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Publishers are finding ways to put life, and profits, into e-book publishing

BYLINE: by James Lichtenberg

BODY:

Last Winter's Tablet PC Digital Publishing Conference in New York City attracted a fair number of people from the book business. For many in the audience, more compelling than the eventual success (or not) of tablet computers was an afternoon panel about e-books. Representatives from HarperCollins, McGraw-Hill, Simon & Schuster and Random House each spelled out their respective company's approach to publishing in electronic format. By the end of the session, it was clear that not only is e-book publishing not merely "technology"--and certainly not simply dumping content into an electronic file--but that each company is already charting its own distinct path as an e-publisher.

Although e-books have been described as dead by more than one industry expert (and despite Barnes & Noble.com's recent decision to stop selling e-books; see News, Sept. 15), there are some vital signs in the marketplace. Statistics from both the Association of American Publishers and the Open e-Book Forum show a small but growing market, with the OeBF projecting total sales to top \$10 million by the end of the year (News, Sept. 22). And a recent press release from the Kyodo News Service asserts that sales of e-books in Japan soared to one billion yen (\$10 million) in 2002, representing some 25,000 titles--novels, nonfiction, picture books, comics.

From the perspective of trade publishing, wherever e-book publishing takes place--Japan, France or the U.S.--it appears to involve the familiar calculus of acquisition, development, marketing and retailing that characterizes the publishing of physical books, but with a spin all its own. "We consider e-books to be the next format," says Susan Peterson, v-p, content acquisition at Baker & Taylor. "It is like the transitions to mass market, or to trade paperback, or to audio books. One format does not cannibalize another. The point is to go where the consumer is. And, increasingly, the consumer is online," she says.

Keith Titan, online marketing manager at Simon & Schuster emphasizes, "Publishing e-books is something brand new. We have had to experiment to see what works." With several years of increasing success under its belt, S&S is basing its e-book strategy on a mix of unique content, timing and price. "It's an integral part of our

overall program; e-publishing and print publishing support each other," says S&S adult trade president Carolyn Reidy.

While Stephen King's *Riding the Bullet* and *Star Trek* titles originally primed the virtual pump, S&S now offers a wide mix of front- and backlist e-titles, including the works of Hemingway and Fitzgerald. Other companies, however, are differently inspired. "You could say that our e-book program is like the slogan for the Marines: a few good books," explains David Steinberger, HarperCollins's president of corporate strategy and international. HC has effectively branded its e-book efforts under a separate imprint, PerfectBound. "They are one of the most aggressive marketers," notes Steve Potash, CEO of OverDrive, itself an aggressive vendor in the e-publishing space whether for consumers or libraries.

The Time Warner Book Group follows a policy that Kelly Leonard, executive director of online marketing and e-book publishing, describes as "more along the HarperCollins strategy, picking successful books, like *The Lovely Bones*." TWBG chooses only a few of its bestselling titles for release as e-books, a strategy also followed by Hyperion, for which TWBG handles the e-book publishing processes.

Random House, on the other hand, is releasing more e-books than ever. "Publishing e-books is very similar to publishing trade print books," notes Adam Smith, v-p, new media. "E-books are integrated into the overall digital workflow for print books." His colleague Amanda Kimmel, director, new media, adds, "We try to incorporate the e-book publication into each stage of the print publication. The e-book files are a byproduct of the print files, and the marketing efforts for the e-book editions complement the print marketing campaigns." The company has also invested significantly in the technologies of conversion and versioning needed for e-publishing. Further, Random House plays a leadership role, as does S&S and HarperCollins, in the belated standards-development effort that the industry is embracing, something that is essential to create a robust market. (In a telling contrast, the hardware, software and content players necessary to create a market for DVDs put their heads together before the release of any product, making DVD so user-friendly that it has become the most successful new medium introduction ever.)

However, not all publishers are sanguine about the immediate potential of e-books sold directly to consumers. John Wiley & Sons publishes electronic products in the professional, trade, STM and higher-ed markets. "Wiley e-books have been significantly more successful in the library channel, although they are available to retail customers as well," notes Gwenyth Jones, Wiley's v-p of publishing information, systems & technology. Jones also points out one of the most serious stumbling blocks to the growth of the e-book market: protection of content. "Customers often have trouble loading the Reader software onto their own devices, and the restrictions we publishers place on printing, copying and sharing are not very appealing to users," Jones says. This protection issue flies under the troubled banner of "DRM"--the imperfectly named "**digital rights management**."

These complexities have affected the attitudes of authors and agents as well. "I've spent what feels like years of my life trying to negotiate e-book rights and royalties," says Vicky Bijur, a New York--based agent and former president of the Association of Author Representatives. "I am fed up with the whole thing!"

According to associate publisher Linda Rosenberg, several years ago, Farrar, Straus & Giroux started out enthusiastically to enter the e-book segment, putting a number of new high-quality literary fiction titles into e-book format, but without much success. "It didn't make sense to keep spending several hundred dollars for conversion only to recoup a couple hundred," Rosenberg says. (TWBG estimates current conversion costs at about \$400--\$600 for a 400-page book, plus proofreading costs.) As a result, FSG has chosen to put only its "big name" authors--Turow, Cunningham, Franzen, Thomas Friedman--into electronic format. "I am disappointed," says Rosenberg, "at how small the market is after all this time. A really good e-book sale would be one-tenth of the print book, but I would be happy with one-20th or even one-25th." Counting 500 copies as a "good" e-book sale, Rosenberg notes that, to date, FSG's most successful title is Jonathan Franzen's *The*

Corrections, which has sold several thousand copies in e-format. "It is easy to see the appeal," she observes, "especially if you are traveling and don't want to lug around a five-pound book."

The Eye of the Beholder

Is the market "disappointingly small" or growing energetically from absolute zero? It appears that the success of e-books is in the eye of the beholder. "Regardless of what the press reports," notes Random's Adam Smith, "We have seen an increase in e-book sales in every quarter. The second quarter of 2003 was our best quarter ever, with an increase of 30% over the previous quarter. And based on early results, third-quarter sales will improve upon those results." Adds Jeff Gomez, e-book and print-on-demand manager at St. Martin's, "At first, e-books were somewhat limited in terms of content, either genre or sci-fi. Now it's moving ever more toward the center. It's a regular part of publishing--anything that's in print can also be electronic."

"The original predictions were just ridiculous," declares TWBG's Leonard, "so inflated and out of touch with reality. Of course e-book sales started out at less than 1% of the print book, but in the year 2001--2002, our sales grew by 21%. It was a model year, and 21% growth? I'll take it." S&S has seen double-digit growth for e-books over the last several years, says Keith Titan. "At S&S, the feeling is that as long as the e-book operation is run efficiently, it's worth the investment," he says. At Palm Digital Media, director of business development Mike Segroves says, "Our sales in July were up almost 20% over June. We are seeing as many as 1,500 downloads a day, three or four days a week. We're very bullish." His colleague David Pascoe, v-p, e-business, adds, "August sales were greater than those in July, and sales in September were up." (Segroves and Pascoe have both left Palm following the sale of the company; News, p. 8)

Just as the mass market paperback format brought in its wake new retail partners, so, too, do e-books. And perhaps no new partner has been more effective to date than Palm Digital Media. Notwithstanding the small size of the screen, PDAs are proving to be a serious platform for e-books, even providing the longed-for "immersive reading experience." Moreover, with its strategic commitment, imaginative marketing and weekly newsletter, Palm has become "the Oprah of e-books," according to TWBG's Leonard. "If one of your books is highlighted in the newsletter," she says, "it pops up on their top 10." Gomez at St. Martin's says, "Palm has a big foothold in the marketplace, in part because, unlike Microsoft or even Adobe, this is all they do. Microsoft is too large to move quickly. With Palm, if there's some issue, they resolve it by the afternoon."

Going for the Gold

Theoretically at least, the economic potential of electronic publishing appeared so large that the technology conquistadors who set foot on this new continent in the 1990s were simply dazzled. They saw cities of gold, and without any central force to bring them together, the ethic was every man for himself. Some of the leaders clearly were out to get as much of the gold as possible by creating proprietary e-book file formats and reading systems. Recall the "everything here is mine" presentation by former Gemstar CEO Henry Yuen at an AAP annual meeting. Gemstar's crash and burn this year was due, says Titan, to its "failed business model"--notwithstanding a lovely reading device still used by true believers, and even lent out with ever-changing content by a few public libraries.

Unfortunately, without standards, the user e-book experience has been suboptimal. And, as always, if the market is not there, neither is the gold.

On the brighter side, over the past two years, the Open **eBook** Forum gradually has pulled together the major players. Thanks to mostly voluntary efforts, the OeBF has worked out a common file format and struggled with metadata issues, as well as provided a lively forum for various interest groups such as trade publishers and librarians. As Segroves explains, "We've made a lot of strides, but in several different areas--publication structure, ONIX, sales reporting--and thus the message gets diluted."

"It's all a matter of price and device," Titan observes. Along those lines, important developments include the appearance of the new Palm, Sony and IPAC devices with their brilliant, high-resolution color screens; and the arrival of Adobe Acrobat Version 6, in which the Adobe **eBook** reader is integrated into the ubiquitous Acrobat PDF reader (on tens of millions of computers worldwide). In addition, major electronics companies like Sharp, Matsushita and Phillips are working on new reading devices incorporating the technology of eInk (which affords a book-like, flexible screen using far less power than a handheld or e-book reader.) "These should be out by the end of 2003," says Titan, although he adds, "at this point, PDAs are showing the biggest potential."

The handheld market is a case of publishers reacting to customer demand. Last December, PW reported that several hundred thousand physicians use PDAs for up-to-the minute drug information every day. In response to the marketplace, McGraw-Hill has been transforming its successful online version of the venerable Harrison's Medical Encyclopedia into PDA format, Harrison's at Hand. As M-H v-p and director of business development Bob Bolick notes, "Some print products from the past are actually improved in terms of their pithiness, clarity and structure. In a couple of cases, the handheld version is actually much better than the print."

Publishers have shown good grace in agreeing to convert their e-books into the three major formats (Microsoft Reader, Adobe, Palm), although, in Leonard's opinion, "it's complicated, costly and time-consuming and they look really good only in Adobe." She notes that up till now, the conversions have been done from Quark files, but TWBG is moving toward adopting XML. "Our goal by 2004 is to have all of Little, Brown and most of Warner in XML, which really simplifies the conversion, and saves about \$300 a book."

Rolling Up Their Sleeves

The complexities notwithstanding, most publishers bring e-books to market with the expectation that technology glitches will be resolved in the next several years. Responding to the growing sales figures, they are rolling up their sleeves and diving into the more fundamental questions of editorial selection, marketing and sales.

In January 2003, S&S lowered prices on its 1,700 e-books. Titan notes that top executives across all S&S divisions are involved in e-book strategy, whether publishing or pricing. "There are key points in the year at which e-book strategy is discussed, and this involves the entire company: the divisions for content, production, IT, sales and finance."

On May 1, von Holtzbrinck reduced the price of the more than 1,000 e-books published by its imprints by 25%. The goal of the price drop is to further boost e-book sales, which have seen "a steady double-digit growth" since the program began in 1999, Gomez says.

HarperCollins is pursuing an authorcentric model in promoting books and e-books on its Web site through a service called author-tracker. Ardy Khazaei, v-p, Internet development, enumerates the benefits to the company as a whole from the integration of publishing, e-book publishing and online marketing: increasing sales velocity; building loyalty to authors; expanding marketing efficiency; creating a more powerful partnership with retailers; providing real value creation in the process of building authors over time.

Describing the e-book strategy at TWBG, Leonard says, "We prefer to under-promise and over-deliver. We would rather make a lot out of six titles than put out 30 titles and just see what happens." The company advertises the availability of e-books as part of its print book promotion. Special e-mail newsletters are sent to e-tailers and distributors. For consumers, an e-book category is part of the TWBG Web site, and it includes original content such as author profiles, q&as and chapter excerpts of published and future books.

Titan explains that generally, print book marketing drives awareness of the title overall, "although we have had

a few synergistic promotions with the e-book. We promote e-books to retailers like Powell's and Amazon, with electronic catalogues that include jackets, descriptions, author bios, quotes and prices."

Segroves notes that publishers have become more savvy in terms of marketing. "Not all of them," he hastens to add, "but some of the major companies." "Typically," he says, "houses like RH, S&S and HarperCollins bring out the e-book a week or two before print publication, and in some cases as much as a month before." He notes that in September, Random House released Christopher Reich's new thriller, *The Devil's Banker*, at \$25.95 in hardcover and for the first 30 days at \$9.95 in e-book format. Also in September, HarperCollins released the first of its 85 Agatha Christie e-book titles. Similarly, Random House is about to publish Louis L'Amour's Sackett series electronically. "Now, if we can get the Grishams, Steels and Clancys to put their toe in the water, not just King, that would make a big difference," says Segroves.

Is the E-Book Future Now?

"It's hard to know the future," says B&T's Peterson, "But things are going to be very different in five years." "It's a question of how fast things double," says publishing consultant Mike Shatzkin. "At a certain point, it becomes significant." Smiling at the question, Segroves responded: "As my friend Dick Brass [of Microsoft] used to say, 'it only gets better from here.'"

"It's sort of a chicken-and-egg problem," says FSG's Rosenberg. "On the one hand, we are not making all of our costs back." (This situation, of course, also holds true for the majority of print books.) "But on the other, we want to be flexible, to see what happens in the market. After all, you do have to keep up with this. You can't get out, and then jump back in again easily. E-book publishing is like learning a whole new language."

"We are still in a transitional time with [reading] devices," observes Gordon Hardy, director of electronic publishing and general reference at Houghton Mifflin. The company was an early electronic pioneer, thanks to its reference works--the American Heritage Dictionary became the basis for Microsoft Word's first spell-checker--but has yet to enter the e-book marketplace. However, reflecting the feeling of many in the industry, Hardy observes, "One day, we will wake up and realize" the e-book market has arrived.

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