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Katina Strauch

Against the Grain

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People — Gerald G. Garbacz

Chairman and Chief Executive Officer, Baker & Taylor, Inc.

In the middle of snow, rain and ice, and a grueling travel schedule, Jerry Garbacz agreed to talk to Against the Grain about the present and the future. We thank him. — KS

Baker & Taylor, Inc. is comprised of three information and entertainment service distribution companies — **Baker & Taylor Books, Baker & Taylor Video, and Baker & Taylor Software.** Its 1993 sales were \$892 million and its 1993 assets were \$269 million. Baker & Taylor, Inc. is owned by Baker & Taylor senior management and The Carlyle Group. It is a privately held company formed in March 1992 from units previously owned by W.R. Grace & Co. Baker & Taylor Books was founded in 1828. Its main headquarters are in Charlotte N.C., with a Marketing and Technical Services Center in Bridgewater, NJ.

ATG: Tell us about yourself. What do you read? What do you like to do?

JG: I grew up in New Jersey and went to public schools there. After high school, I attended Dartmouth College for a year. I left my freshman year when I received an appointment to the Naval Academy at Annapolis. After graduating from Annapolis in 1959, I served four years of active duty as a Marine infantry officer. In 1965, I received with highest distinction my Masters degree in Business from the Amos Tuck School of

"The library is not a sacred cow. It must compete . . ."

Business at Dartmouth. I worked for Cummins Engine in Indiana for three years. Then I was selected to be a White House fellow and spent a year working as a special assistant to the Secretary of Defense. I joined W.R. Grace in 1974 after working in financial positions at Boise Cascade and Phillips Industries. I became President of B&T in 1980. In 1983, I became Deputy Group Execu-

tive for Grace's special business. In March of 1992, when Grace divested itself of B&T, I became President of B&T, Inc.

My wife, Jane, is very active in community affairs — she is a former president of the League of Women Voters of Connecticut and she is on the National Board of the LWV and on the Board of Trustees of her college. I have two sons, one (29) is in financial services in Atlanta and the other (26) has just become a lawyer in San Diego.

What books do I read? I read a lot, frequently three or four books simultaneously. I read mysteries and spy novels at night to relax. I also read a lot of history and biography. I just read *The Fifties* (Halberstam), and *Truman*, the Reeves biography on President Kennedy, the Arthur Ashe biography, *Amazing Grace*.

ATG: Tell us about the move to Charlotte. What's it like to be in Charlotte compared to New Jersey?

JG: B&T Books is headquartered in Bridgewater, NJ, as well as Charlotte, NC. I myself am headquartered in Stamford, CT at B&T, Inc. In Charlotte, we have only a limited number of activities — finance, operations, human resources

and sales totaling about 70 or 80 people. There are still 250 people who are in New Jersey. Charlotte is a good location and market with terrific people. One of our concerns with NJ was the high rent and ongoing costs. We work to tie our three locations together.

ATG: What effect do you think the expansion of superstores (Barnes & Noble, Crown, Daltons, etc.) and what appears to be the closure of a lot of independent bookstores will have on the library wholesale business? Don't many of these stores have their own warehouses?

JG: In general they don't have their own warehouses. Instead, they work with Baker & Taylor and Ingram to keep their shelves stocked. B&T and Ingram have the breadth of inventory needed for the kind of title diversity customers demand. We are getting substantial business these days through the opening of superstores.

"There will probably be a decrease in the depth of the collection but not its breadth."

Frankly, this superstore business is very important to Baker & Taylor since library funding is down for most of the U.S. The retail business allows us to buy in sufficient volume from publishers to give discounts to libraries.

Superstores have had a very positive influence. They have put some excitement back into book retailing. Ten years ago that excitement existed with the development of the mall bookstore. Still, in this setting the mall is the destination and people go to the bookstore "by the way." Now, when people go to superstores, they are going to the bookstore. There is a sense of vibrancy that the industry hasn't been through in years.

The independent bookseller has more difficult competition than ever before but the good ones can still compete effectively against the superstore. Most of the superstores follow a "chain format"

whereas the independent retailer can often adjust to take advantage of a niche or specialty market.

ATG: We have seen competition between books and journals for a segment of the materials budget. There seems to be a leveling off of journal purchases. Do you agree with this? How do you view the academic library market over

"For example, why are libraries still cataloging their own materials? Only a rare book needs unique cataloging."

the next several years? This is not a growth market.

JG: No it is definitely not a growth market. I believe that libraries (school, public, academic, special) will be in competition for funding at all levels. They will have to compete aggressively for these funds. In general the library community has not done the sales and marketing job that ought to be done to make them competitive for funds. Today, police, education, sanitation and services of this nature have higher priority than libraries because of the immediate satisfaction they bring and vocal constituencies demanding these services. The library has not been able to muster an equally strong constituency. In academia, major institutions are cutting back on faculty and courses. The library is not a sacred cow. It must compete efficiently for scarce resources.

Furthermore, the fact is that the significant increases in the price of periodicals over the past ten years have made it necessary for book purchases to receive a lesser percent of the budget. As budgets have become tighter, we need to look at expenses to see which are the least productive.

ATG: Has the bidding process and flat discounts "ruined" the bookselling business? Why do some vendors supply items at flat discount prices and others say that this is impossible? I know that there is a forum on flat discounts at ALA in Los Angeles.

JG: From our standpoint, we can work with either flat discounts or with categorized bids. It depends on what the

library asks for. We analyze their business and give them appropriate discounts. Essentially there should not be a great difference between a categorized bid and a flat discount. We use the same profit margin analysis.

ATG: What kind of changes will we see in the purchase patterns of libraries over the next 2-3 years?

JG: In collection development, we are going to see greater focus on areas which satisfy the broadest patron use. There will probably be a decrease in the depth of the collection but not its breadth. We will see more sharing of information through electronic networks once a method to remunerate the publisher has been developed.

ATG: B&T has an especially good reputation in public and school libraries. Is that aspect of the business going to grow?

JG: Yes, definitely. We have to be more innovative and creative to increase

"B&T today is not a bookseller. We are an information services company."

our share of the market. We are in the process of releasing our Libris 2020 acquisitions system, including multiple fund accounting functions, which will allow libraries to convert from a mainframe to the PC/Windows environment. It is a productive tool and very cost effective.

I believe that some of our customers have to look at how they provide critical activities. For example, why are libraries still cataloging their own materials? Only a rare book needs unique cataloging. The main point is the ability to find an item. It is less important how nicely the item is categorized. The user just needs to find it. Looking at the processes in this way can greatly increase the efficiency of the library. But this process has to be mutual.

We have to look at what best serves the mission which we are performing. Libraries need to carefully evaluate their substantial investment in technology. There is a point of marginal utility. In periods of tight funding, we can't just be

enamored with technology that helps a small number of our patrons. For example, interlibrary loans are a relatively inefficient mechanism, an expensive cost. Hopefully, in the future this kind of information can be shared electronically. People want to have access to information and not necessarily own it.

And what bothers me is that we are creating separate but unequal societies. If we have a national objective to give each student 8 hours per week of computer education, still the less affluent communities can't afford the pace of technology with computers that become obsolete in a 3 to 5 year time period. We need to develop resources in all our school systems. The manufacturers need to find a way to supply what they have to people in a way so as to create demand and counteract the lack of funding for books, technology and equipment. I look at my son who has just finished law school. While he was a law student, Lexis/Nexis gave him their package and now he pays per hour to use it!

ATG: With the Clinton administration, there is a new emphasis on schools and primary education, especially new private schools like the Edison Project. The President of Harvard has left to work with Whittle. It seems like they are not envisioning the traditional library, but more of an electronic library. Will we no longer have regular school libraries and what will this do to B&T's business?

JG: These changes are a long way off for most of our schools. They lack the resources to provide for today's edu-

"Competition is what keeps people sharp and is for the benefit of the end consumer."

cation and have little to commit to tomorrow's education.

ATG: Identify the single basic problem facing all book vendors in the next year or two.

JG: I believe the most significant problem is to continue to receive adequate compensation for the services we provide when many of our customers are experiencing severe economic constraints.

ATG: *What about publishing? There has been a lot of talk recently about the decline of the monograph as a publishing package. At the same time, we are seeing increasing activity in the area of electronic publishing. What will happen to monographs in the next decade? And how about booksellers?*

JG: The monograph has to be broken into several categories — reference or entertainment. Last year there were 55,000 books published. Let's say that 15,000 are entertainment and the rest are reference. Economically, the reference book doesn't make a lot of sense. When you move it to CD-ROM you have a more efficient economic package not to mention the storage savings. In this case, the electronic medium provides a powerful alternative. Of course there are things in reality that have to be worked out — rights, networking, accessibility. The publisher has invested a lot of money to provide this information and must be compensated. If we don't provide this type of remuneration, we won't find the incentive for this kind of investment.

Entertainment books, on the other hand, make very little sense on this medium. Mass market paperback books don't lend themselves to the electronic environment. Much of our current population is not comfortable with using computers and they don't have them. Over time, however, there will be an evolutionary change. The young student today, the preschooler, for example, is frequently first exposed to the computer

"The Internet is a terrific but undisciplined network."

before the book. This phenomenon will change attitudes to how information is provided. Still, we are looking at a 20-25 year journey.

B&T today is not a bookseller; we are an information services company. Our mission statement does not mention distribution but emphasizes the skills of merchandising and information technologies. Out of total sales of approximately \$900 million, \$300 million are in video and \$100 million are in software. The book is only one form of information. We deal with a lot of other formats. Whether it be book, multimedia, CD-

ROM or whatever, everything we distribute is just different forms of information. We need to have the flexibility to supply all of these formats to all of these different markets. And we are not alone. Ingram, for example, is also in video and software.

ATG: *What proportion of your market is libraries?*

JG: Two thirds of Baker & Taylor Books' market is libraries in a worldwide sense.

ATG: *You mentioned Ingram a minute ago. There are at least two powerful wholesalers in this country — B&T and Ingram. What does the relationship look like over the future years? Where will B&T grow vis a vis Ingram?*

JG: First of all, both B&T and Ingram will grow because we are continually upgrading the services and capabilities

"We need to disassemble the fee structure instead of lumping it all into the price of a book."

with which we serve our customers. And we hope to reduce their internal cost of acquiring books. We will both grow with respect to publishers since publishers are generally not as efficient in distributing their products. None of the major studios distribute videos, for example. Baker & Taylor is more efficient and will be more and more important in this process as companies can't afford to maintain the inventory. We have economies of scale; we deal with 14,000 publishers a day. I hope that Ingram stays out there because it benefits us and I hope that we benefit them. Competition is very important to keep us both on our toes. There are other companies like Brodart, Yankee, Blackwell, Midwest. Our market cannot be monopolized by a single entity. Competition is what keeps people sharp and is for the benefit of the end consumer.

ATG: *Would you comment on your export relationship with T.C. Farries in England. What exactly is the relationship? How do you see the relationship developing?*

JG: Today it is primarily a marketing arrangement, but in the future we see ourselves more as partners. We need to improve our systems to accommodate each others' abilities. We need to be aware of what is published in both countries as if it is a common universe. Electronically, we want a common database

"Today over 70% of our book orders arrive over electronic means..."

and, for contracts like the World Bank, create one bidder for the world.

ATG: *Where will growth overseas come if it comes? What particular markets are you interested in? Are there specific countries of active interest? What about Russia? Eastern Europe, China, Africa?*

JG: We are looking at both developed and developing countries. One of the great things the world wants is American knowledge. We have to approach each country differently to fulfill its unique requirements. We have sales offices in Japan, Australia, and the U.K., and a book distribution connection in Germany. In Nigeria and Ghana we have contracts with the World Bank. With electronic transmission, we can take a book order and receive it almost instantaneously. The international market is a growth market.

ATG: *How is Baker & Taylor doing financially? I know that you have been refinancing parts of the business and that there is what seems to some of us strange wording on your invoices these days. Would you like to put some things on the record?*

JG: When we became an independent entity in 1992 and left W.R. Grace, we financed B&T through bank loans. This year, when interest rates dropped, we started looking for ways to take advantage of these circumstances. We looked specifically at the Book and Video assets, and we secured more advantageous financing for a five-year period. We have financed approximately 70 million dollars which is providing us with stable, long-term working capital avail-

ability. We have reduced our interest expense by one million dollars and are stronger because of it. However, some customers, because of legal requirements, will be made aware that we have pledged their account receivable as security for this debt. Actually, under the bank loans we had also pledged these same assets. So in reality nothing has changed except our financing is permanent and at a lower interest cost.

We have three primary product lines — books, video, and software — and a series of markets — library-related and retail-related. In some markets we have more retail business than library business. We want to make it easier for people to deal with us as a single company with separate product lines. We are working to become a more integrated company. Some want to deal with us in total; some want to deal with individual product lines. Some libraries want one account, others want many accounts. We have to be flexible. We are moving toward an integrated organization. We also have introduced the Total Quality concept to become more responsive to our customers' requirements.

ATG: Will B&T mount their database on the Internet as many other vendors are doing? Will your online ordering system be available both over the Internet and to customers as it is now?

JG: Obviously, we are looking at this, so it is premature to comment at this time. The Internet is a terrific but undisciplined network. Clearly, we will make certain things available over the Internet

"The international market is a growth market."

on a no charge basis. Some things that deserve remuneration may not be made available over the Internet. We have to look at the entire picture. Similar to the banking industry, we need to disassemble the fee structure instead of lumping it all into the price of a book.

ATG: Blackwells has bought a stake in CARL. Does B&T plan to expand beyond its core book distribution business into electronic distribution and handling?

JG: Yes. We are already there with B&TLink; our bibliographic database called The Title Source is better than Bowker's. I spoke earlier about the Libris 2020 program. Today over 70% of our book orders arrive over electronic means — we are deeply committed to using electronic capabilities to enhance our customer service.

In the international business, there is a crying need to find material and to find out whether it is available. Also to find out what is recommended — so selection lists are critical. What the world really wants is our knowledge. Electronically, we can provide information concerning books in economical and efficient formats. We have to be economical in designing our processes; both we and our customers have finite resources so we have to provide quantifiable benefits.

I would like to acknowledge the assistance of Allison Gray, Group Director, Marketing & Sales, B & T, in the preparation of this interview. Thank you, Allison! — KS

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