of Culture: The Publishing Business in the 21st Century*. We have barely scratched the surface of this wonderful book, which I think for any student, amateur or professional, of book publishing, should be in their library, whether it's in the digital form or in the printed one.

John B. Thompson, thank you so much for joining us today on *Beyond the Book*.

THOMPSON: Thank you, Chris. It's been a real pleasure.

KENNEALLY: And for everyone at Copyright Clearance Center, this is Chris Kenneally wishing you a great day.

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