Book Distribution in a Changing World
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I've been intermittently blogging about the goings-on in publishing and the supply chain for a couple of years now. I know from my IPG days that step one in booking seminar speakers is to flatter them - so I guess I should have been suspicious when Peter started saying nice things about what I have been writing…

I am delighted the theme Peter gave me includes the word "Changing", because endemic change is what makes the supply chain a fascinating place to work.

The speakers following me are all going to be focussed on specifics, so I propose to set the scene by making a series of observations. Here's one.

[Dr Seuss Slide]

My professional life is currently engaged almost entirely with physical books and managing what is required to get them into the hands of the people who need and want them. I suspect that the majority of you are more involved with new technologies than I am. But like you I do work with screeds of data and spend a lot of time analysing it for trends that indicate transformational change.

[WH Auden Slide]

This, from one of my favourite poets, pretty much sums up how I felt on landing up in the book industry supply chain seven years ago.

I was very much a novice in a world dominated by enormous spaces, pallets, trucks, racking, process, standards and data (and I am one of the world's least process-driven people). Particularly in America, distribution was dominated by "logistics veterans" and America reveres its veterans in all walks of life. Distribution on the East Coast has a large footprint in New Jersey, (think: The Sopranos).

But looking in from an outsider perspective can make it easier to spot change, and its impacts. So whilst I can occasionally pass for "one of the boys", can hold my liquor and now know more about racking, fork lifts, carriers and pallets than I ever hoped I would – I've preserved my outsider way of looking at things, because it helps me to manage change.

There are some companies represented today whose distribution service is part of the overall company. Where a publisher is their own distributor (which these day is only viable for the very largest and very smallest of publishers, everyone else uses a third-party), the dynamics of investment and of service differ a bit from the observations I'll make. However the distance from editorial, marketing and PR to customer services and credit control – and the consequences of this distance – can still be enormous.

[Change slide 1]

Change observation 1: It's not new

There's a tendency in our industry to panic about change –
But the book Industry has been changing ever since a scribe put quill to parchment (or stylus to tablet).

Scrolls – codex
Manuscript to press
Cold type
Hot type
Paste up (that's where I entered the industry. I'm a dab hand with typeset text; a grid, scalpel and spray mount, and can even strip corrections into 4-colour separated film. Skills that are entirely redundant in the days of straight to plate technology.)

Change is very definitely not new.

[Change slide 2]

Change observation 2: It isn't always obvious

Whilst change isn't new, it can sometimes be invisible. Very few publishers are aware on anything but a subliminal level of the process changes that have been taking place in how books get to customers. This is because the customer interface is largely seen as a back office or an outsourced task. We like to think in terms of the "channels" that books are sold through – chain, wholesale, independent, library supply (if you are lucky). Only highly specialist publishers of very high priced product think in terms of the individual customer.

At NBNi we ask publishers to allow our customer-facing staff to attend their sales conferences – to improve product knowledge and build relationships. In nearly seven years, I have never known a publisher ask to send any of their staff to work with us – on the phones, listening to customers and learning to understand the processes involved in getting books into customers' hands. (If publishing staff did so, they'd understand a whole lot more about the primacy of good bibliographic data.)

There seems to be a communal blindness to the enormous educative power of consumer interactions. (Read HG Wells' The Valley of the Blind to find out where communal blindness can lead.)

And that's how whole revolution can have taken place in the supply chain without publishers noticing. For example, I am astonished to still be asked, "Who are the Book Depository?" (I am not at all anti-Book Depository. I think they are a brilliant company – but their just-in-time-zero-stock-holding business model beautifully illustrates the way in which rapid data exchange, EDI and rising customer expectations have transformed the operations and fundamental premise of book distribution.)

Ignorance of the changing dynamics of the supply chain at even the simplest levels is dangerous. Because it leads to publishers making uninformed product development, sales and discount decisions based on old-world norms and expectations.

Change isn't always obvious.

[Change slide 3]

Change observation 3: It's not unique

I grew up in the North East of England when the region was suffering an identity crisis of epic proportions. The traditional employers – coal mining and shipbuilding were dying – resulting in social and economic pressures that culminated in the miners' strike. In the following decades, the employment profile in the area has migrated to service industries such as call centres, and financial services (until the sub-prime mortgage market did for Northern Rock, in any case).

Those of us studying A level geography at the time learned that what we were witnessing was the economic theory known as “Tertiarisation”, or “the three sector economy” in action.

Something that puzzles me about the book industry is that because we work with books – which have been around for so many centuries – we seem to see ourselves as insulated from the great economic trends that sweep the world’s economies. Publishers’ self-perception seems rooted in phase one of the three-sector economy (extraction) – extracting IP from authors, or possibly stage 2 (manufacturing) – making books as physical objects. Perhaps we’d all do well to take a running jump into the third sector – the service economy – because if we regarded ourselves as service providers – we might get back ahead of the game.

Not only do we face a world where our product has become uncoupled from its long-established delivery method (the book) – but right now, revenue from those same books still forms the majority of revenues and cash flow for the business. Therefore we have to buy time to invest in our future by making the process of obtaining physical books as easy and as pain- free as possible in a consumer economy. That is by investing in an efficient, effective supply chain that competes with other offline and online consumer experiences in the service economy.

Change is not unique to us and we can learn from how change affects others.

[Change slide 4]

Change observation 4. It’s getting faster

I was dismissive of a tendency to panic at the notion of change – but I think the pace of change gives us plenty to be concerned about.

Wikipedia describes Moore's law as follows

> “a long-term trend in the history of computing hardware. The number of transistors that can be placed inexpensively on an integrated circuit doubles approximately every two years.[1] This trend has continued for more than half a century and is expected to continue until 2015 or 2020 or later.
>
> The capabilities of many digital electronic devices are strongly linked to Moore's law: processing speed, memory capacity, sensors and even the number and size of pixels in digital cameras.[3] All of these are improving at (roughly) exponential rates as well. This exponential improvement has dramatically enhanced the impact of digital electronics in nearly every segment of the world economy.[4] Moore's law describes a driving force of technological and social change in the late 20th and early 21st centuries.”

So not only have content and books moved out of their exclusive marriage into an open relationship that can include all sorts of other partners (web-based delivery, e-book readers, apps, iphones), but publishers and booksellers are operating their businesses in a social and economic framework that is being propelled by laws of exponential change. The book is a product with a comparatively stable, if low, perceived value fighting for life in a dynamic, volatile world of constantly upgraded consumer goods, rapidly changing social expectations and enormous peer pressure.

Moore's law has made change exponential.

[Change slide 5]

Change observation 5: even if it leads to long-term efficiencies and savings, change requires investment.

Change doesn't just happen. It requires a decisions and investment in those decisions. In the modern supply chain, change always requires an investment in I.T. Distribution is underpinned by data, and databases cost money. Improving and upgrading databases costs even more money. Mining, exploring and exploiting the meaning and value of data from those databases costs even more more money.

Our industry started off well in pioneering change in the form of isbns and bar codes, but failed to follow up swiftly enough to exploit the advantage through EDI and more and better metadata, despite the sterling work of people like Peter pushing for the standards that came to facilitate the transactional basis of our businesses.

But change is not only technological. It's cultural. Systems are only as good as the people who specify them and the people who use them – and unless they are trained and buy into what you are trying to achieve, it will all be money wasted.

Or as the NBNi I.T. manager said to me last week:

[Training IT Slide]

And of course cultural change can be expensive because it can mean reorganising a work force. And reorganisations cost money. At NBNi we have just gone through the process of merging three outward facing departments into one. Publisher Services, Customer Services and Sales Order Processing – all of which previously existed as separate departments with separate supervisors come into one department with a team-based structure. The overall and over-riding responsibility of each team being to deliver fast, accurate services and query resolution for all of our outward interactions, be they with a publisher or a customer. Our people now have to be multi-skilled and have a much broader understanding of how our operations and processes all hang together.

Gone are the days of blaming "the system" (and in operations environments "Systems", like Hal or Marvin the paranoid android can develop quite distinctive and obstructive personalities). This change has come about because we have begun to see ourselves as providers of service, not as purveyors of products. It sounds simple, but the investment and management cost of making this change has been significant, yet unavoidable for our business to have a future in a service economy. Which, like it or not, is what our industry now has.

Change requires investment in systems and people.

[Slide: And your point is?]

So, what do all these changes mean for Book Distribution?

Until recently book distribution has always meant “print book distribution”.

Bearing in mind Moore’s law and its technological and social impacts it is obvious that within a very short time the majority of publishers will earn revenues from products other than books.

“*Same old, same old*,” you might say. Publishers have always derived revenues from a variety of sources, including permissions, rights and so on. However this will be the first time that income has derived simultaneously in volume from multiple products, channels and services through multiple transactional interfaces (and we’ve already established that publishers know little about these because they’ve been outsourced for decades).

Book industry customer services departments (i.e. the distributor’s customer services staff) suddenly have to be able to provide customer services for products and services that are not in their warehouse and may not even be in their product database. The publisher suddenly – and possibly unwittingly – now has more than one point of customer services provision to deal with. In the meantime customer service staff in the book distribution centre look like idiots because they can’t answer reasonable and straightforward questions across the entire product and service range. In the coming years this fragmentation is going to be a real challenge to customer service provision if we don’t recognise the problems it creates and address those problems quickly.

As an industry we seem to *really like* to put people and things into silos. And that’s not the way the world is moving. Empowered, informed consumers expect instant answers to all their needs and questions, so woe betide us if we haven’t anticipated them correctly.

I don’t know if anyone here was at this year’s O’Reilly Tools of Change conference in New York. I wasn’t able to be there – but thanks to ToC technology, I was able to watch the webcast of my friend Brian O’Leary give his presentation “Context First” in which he coined the phrase: “context not containers”. Brian is a workflow guru who came to publishing from a magazine background, and who understands that publishers getting their digital workflow right will enable them to effectively use and monetise content in multiple channels.

Brian proposes that what publishers must do is fully understand the contexts in which consumers wish to obtain and utilise information and content. The context of the interaction with the content then takes primacy over the container in which that content is delivered. Brian’s thesis, in a nutshell goes: "hire people who know about creating content components, selling them directly and accepting micro payments".

So although Brian’s thoughts ought to threaten the distributor in me because they further uncouple physical books from the content, in fact they chime with mine on the fact that the publisher has got to get a whole lot more interested in the customer – and in particular where, when and how consumers want to access content, and where, when and how are they prepared to pay for it (or someone prepared to pay for it on their behalf).

SO – just a couple of minutes left to go. I know it’s traditional to end with a recap of points made. However I’m not going to do that. Instead I would rather point out some implications of the observations I have been making

This approach is informed by Peter's response to an early draft of this presentation, which went: "It's very interesting, but it is not what I was expecting."

"What were you expecting?" I asked.

"A more distributor-type rebuttal that distributors and printed books were a dying breed," came the reply.

I made five observations so to be neat – and to keep Mr Kilborn happy –
I'll outline five "distributor-type" implications of those observations

1. The book industry supply chain is changing. Something else needs to change with it, and that is the adversarial undercurrent in relationships between many publishers and their distributors. Publishers are prone to regard distributors as sharks who charge for anything at the earliest opportunity. Distributors are frustrated that publishers don't take the time to understand them and the enormous costs and pressures of managing change.

   Publishers and their distributors have reached a point where to remain competitive they have to put their arms' length and mistrusting relationships behind them. The economic forces at play in our technological environment, economic environment and social environment are creating empowered, demanding customers. To make a paradigm shift into the service economy, publishers and their distributors are going to have to collaborate to deliver services across multiple product and service ranges – which will include books – and to interface with customers in many different ways.

2. Our industry needs to hire in new customer service and transactional expertise. This could be a hard one to swallow because we like to think in term of volume sales in big round numbers. But very soon we are going to have to get to grips with micro payments. A less scary way to think of it might be: even bigger volume sales but involving fractions, not rounding.

3. The supply chain is changing – and requires investment in systems and in human interfaces. Big investment. Publishers need to think about who pays their customer-facing staff and for their transactional I.T. systems ***before*** they whittle commission rates down by putting their trading partners in customer service provision through yet another competitive tendering process to pare another percent off the commission. That's not how investment happens.

4. 1-3 above suggest to me that we are approaching a time when publishers and distributors are going to have to face up to putting their financial relationship on a different footing. In a changing world, commission on print book sales may not do the job much longer.

5. Collaboration starts with open, honest and trusting conversations. And those conversations need to start now.