ATG Interviews Jay Jordan, CEO, OCLC

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Interview conducted December 7, 2001.

ATG: First, Jay, congratulations to you and OCLC on the prospective purchase of netLibrary. I suspect there are a lot of relieved library customers out there, who very much wanted to see netLibrary continue in some form. Can you tell us where the deal and related bankruptcy court proceedings stand as of today (12/7/01)?

JJ: The types of hearings that you would expect to occur are, in fact, occurring now. There was a hearing on December 3rd, and the Court has set the next hearing date for January, after the holidays. In the interim, additional data is due from OCLC/NetLibrary, for the benefit of the understanding of the creditors. OCLC continues to perform due diligence—which is both logical and allowed—as we continue to try to understand business models for both netLibrary and MetaText.

ATG: Is there any chance in your mind that this deal won’t go through? Is there anything that could derail it?

JJ: Well, the creditors and the Court ultimately have to approve what’s going to happen. So there are other options—one option being that they find a buyer that offers more money. Bankruptcy is an open process, so that’s one thing that could derail it. And OCLC has its options should something unexpected occur. But again, our role right now is to continue due diligence, and to continue working with netLibrary, publishers, distributors, and libraries.

Obviously, we wouldn’t have invested the time, nor would we have offered the bridge loan, or the price we did if we weren’t optimistic that we could 1) complete the purchase of the assets, subject to the ruling of the Court; and 2) we saw a business model that was promising for the future.

ATG: What attracted OCLC to the idea of purchasing an eBook provider? Librarians don’t necessarily think of OCLC as a content provider, but rather a cataloging and metadata utility. How does the acquisition of netLibrary fit into OCLC’s long-range plans? Into the “extending the cooperative” strategy that OCLC announced last year?

JJ: Yes, we think it fits very firmly within the scope of that strategy. And although we’re primarily known for other services, OCLC has in fact been providing content via the FirstSearch service, and within that the Electronic Collections Online, for 10 years now, and that has continued to grow year after year.

As for why OCLC is interested in netLibrary, first, we see an overlap in customer base of close to 100%, since OCLC serves 40,000+ institutions. Second, if you look at the channels, the overlap between the US networks that provide OCLC services to libraries and the netLibrary distribution agreements with those same networks, very high overlap there. So, from a content standpoint, a metadata standpoint, and the fact that it’s a service provided to libraries, we think it’s a very clear fit within the strategy.

ATG: According to press reports, OCLC will pay approximately $10 million for netLibrary, plus provide another $2-3 million in loans. That’s quite a good deal, really, for a company that at its peak was valued at $450 million! What exactly has OCLC bought of netLibrary’s assets?

JJ: The offer, and the fact that we’ve provided a bridge loan for working capital is part of the public record. I’m not going to discuss prior valuations because I don’t think it’s germane. Our offer is to purchase assets, and that includes the technology, the platform, and a substantial number of the key employees that have kept that platform running through a very difficult period.

We know that the platform scales, that it’s reliable, and that netLibrary has a dedicated team of employees. And again, I think that the fact that they’ve come through this difficult period is testimony to the commitment of the team in place. So we think the combination of the two organizations are interesting indeed.

ATG: I know that OCLC, as a not-for-profit organization, doesn’t measure its results in “profits” but clearly wants a return on its $10-12 million investment. Do you believe that netLibrary can be successful under its existing business model (given the much lower level of investment) or will OCLC review that business model? Put another way, will OCLC need to raise prices? And, if so, by how much? How will OCLC measure the success of this initiative?

JJ: Again, not to be presumptuous, and certainly subject to the ruling of the Court, while OCLC is a not-for-profit organization, that doesn’t mean it’s a “for-loss” organization! OCLC has done an excellent job over its history of managing revenues and costs, and, while not creating large surpluses, certainly managing “above water.”

We think that a lot of things about the netLibrary model today are correct. And without being too flippant about it, netLibrary has been operating as a not-for-profit organization itself. The point is that one of the primary goals of the current management at netLibrary, and obviously the management here, is to get operating break-even—and to do that rapidly. That would certainly suggest some tuning of the current business model.

But if you look at the potential symbiosis, the fact that OCLC, because of its relationships with librarians, understands a good deal about intelligent collection development and acquisitions, we think we can focus upstream with better [content] acquisition programs, which we think will assist publishers. We think, again, that the technology platform is sound. Downstream, we think we have a “high trust” relationship with librarians. And although it’s premature to discuss specific changes to the business model, we first need to sit down with everybody in that value chain and understand what the right model is going forward.

ATG: Will the existing management at netLibrary remain as part of this package?

JJ: Obviously, we need a critical mass of managers and in fact that entire team—we need the right people in place going forward. It serves no one to go below critical mass, so we’re working very hard with the current management team to understand precisely what bandwidth is required for netLibrary and for MetaText to go forward.

If you really look at the past 9-12 months, we think netLibrary has made substantial progress toward a better business model. That suggests that management “gets it” and that technology and production processes have improved substantially, and that publisher relationships, on average, have improved. They also understand their end market better that 1) libraries are their market; and 2) there are different types of libraries. So we think they’ve made substantial progress in that regard.

ATG: From the outset, there was much debate over netLibrary’s access and checkout model, which limited use of one eBook copy to one patron at a time. Does OCLC foresee any changes to this “one eBook, one user” model—will you continue to evaluate it?

JJ: Indeed, yes, but remember, that’s about publisher relations for the most part, looking upstream to the supply side and what they require. Downstream, obviously one wants to provide a number of options to purchasing institutions. So absolutely, we’ll continue to explore those. As you may be aware, netLibrary (obviously with permission of publishers), has developed hybrid models that have been tested, albeit in limited scope. And, should we receive Court approval, we’ll continue to investigate other options and will communicate that openly and frequently.

ATG: Practically speaking, for libraries that have purchased netLibrary eBooks, what does the buyout mean? How will libraries access these materials? Will new license agreements have to be executed?

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JJ: Throughout this period libraries have had and will continue to have access to the netLibrary titles they’ve purchased. The license question gets too specific, but let me say something general about it. Obviously, we’re interested in stabilizing the situation, in building brand and trust, and enhancing that as much as possible. Stability is critical. Therefore, existing customers are the most crucial. Librarians shouldn’t anticipate any radical changes—we’re trying to keep that stable. And in fact, I encourage them to start ordering again.

ATG: Will netLibrary still be a brand name? How will e-books be marketed and on what platform by OCLC? Will the netLibrary operation and employees remain in Boulder?

JJ: Again, we’re into post-closing, Court approval issues. But I will tell you that, in concept, our intention at this juncture is to retain a very substantial portion of the current netLibrary team, to continue to have them operate in Boulder, and to leverage the brand equity that has been built.

ATG: OCLC does have experience with acquisitions recently, both with WLN and with PICA. Can we look to these as indicators of how OCLC’s ownership of netLibrary might evolve?

JJ: We were happy with the way the WLN acquisition went—it certainly was not perfect, but in the end we think it was well managed and continues to be.

PICA, based in the Netherlands, continues to operate (quite on purposes, I might add) as a substantially independent entity, because it serves the European marketplace. There’s no particular challenge here in maintaining a remote operation with substantial autonomy—and then develop the logical synergies, whether they be cost synergies or product synergies with the other parts of the OCLC organization.

ATG: netLibrary had so-called “channel partner” arrangements with a number of materials vendors, among them Blackwell’s, EBSCO, Follett, Courts, Baker & Taylor, YBP, as well as others. Will these relationships be maintained? Expanded? Changed in any way? Will eBooks be integrated into the approval plan services of these vendors? Will eBooks continue to be sold through OCLC regional affiliates as well?

JJ: The benefit to netLibrary of having established multiple channel partners is pretty clear, just looking at the number of libraries that currently purchase eBooks. And in the spirit of stabilization and enhancement, I don’t intend to disturb any of those relationships. Quite the contrary. Assuming that those channel partners want to continue, we’d want to sit down with them quickly, and understand how to make it even more effective.

There’s has been a substantial investment by the channel partners in incorporating the netLibrary catalog of eBooks into their databases and automated approval plans, and that’s useful because it fits the current workflow model. So again, we’re just going to look at how we can enhance those relationships.

ATG: Will netLibrary continue to serve all library markets: academic, public, school, and special?

JJ: Again, our goal is to stabilize the situation, and we have no near-term plans to withdraw from any market. We’ll continue to serve those markets that netLibrary serves today.

ATG: To my knowledge, OCLC does not have an extensive network of relationships with publishers. How will OCLC address the issues on obtaining new content from publishers, and negotiating issues related to formats, business terms, etc.?

JJ: I would suggest that we have dealt with publishers, albeit for journal content, extensively for the last 10 years, and have learned a good deal about how to build win-win relationships. But, as you suggest, we have a lot to learn. The netLibrary team has done a good job of understanding, deeply, what publisher requirements are. We understand that the business going forward is only as strong as the content flowing through to the libraries, which suggests that publisher relations is way, way up there on our priorities. So I think you’ll see a very active publisher relations effort early on and continuing.

ATG: One of the most significant changes at netLibrary in the past year was its decision to accept files from publishers in Open eBook Publication Structure, rather than insist on its proprietary format. Do you anticipate continuing this approach? More generally, will the OCLC/netLibrary content repository become and remain format-neutral?

JJ: I think that’s an important part of the future success model, that both the “ingestion” process and the content repository have to remain format-neutral. We have to leverage the formats that are standard on the supply side, which is to a large degree PDF.

ATG: netLibrary doesn’t currently offer eBooks in PDF format—do you see this changing?

JJ: The technical staff certainly understands processing PDF, so I don’t think it’s going to be a major hurdle.

ATG: Will netLibrary continue to offer print-on-demand as an option? Can you tell us a bit about how the print-on-demand part of the operation does and will work? (For example, are all 40,000 eBook titles also available as print-on-demand?)

JJ: It’s part of our due diligence to understand exactly what’s suggested by current print-on-demand capabilities. So it’s under review, and once we’ve figured it out in conjunction with the netLibrary technical enhancement team, we’ll let you know.

ATG: netLibrary made an agreement with OCLC to escrow its converted content some time back, as a way of protecting customers should the company go out of business. The agreement called for delivery of previously purchased eBooks on CD-ROM, a solution that disinterested some librarians when they learned about it. What sort of archival arrangements does OCLC envision for eBook content?

JJ: One of the major concerns of the buying institutions historically has been the long-term stability of netLibrary, and therefore a contract for escrowing content was struck with OCLC’s Preservation Resources Division. It didn’t offer an elegant solution to subscribing libraries, but it provided some sort of surety of future access. We have to look at archiving in the context of other OCLC initiatives recently announced. Preservation efforts will be significantly enhanced, and at that point we’ll be looking at real digital preservation. So we can provide a high degree of assurance to libraries going forward—but it’s premature to explore that in any detail.

ATG: Will there be an advisory group of librarians which you will ask for advice regarding eBooks?

JJ: Most definitely. In fact, netLibrary has put together an excellent advisory board that’s in place today. Hopefully, those individuals now participating will be interested in continuing, and because of OCLC’s relationships with libraries, we may be able to augment it. We understand full well that that advisory approach needs to be in place, and powerful.

ATG: Looking toward the future: Baker & Taylor has announced ED, its eContent Delivery system, will be available in early 2002. There have been several eBook initiatives announced by publishers—such as Oxford Scholarship Online, and Wiley’s Interscience site. Does OCLC have any plans to offer any of these materials, or to work in partnership with some of these firms? Does OCLC plan to enhance netLibrary with the deeper indexing afforded by the Oxford UP and Wiley models?

JJ: I think it’s interesting that the three you’ve named are currently netLibrary partners. They’re obviously important vendors and publishers in the library marketplace. It’s premature to speculate, but OCLC is a cooperative, and much of its current value has been enabled by broad collaboration with multiple partners—so we’re going to be interested in sitting down with each of those organizations and exploring how we best cooperate to provide the greatest value to libraries. But nothing’s on the table right now, and I’m not suggesting I have specific solutions.

ATG: Finally, Katrina wants me to ask something personal to close out the interview: What do you like to read? What do you do for fun? Talk about your family? A favorite single-malt scotch?

JJ: I was an English major, so my tastes in reading are pretty eclectic. I read business books, and go back and re-read classics, of which I would consider Lord of the Rings one. I love poetry.

I’m a golfer, a skier, and a scuba diver. And I don’t drink single-malt, but I do have a modest wine collection, for which I’m working very hard to do global sampling.

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