Evolution of the book publishing industry
Structural changes and strategic implications

Hean Tat Keh
Graduate School of Business Administration, University of Washington, Seattle, Washington, USA

Introduction

In their lucid look at the book publishing industry, Coser et al. (1982, p. 3) noted that "Ideas are the brain children of individuals; but books, in which ideas are given concrete shape so as to be conveyed to their intended audience, are the products of the collective work of members of publishing firms that specialize in the production and distribution of books". However, they also observed that "in an age of electronic media, book publishing no longer occupies the pre-eminent cultural position it enjoyed until the Second World War".

However, in the years since Coser et al. wrote their book, the book publishing industry has continued to thrive. We observe that its economic growth has been impressive over the last 30 years, even during periods of general economic downturn. In the USA, the greatest growth periods, in terms of book title output, were the 1960s and 1970s. Title output grew from 25,784 in 1963 to 53,380 in 1983. It reached a peak in 1987, culminating with 56,027 titles. The three consecutive years saw a decline in the figures, bottoming out in 1990, when total output was only 46,743. In recent years, title output has been hovering at about 49,000.

In terms of dollar sales, the growth was even more spectacular. Revenue escalated sharply from $1.68 billion in 1963 to $3.2 billion by 1973, and was worth $8.6 billion in 1983. Between 1983 and 1991, it almost doubled, to $16.1 billion (Baker, 1994a; Ink, 1994). The growth rate was approximately 6.6 per cent in 1993, but is projected to have only a 4.3 per cent sales increase to $18.16 billion in 1994 (see Table I).

It is difficult to generalize about book publishing industry, due to its striking heterogeneity. Its various sectors are significantly different from one another. Each branch operates in a distinctive environment, faced with unique challenges and criteria for success. Yet, it is a common fallacy to think about publishing in terms of popular trade books. As Table I shows, dollar sales of trade books are actually eclipsed by those of college textbooks and professional reference works combined.

The author would like to thank Prof. David Gautschi for his valuable comments on an earlier version of this paper.
Evolution of the book publishing industry

Despite its remarkable growth, little research has been carried out on the industry. Except for a few books describing the industry in broad, general terms, little academic research has been conducted on it. This could be attributed to the fact that book publishing is a less glamorous industry compared to others such as automobiles and computers. In addition, the integrity of the book as we know it has not changed much over the past five centuries. It is a ubiquitous and unobtrusive item; printed words on pieces of paper bound together between two covers. The lack of research on book publishing is frustrating and puzzling as it is a unique industry with many singular characteristics that make for interesting study. For example, no other consumer industry produces 50,000 different, relatively affordable products each year; each with its own personality, requiring individual recognition in the market. Moreover, the industry has an abnormally high ratio of commercial failures. Trade bestsellers typically have product life cycles between six and 18 months. The greatest irony is the lack of profitability in trade book publishing. Publishers have become accustomed to the idea that publishing itself, on the average, is unprofitable (Compaine, 1978; Shatzkin, 1982).

Many drastic changes have taken place in the industry in the past 15 years or so. The first major change occurred with the advent of personal computing. Desktop publishing changed the way the book is written and edited. New technology, too, has affected the way it is printed, bound, and distributed. In addition, shifts in consumer demand have affected the nature and volume of books produced. On a macro level, the growth in the number of merger and acquisition activities among publishing houses has also altered the basic

<table>
<thead>
<tr>
<th>Segment</th>
<th>1993 Units</th>
<th>1993 Dollars</th>
<th>1994 Units</th>
<th>1994 Dollars</th>
<th>Percentage change Units</th>
<th>Percentage change Dollars</th>
</tr>
</thead>
<tbody>
<tr>
<td>Trade</td>
<td>791.1</td>
<td>4,997.4</td>
<td>808.8</td>
<td>5,396.6</td>
<td>2.2</td>
<td>8.0</td>
</tr>
<tr>
<td>Adult</td>
<td>480.1</td>
<td>3,836.5</td>
<td>496.5</td>
<td>4,182.0</td>
<td>3.4</td>
<td>9.0</td>
</tr>
<tr>
<td>Juvenile</td>
<td>311.0</td>
<td>1,160.9</td>
<td>312.3</td>
<td>1,214.6</td>
<td>0.4</td>
<td>4.6</td>
</tr>
<tr>
<td>Mass market</td>
<td>503.1</td>
<td>1,341.5</td>
<td>499.6</td>
<td>1,376.2</td>
<td>-0.7</td>
<td>2.6</td>
</tr>
<tr>
<td>Book clubs</td>
<td>111.1</td>
<td>787.9</td>
<td>112.1</td>
<td>815.0</td>
<td>0.9</td>
<td>3.0</td>
</tr>
<tr>
<td>Mail order</td>
<td>101.88</td>
<td>582.3</td>
<td>92.4</td>
<td>541.5</td>
<td>-9.2</td>
<td>-7.0</td>
</tr>
<tr>
<td>Religious</td>
<td>149.8</td>
<td>955.5</td>
<td>142.7</td>
<td>940.3</td>
<td>-4.7</td>
<td>-1.6</td>
</tr>
<tr>
<td>Professional</td>
<td>159.8</td>
<td>3,402.7</td>
<td>158.6</td>
<td>3,528.4</td>
<td>-0.7</td>
<td>3.7</td>
</tr>
<tr>
<td>University press</td>
<td>17.1</td>
<td>292.9</td>
<td>16.9</td>
<td>297.6</td>
<td>-1.2</td>
<td>1.6</td>
</tr>
<tr>
<td>Elhi</td>
<td>233.1</td>
<td>2,307.2</td>
<td>234.5</td>
<td>2,370.7</td>
<td>0.6</td>
<td>2.8</td>
</tr>
<tr>
<td>College</td>
<td>147.8</td>
<td>2,144.3</td>
<td>150.6</td>
<td>2,254.9</td>
<td>1.9</td>
<td>5.2</td>
</tr>
<tr>
<td>Standard tests</td>
<td>-</td>
<td>146.8</td>
<td>-</td>
<td>156.2</td>
<td>-</td>
<td>6.4</td>
</tr>
<tr>
<td>Sub reference</td>
<td>1.2</td>
<td>602.0</td>
<td>1.2</td>
<td>638.5</td>
<td>0</td>
<td>6.0</td>
</tr>
<tr>
<td>Totals</td>
<td>2,215.9</td>
<td>17,413.7</td>
<td>2,217.4</td>
<td>18,156.2</td>
<td>0</td>
<td>4.3</td>
</tr>
</tbody>
</table>

*Source:* Book Industry Study Group Trends 1994
structure of the industry. With all these changes, it is no longer the staid and lumbering industry that many perceive it to be. Indeed, the onset of the information superhighway is a harbinger of many more changes in the structure of the industry.

The FUD factor

The impact of past and potential changes has not been completely positive, however. For many industry executives, these changes spell fear, uncertainty and doubt – the FUD factor. The uncertainty stems from the fear that consumer demand for books will eventually diminish in the face of an increasingly electronic media environment. Changes in the environment are not always controllable, thus creating much uncertainty. These changes have also caused many industry forecasts to be proved wrong or inaccurate. For instance, pundits in the industry have for years predicted that an impersonal piece of hardware such as the personal computer could never replace the hardbound novel. However, in the past year alone, many traditional publishers have begun to explore, if not actually develop, books on floppies, electronic kiosks, hard disks, and, the most promising avenue of all, CD-ROM disks; where photographs, sound, animation, video and up to 1,000 floppy disks-worth of text can be retrieved interactively (Davids, 1994). The speculation on how future changes will affect the industry has left managers at publishing houses floundering, without a clear vision of what to expect.

However, in spite of the FUD factor, the general consensus among industry observers is that the book publishing industry will survive. According to communications analyst Efrem Sigel: “For many years, books themselves will continue to be published by the tens of thousands, bought by the hundreds if millions, or billions ... [However] as the landscape of communications changes, so will their role, and our perception of it. The evolution of that landscape will be very gradual but persistent, and one of its distinguishing features in the twenty-first century will be that those involved in communications will no longer consider it a question of the moment to ask: “Does the book have a future?” (Sigel, 1982).

The evolution of book publishing

The history of the modern book began c. 1455 with the printing of the Forty-Two Line Bible, by Johannes Gutenberg (Greenhood and Gentry, 1936). Early printing after the invention of the movable type was concerned primarily with reprinting of religious, legal, and classical texts already available in manuscripts. However, by the time of the Reformation in 1660, books had become a force for change and influence (Schreyer, 1985). The power of books lies in their ability to disseminate information quickly and to a wide audience.

The structure of the publishing industry then was also much simpler. As noted by Coser et al. (1982, p. 5): “Until the rise of the mass market for books in the late eighteenth and early nineteenth centuries, book publishing was a simple cottage industry. A n author would approach a bookseller-printer – these
two roles were not yet differentiated – and contract for the printing and selling of his book. Frequently the costs were borne, wholly or in part, by a patron of the author, who thus ensured that the book would reach its intended audience among the cultural and social élite of the day."

The expanding market for books was due to higher levels of literacy as well as a decline of the price of books as a result of economies of scale and improved production methods. With this, the printer-bookseller was gradually phased out, and replaced by modern publishing houses. Typically, the early publishing houses were run by a single publisher, with the assistance of family members.

It was not until the market for books in the USA expanded in the latter half of the nineteenth century, when it became a true mass market, that publishing houses took on more formal structures that have survived until this day (Coser et al., 1982).

The long process of producing and distributing a book

The entire process of getting the completed manuscript to the consumer is a complicated one, incumbent on the interactions of several key players in the industry structure. Without any one party, market failure occurs. This is because each player must rely and interact with at least another participant, beginning with the author and ending with the consumer. Figure 1 is a diagrammatic representation of the interactions among the different parties in the industry.

Each book originates with the author. Briefly, the author has an idea for a book. Depending on the nature of the book, there may be a period when he/she conducts research to verify facts, for example. This is then followed by a period of writing. After completing the work, the author usually approaches an agent to help "sell" the book to a publishing house. The agent will usually have greater knowledge of the commercial value of a book than the author, and is more skilled at negotiating with the publishing establishment.

The importance of having an agent is also appreciated by the publisher. This is despite the fact that the agent may drive a harder bargain for the author. The agent introduces order and spares the publisher the problems of negotiating with someone whose naïveté and lack of business experience can create even more difficulties (Shatzkin, 1982, pp. 240-1). He also helps the publisher by first screening the book, and judge its appropriateness to a particular publisher. Each publishing house will have its own preferences for certain material, usually following the quirks of the editorial staff.

The agent then approaches the publisher with the work. If the latter likes the work, then the negotiation process begins. When both sides are mutually satisfied with the terms, a contract is signed. The publisher contracts to use his resources for the publication of the manuscript, bearing all financial risk. Once the manuscript is ready (usually after a long process of editorial corrections and rewriting), it is then sent to a printer. The printer, in turn, prepares the proofs and composes it into book form. After being printed, the books are shipped back to the publisher.
The publisher is rarely also the seller; he distributes the books to the wholesalers, who then pass the books on to the retail stores. Secondary distribution channels include book clubs and replinters. These market intermediaries then deliver the books to the final consumers. We can also view these interactions as one party providing services for another, as shown in Table II.

**Structural changes in the book publishing industry**

As the book publishing industry evolved, several changes became apparent. The changes in the structure of the industry were affected severely by three powerful forces:

![Diagram of vertical relationships in the book publishing industry](source: Adapted from Vanier, (1973) p. 5)
Table II. Interactions among the various parties involved in book publishing

<table>
<thead>
<tr>
<th>Provider</th>
<th>Author</th>
<th>Agent</th>
<th>Publishing company</th>
<th>Printer</th>
<th>Book club</th>
<th>Wholesale retailer</th>
<th>Consumer</th>
</tr>
</thead>
<tbody>
<tr>
<td>Author</td>
<td></td>
<td></td>
<td>Give commission as percentage of royalty</td>
<td>Manuscript; assigns publication rights</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Agent</td>
<td>Contact with publisher; knowledge of commercial value; copyrights and libel; negotiate on behalf of manuscripts</td>
<td>Screens author; screens manuscript; saves publisher time</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Publishing company</td>
<td>Advance royalty; contract; editorial staff and services; opportunity to publish</td>
<td>Pays money to encourage finding good author or manuscript</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Printer</td>
<td></td>
<td></td>
<td>Printing facility; composition and binding</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Book club</td>
<td>Royalty for reprints</td>
<td>Negotiate right to print under club’s imprint</td>
<td>Large print runs for assured market</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Wholesaler, retailer</td>
<td>Market knowledge; provide shelf space; widespread distribution</td>
<td></td>
<td>Population not served by bookstores; impose conditions on membership; lower prices</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Consumer</td>
<td>Readership; loyalty</td>
<td>Demand</td>
<td>Demand</td>
<td>Demand</td>
<td>Demand</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
(1) technological change;
(2) demand shifts, and
(3) merger and acquisition (M & A) activities.

The effects of these forces on the industry are represented in Figure 2.

Technological change

As alluded to in the introduction, technology plays a dominant role in changing en masse the publishing industry. Almost all facets of the industry, from the writing of a book to distributing it to final consumers, have been positively affected by technology, which comes in many forms.

Except for those writers too stubborn to change, or those who dictate their work, many writers no longer use the typewriter to write. Their role has been facilitated by word processors, the personal computer (PC), and desktop publishing. As PCs become more powerful and affordable, there is no compelling reason for a writer to return to older technology. Of course, hardware alone is not sufficient to this end. The development of word-processing programs has also kept up with the pace of hardware improvement. These programs are loaded with features that enable the writer to create a table of contents, index, tables, figures, and charts easily and quickly. As these programs are also becoming more user-friendly, there is a low cost opportunity to learning how to use them. The decreasing cost of high-quality laser printers has also improved the readability and professionalism of manuscripts.
The editorial staff at publishing firms also find it easier to edit and compose a book by performing these tasks using a floppy disk on a PC. However, technology in the form of CD-ROM (compact disc-read only memory) has had a bigger impact on publishing firms. In 1993, the installation of CD-ROM machines grew to 4.5 million units, and is projected to reach 10 million by 1995. A total of 62 publishers of CD-ROM titles reported sales of $202 million (from eight million discs) in 1993 (Baker, 1994b). For many publishers, interest in CD-ROM evolved slowly. For instance, at Penguin USA, the subsidiary rights department began fielding so many calls from CD-ROM specialty companies looking to license Penguin's books for their projects that it finally spun-off an electronic publishing department of its own (Davids, 1994).

The Internet is another dimension which is affecting the publishing industry. In the late 1960s, the US government established the Advanced Research Projects Agency (ARPA), which developed a computer network, the ARPAnet. This network expanded to three major networks (BITNET, CSNET, and NSFnet) in the 1980s. These networks allow an unlimited number of computers to communicate, without relying on any single computer to undertake a policing role. The rationale was that a centrally managed network would be too vulnerable to "nuclear decapitation". As there is no controller of the Internet, it is open to abuse (Kantor and Neubarth, 1994; Verity, 1994). As of May 1994, there were more than 2.2 million host computers connected to the Internet (Calcari, 1994). It is a potentially lucrative source of income for publishers. Time Warner Inc. recently began offering its magazines on the Internet. The new service, called Pathfinder, allows computer users to read articles from magazines such as *Time*, *Sports Illustrated*, *Entertainment Weekly* and *Vibe*, and exchange messages about what they read. This free service allows for full-colour reproductions of magazine covers. Ultimately, Time Warner plans to allow advertising on the network and charge users a fee so as to yield a profit (Ziegler, 1994). In another development, Moon Publications, publisher of the *Travel Handbook* series, recently launched three on-line information services on the Internet. However, instead of accepting any direct-mail orders, Moon refers potential customers through a listing of 500 bookstores arranged by zip code and county (See, 1994).

Many entrepreneurs are also capitalizing on the burgeoning growth of the Internet by offering novel publishing services. For example, David Cole, former CEO of Ashton-Tate Corp., is building software called Navisoft that uses the World Wide Web as a medium for electronic publishing. He claims that for as little as $15,000 in hardware and software, anyone can publish on the Web using Navisoft's package (Verity, 1994).

The printing process has also been directly affected by new technology. R.R. Donnelley, the $4.4 billion leader in commercial printing, is the first in the industry to install automated plate-making hardware and software for high-quality offset printing, which uses aluminum plates to transfer images to paper. This new technology will speed up the plate-making process on plant floors. This process is made possible by computer-to-plate recorders that will eliminate
the labour-intensive step of using film to make printing plates. Donnelley also
plans to soon implement digital presses for small-volume jobs and a relational
database from Oracle Corp. to store client files so reprints of books or
catalogues can be made more easily, as well as in different sizes. It is expected
that converting to digital technology will eventually make books-on-demand
services possible in the future (Appleby, 1994).

Bookbinders have also embraced new technologies in their trade. The
current trend is toward many short runs at great speed. Berryville Graphics, a
part of the Bertelsmann Printing and Manufacturing Company, is acquiring
new bindery equipment that would alleviate the traditional and time-
consuming problem of changing the set-up of machinery each time for the
binding of different books. The new system works from signatures printed and
gathered in pairs, then split on the bindery line. The entire process, from
gathered signatures to finished book in the carton, takes six-and-a-half minutes
and produces 6,000 hardcover books per hour. Although this is not the fastest
bindery, it is the most efficient because of flexibility of set-up and schedule, and
lack of downtime. This system also reduces the number of employees needed to
run it by about one-third (Hilts, 1993).

Even the process of distributing books to the final consumers has been made
easier with electronic mail, inventory management programs, and other tools.
For instance, there are now at least 17 computerized inventory systems to help
booksellers maintain on-line information of their stock, install a customer
database, enhance security, and improve accounting activities (Stander, 1994).
An example involves Powell’s Books, in Portland, Oregon. Powell’s carries more
than a million new and used volumes mixed together on the shelves in its City
of Books and five satellite stores. It contracted Computac to computerize its
inventory system. Powell wanted the system to be able to identify each copy of
a book: whether it is new, old or out-of-print; its edition; its condition; its price;
its ISBN, if any; and its location in Powell’s, where many titles are cross-shelved.
The Computac system will also allow integration with Powell’s Novell network,
which allows communication among employees and has a series of built-in
reference materials such as Books in Print (Mutter, 1994).

In addition, new printing technology such as digital colour presses will
enable booksellers (bookstores and chains) to provide books-on-demand service.
Donnelley’s digital division will use digital presses connected to its clients and
other manufacturing facilities through Donnelley’s high-speed electronic
communication system. In the long run, this means a fundamental change in
the industry. When orders for a book or 10,000 books can be filled overnight,
there is no need for long press runs, with associated problems of warehousing,
inventory, and returns (Taylor, 1994). For example, Apen Press Ltd, a $1
million children’s book publisher that began operations in 1992, receives orders
and payments electronically from customers such as J.C. Penney Co. and Dillard
Department Stores Inc. Advance orders enable Apen to predict accurately
demand, and print the books accordingly. Inventory costs are also minimized
(McWilliams, 1994).
Demand shifts

According to Eisenhart (1994, p. 158), “the same baby boomers who rose up in revolution against the ‘material world’ in the 1960s have rechanneled their energy into a consumer society extraordinaire, demanding products and services that meet diverse and specific needs and that match lifestyles now grown powerful with an enormous aggregate earning and spending capacity”.

Most consumers aged between 20 and 30 who grew up with the PC when it was first introduced in the marketplace are familiar with new technology such as the Internet. Exposure to such technology from a young age have equipped such consumers with skills that are central to the educational curriculum. The capitalization on the PC as an educational tool has also enhanced sales of CD-ROM titles. Parents are buying enormous amounts of educational software for their children. It is estimated that sales of educational software grew 77 per cent in the first six months of 1993, to $66 million, faster than any other category (Taylor, 1994). Experts agree that sales of CD-ROM hardware have already reached critical mass, and software developers are rushing to claim their share of the pie.

From their exposure to computer technology, consumers are more sophisticated and able to exploit new technologies for their reading needs. The proliferation of PCs both at work and in the home means greater sophistication in the generation, processing and storage of information by consumers. For example, a reader can now search for required information from sources worldwide, browse and retrieve selected materials, as well as obtain assistance at any point in the search process. The ability to perform these tasks from one’s own network-connected computer – instantly, anytime and anywhere – describes the Library Without Walls (Clement, 1994), another related institution that is being transformed by new technology.

As consumers grow in their technical sophistication, the demand function also changes. The product offering is no longer dictated solely by publishing houses. Ease of access to information sources as well as increasing disposable incomes enable consumers to partially determine the product offering. The wide range of reading interests also creates demand for vastly different reading materials. It is an understatement that books cover every imaginable topic under the sun. Indeed, growing literacy rates across virtually all societies also increases demand for books. Although books covering topics of general interest will continue to flourish, increased specialization among consumers also ensures that niche markets will expand in the future.

According to former Times Mirror group vice-president Jerome Rubin, whereas Gutenberg’s movable type enabled such mass distribution of identical copies upon its implementation in the fifteenth century, the twentieth century’s “electronic technologies allow the creation of infinite variations” (Rubin, 1990). Basically, new technology has enabled the consumer to assume some of the traditional publisher’s role in the choice and format of information, leaving the consumer with more control. For example, when LEXIS, the on-line legal information service, was introduced in 1973, legal publishers saw their role as
providing substance to their readers in fixed and predetermined formats. However, it transpired that they put more control in the hands of the user, enabling her to control both substance and format.

Mergers and acquisitions
A merger or acquisition is an exchange of existing assets (a purchaser pays cash for the plant, equipment, personnel, and goodwill of an existing firm) (Golbe and White, 1988 p. 40). More specifically, an acquisition is the outright purchase of either assets or the equity of the target company, while a merger consolidates two or more entities into a single economic unit. With numerous accounting and takeover regulation consequences, the merger route can prove an effective solution to the goals of both parties (The Economist Intelligence Unit, 1994). There are four alternative acquisition approaches:

1. horizontal (a firm acquires another in the same industry);
2. vertical (the acquiring and target firms are in industries with strong supplier-buyer relationships);
3. concentric (the acquirer and target firms are related through basic technologies, production processes, or markets), and
4. unrelated or conglomerate.

(The focus is on how the acquired entity can enhance the overall stability and balance in the firm's total portfolio, in terms of better use and generation of resources) (Lorange et al., 1987.)

There are seven basic motivations for a firm to engage in M&A activities (McCann and Gilkey, 1988):

1. Risk reduction and diversification.
2. Competitive reaction.
3. Perception of underutilized or undervalued assets.
4. Anticipated synergies in markets, finances, operations, or human resources.
5. Legal and tax benefits.
6. Access to new technologies or processes.
7. Ego-emotional or psychological motivations.

The publishing industry has a long history in M&A activities. From 1885 to 1890, a rush of mergers took place; Merrill, Meigs & Company merged with Bowen Stuart & Company (1885), Ticknor & Company formed to take over the bankrupt Osgood firm (1885), David McKay acquired H.C. Waters & Company (1885), Houghton Mifflin acquired Ticknor & Company (1889), and the American Book Company was formed by a merger of several textbook firms (1890) (Madison, 1966). From 1965 to 1969, at least 23 mergers occurred annually. The peak years were 1968 (47 mergers) and 1969 (44 mergers). The next wave of merger activity took place in the mid-1970s. From 1974 to 1978, 15 or more mergers took place annually. According to Coser et al. (1982),
historically, book publishing has been a competitive industry primarily because of the low capital entry costs, which made the industry susceptible to mergers because of the many undercapitalized small firms. Table III shows the M&A histories of four publishing firms, HarperCollins, Random House, Simon & Schuster and Time Warner from 1960 to 1993.

An example of a recent, prominent merger in the publishing industry involves two European firms, Reed International PLC, a British publishing house, and Elsevier NV, a Dutch scientific publisher. It was determined that a merger assisted both groups in circumventing the iron-clad takeover rules of the UK and The Netherlands. This is an example of a conglomerate merger, bringing together both firms’ complementary attributes, enabling them to strengthen their competitive positions. In this case, Reed held a strong position in the UK and the USA, while Elsevier’s strength was primarily in Europe.

The deal, worth $9.27 billion, was completed in 1992. The merged companies employ more than 25,000 people, have $3.5 billion in revenues and $636 million in pre-tax profits. After the merger, Reed International and Elsevier continue to operate as separate entities, with cross-shareholding. Shares in the two companies are traded separately, with both firms being listed on the London and Amsterdam Stock Exchanges.

The structure calls for both firms to manage operating businesses of the merged group on a unified basis. The board of Reed Elsevier will initially comprise 12 executive directors (six from each company) and eight non-executive directors (four from each company). All decisions require a two-thirds majority. It is still too early to determine whether the merger is a success, but signs indicate that it will be (The Economist Intelligence Unit, 1994).

Strategic implications
The combination of the three forces have significant bearing on the industry. I examine them in terms of market structure, integrity of the book, copyright, and the distribution process.

Market structure
The economic perspective is often tempered by how economists define the “market”. The market facilitates exchange among its participants, which are made up of two factions; suppliers and consumers. In the case of the publishing industry, the composition of suppliers can be broken down further into the:

- author;
- agent;
- publishing company;
- printer/binder;
- wholesaler; and
- retailer.
<table>
<thead>
<tr>
<th>Year</th>
<th>HarperCollins Events</th>
<th>Random House Events</th>
<th>Simon &amp; Schuster Events</th>
<th>Time Warner Events</th>
</tr>
</thead>
<tbody>
<tr>
<td>1990</td>
<td>Harper sells Lippincott to Wolters Kluwer</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**Source:** (Baker, 1994, p. 38)
Decisions on the supply side determine in part the choices made on the demand side, and vice-versa. However, market transactions in the publishing industry are also affected by binding constraints imposed on the transacting parties by forces external to the market. These forces — technological change, shifts in consumer demand, and M&A activities — significantly affect the way transactions are conducted.

Notes:
1. Broken lines indicate shares that carry special dividend rights enabling Elsevier to receive dividends from a company within the same tax jurisdiction. These shares do not carry any capital rights beyond the right to repayment of their nominal value, and Reed Elsevier controls these companies notwithstanding the voting rights attaching to these shares. The shares held by Elsevier in Reed Elsevier Nederland BV will result in that company and its subsidiaries being dependent companies of Elsevier.
2. Reed will also hold £100,000 nominal of 7.5% (net) preference shares in Reed Elsevier, which will not carry voting rights.
3. The underlying equality of the relationships between Reed and Elsevier is reflected in each having 50% of the equity capital of Reed Elsevier and Elsevier Reed Finance, and equal voting rights in those companies.
The continuing trend of M&A activities has significantly altered the competitive structure of the industry. Indeed, a common concern is that of the major publishing houses continuing to acquire the smaller publishers that have traditionally been viewed as being more innovative in publishing works for specialized niche markets. To sustain their existence, the giant publishing houses continually seek potentially "bestseller" materials, while the smaller ones are more willing to take a chance on works of quality by lesser-known authors. However, the surprising ability of these smaller firms to remain profitable have forced the bigger publishers to re-examine their operating strategies (Baker, 1994a). The focal motivation is of corporations seeking to match resources with one another to complement their particular strengths. The twist here is that there will be more cross-industry M&As. For instance, publishing houses will merge or acquire computer firms that have the necessary interfaces to produce books in electronic media - this trend is also increasing. For example, Microsoft bought a stake in the British reference publisher Dorling Kindersley in early 1991. A simple analysis reveals that Microsoft, a "conduit" of information flow, intends to have a stake in the contents as well. The American Heritage division of Forbes Inc. has also joined forces with the Byron Preiss Multimedia Company to co-publish many of its classic books in electronic editions (O'Brien, 1994).

We can predict with some degree of confidence that there will be a paradigm shift in the structure of the book publishing in the twenty-first century. In adopting the Kuhnian concept of paradigm shift, we observe that "all the earmarks are there for a fundamental shift in the world of publishing: philosophical analysis and the study of underlying issues; perplexing anomalies besetting the community of practitioners; different communities seeing the same thing differently; shifting allegiances; and a paradigm of future promise versus one of past achievement" (Eisenhart, 1994, p. 37). In our context, the paradigm shift is from traditional publishing to information age publishing.

Integrity of the book
In the information age, the publisher no longer views himself as the purveyor of physical products, but of ideas and information. The publisher's asset lies in the contents, to which he adds value by providing them in different formats. With new and emerging technologies, the publisher is also not restricted to the printed media. Electronic forms offer greater flexibility, including high resolution moving objects and sounds.

The information age publisher's customers are not only readers, but also viewers (of videocassettes), listeners (to audio cassettes), and users (of software and on-line services). Rather than selling products to the consumer, the publisher strives to serve the consumer in whatever form the latter desires. As prices of computer hardware and software continue to drop, publishers should be able to tap into a greater number of households which should be able to afford them.
Technological progress will also enable literary works to be translated into a multitude of languages quickly, and be marketed at the same time. Just as electronic data communications via satellite technology enable newspapers to be transmitted, printed and sold globally, a similar phenomenon will occur in book publishing. Eisenhart (1994, p. 37) calls it “recombinant publishing”, which is “the information age equivalent of anthology publishing, made possible by electronically stored and manipulated content. It is a subset of derivative publishing opportunities that uses content not just in its entire, discrete original form but in segments, as well.” In the new publishing environment, consumers are able to interact directly with the source of information. Personal computers allow consumers to retrieve information and manipulate it as they choose. Consumers can also create their own digital libraries, converting the publisher’s inventory from physical to electronic form. This allows them to maximize their utilities; by choosing what they want at their convenience and in the format they want. The digital library can feed the publisher’s own packaging and derivative publishing mechanisms as well as on-line, on-demand, and custom publishing mechanisms. Being cognizant of this trend, more publishers are moving toward publishing in the electronic media. Consumers can browse through book titles from the electronic catalog and place their orders directly to the publisher. Alternatively, the digitized version of the books can be transmitted directly to the consumer, who could download them onto diskettes or the hard drive in the personal computer.

The conventional view of the book being a pre-packaged good, to be picked off the shelf, will be augmented by a broader definition of the term. The rapid

<table>
<thead>
<tr>
<th>View of the business</th>
<th>Traditional publishing</th>
<th>Information age publishing</th>
</tr>
</thead>
<tbody>
<tr>
<td>View of the offering</td>
<td>Format-based</td>
<td>Content-based</td>
</tr>
<tr>
<td>Media formats</td>
<td>Product: book, magazine, etc.</td>
<td>Products and services: ideas, information</td>
</tr>
<tr>
<td>Technology orientation</td>
<td>Print</td>
<td>Print and electronic</td>
</tr>
<tr>
<td>Process technologies</td>
<td>Technology-bound</td>
<td>Technology-inspired</td>
</tr>
<tr>
<td>Messaging symbols</td>
<td>Mechanical</td>
<td>Electronic</td>
</tr>
<tr>
<td>Marketing orientation</td>
<td>Words, numbers, still images</td>
<td>Words, numbers, still images, plus moving images, voice, sound reader-viewer-listener-user</td>
</tr>
<tr>
<td>Communications flow</td>
<td>Product-focused</td>
<td>Market-focused</td>
</tr>
<tr>
<td>Distribution method</td>
<td>One-way: point-to-multi-point, disconnected</td>
<td>One-way and two-way: disconnected plus networked</td>
</tr>
<tr>
<td>Distribution cycle</td>
<td>Physical</td>
<td>Physical and electronic</td>
</tr>
<tr>
<td>Management</td>
<td>List, periodical</td>
<td>List, periodical, open channel</td>
</tr>
<tr>
<td></td>
<td>Format-specific</td>
<td>Integrative</td>
</tr>
</tbody>
</table>

Source: (Eisenhart, 1994, p. 38)
conversion of texts into digital form means that consumers can have the written word on CD-ROM, CD-I, VIS, on-line services on the Internet, videotex and teletext (interactive television), magnetic disks (expanded books) and audio cassettes (books on tape), among other technologies.

Copyright
An issue that has received greater scrutiny with the advent of the information superhighway is that of copyright. It is implicitly assumed that the exponential growth of the Internet will lead to an accumulation of data and information. However, unless the creators of information are assured that their creations will not be misused, the wired world could develop a short circuit (Port, 1994). Currently, anyone with a personal computer and a modem can download the digital version of creative efforts (e.g. books, paintings, music) to a bulletin board system. Once downloaded, any other persons on the Internet could easily obtain copies of the work. As there are over 2.2 million computers connected to the Internet, copyright violations and loss of royalties to authors and publishing houses are severe.

The copyright laws incorporated in the Constitution are inadequate in the present age (Wilson, 1995; Woo, 1994). The White House has set up a committee headed by Bruce A. Lehman, commissioner of the US Patent and Trademark Office, to study the issue. The measures proposed by the committee in their draft report may overhaul the way the Internet is run. Among other things, they propose to ban certain copying devices, oppose libraries electronically shipping books to patrons, and barring entrepreneurs from renting out digital works the way they do videocassettes (Woo, 1994). However, whether the implementation of these tough measures will be successful is open to speculation.

The changes in technological progress are so rapid and often that publishers are finding it difficult to keep up. Sometimes, the measures taken to catch up are radical. If it is any indication of things to come, Random House recently revised its standard contract to authors. The publisher demands control of all electronic publishing rights, including rights for technologies not yet invented. In return, the publisher would pay authors 5 per cent of the revenues from electronic products, less than half of what is traditionally paid on paperback and hardcover books. The contract would also allow Random House to adapt and abridge the electronic version of a work without the author’s approval. This new contract has met with consternation from authors and their representative bodies (Reid, 1994). The lop-sided agreement may provoke authors to switch allegiance to other publishers, or may even create disincentives for authors to continue writing.

Distribution channel
In traditional publishing, several channel members are essential in distributing the book from the publisher to the end-user. These institutions include the wholesaler, the publisher’s representative, commission salespeople, jobbers, book clubs, and other retailers (including bookstores). In terms of marketing,
distribution through longer channels seems particularly suited to books (Vanier, 1973). Books are low-tech items that require no demonstration before purchase or after sales service. In addition, books are generally low-priced, not justifying using the shorter, and more costly, channels. Generally, relationships among firms on different channel levels are cooperative. The rationale lies in entering a channel relationship to co-operate for mutual advantage. In an attempt to maintain harmonious relations with other channel intermediaries, publishers are often willing to go to great lengths to please them, such as extending the policy of permitting returns of unsold copies (Vanier 1973).

However, information age publishing creates changes in the distribution channel. Consumers' ability to compose their own books, with materials culled from several sources means that the distribution channel would be significantly altered, and the wholesaler as we know it would cease to exist. The publisher can be linked electronically to all retailers, who serve individual consumers. While traditional publishing pushes information in one direction, in the new age, information flow can be bi-directional or even networked. The new paradigm is able to accommodate both passive and interactive media. With greater flexibility in the format, the publisher is also not restricted to distributing his/her goods/services physically, he/she can now also do it electronically via open channels. The role of the publisher could also be enhanced. It could expand its assortment to include other entertainment items such as music, movies and electronic games.

This could mean the slow elimination of several channel intermediaries. As publishers can access customers directly, aided by fast and inexpensive printing technologies (e.g. McGraw-Hill's Primis system), they have little need to go through traditional intermediaries such as wholesalers and retailers. As such, we are witnessing structural changes in book retailing. Small, stand-alone stores are slowly being replaced by chain stores. Chains such as Walden's, Borders, and Barnes and Noble are being established throughout the major cities in North America. They range anywhere from 20,000 to 50,000 sq. ft, and concentrate on store ambiance as their selling point. Many of them include cafes, music sales, and big, comfortable chairs for customers to browse books. In addition, their buying power allows them significant discounts from publishers, and they are able to pass on these discounts to customers.

The Internet is also providing a new outlet for publishers. Currently, several of the major publishing houses have established Web sites on the Internet. Consumers can access these Web sites from their homes with the help of their PCs, modems and software. Some of these publishers already enable consumers to browse through titles, read abstracts, reviews by critics, the author's biodata, and order the books. Purchases can be made using credit cards, and the books can be delivered to the consumers' doorsteps within a few days.

**Conclusion**

In this survey of the book publishing industry, I have shown how three major forces of change are reshaping the industry structure. They produce many
Implications that affect the way the industry should respond. Shifts in consumer demand mean that as consumers become more discerning in their choice of reading materials, they are able to exert greater pressure on the publishers. The ease and low-cost of access to print materials on the Internet also forces publishers to respond in various ways to meet customer demand. Of course, much of the consumers’ actions are aided by technological progress, particularly the PC and advanced telecommunications. Many publishers have likewise used the Internet as a new means of distribution, albeit electronically. It also appears likely that publishers will continue to merge or acquire other companies, though not necessarily other publishing houses, in order to improve their product assortment by complementing each other’s strengths and offerings. We can also expect to see more cross-industry mergers and acquisitions. All of these imply that the book publishing industry is moving towards heady times, and may experience the greatest transformation that it has ever undergone.

References
Evolution of the book publishing industry

Shatzkin, L. (1982), In Cold Type: Overcoming the Book Crisis, Houghton Mifflin, Boston, MA.