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Why Some Vendors Will Endure and Others Will Not

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[This paper was delivered at the Charleston Conference, on November 3, 1995.]

Abstract

This paper looks at the rise in the number of small businesses in the United States over the past 15 years and contrasts that increase with the decline in the number of library booksellers over the same period. The author looks at why entrepreneurs are not entering this industry and why additional academic booksellers will go out of business before the end of the decade. Based upon 30 years of bookselling experience, the author presents his view of what the long-term trend toward bigness will mean to librarians, and why some booksellers will endure and others will not.

The word "organization" refers both to for-profit and to not-for-profit enterprises: big and small. The phrase "vendor" cuts across boundaries and refers to book, periodical, and systems vendors, as well as bibliographic utilities. And "bookseller" is used to narrow the focus to companies that sell scholarly materials and collection management services to libraries.

Tuesday, October 3, 1995, Lake St. George, Liberty, Maine

Prologue

I've been thinking about this paper for several months, jotting down thoughts when-

ever and wherever they entered my mind, composing paragraphs and whole pages the old-fashioned way—in longhand—while on a flight to some distant city. But the prose has not taken on a coherent structure and this morning I drove to Maine, hoping that if I listened to the silence I might find my voice.

The autumn foliage is quite breathtaking—all red, yellow, and orange. The lake is very still. Neighboring summer camps are shuttered. I arrived in the late afternoon and, as dusk approached, I watched three loons practicing their takeoffs and landings. Loons are awkward pedestrians and can't build up enough speed to take off from land. Similarly, touchdowns must also be made on water. The loons will soon begin their journey south and when they leave I'll close camp until the spring.

I think it was the quietness of my surroundings that caused my mind to wander back to the mid-1970s and hear, again, the words of Patrick Wreath. I first met Patrick in 1971, when he was Head of Acquisitions at Boston College. Our friendship continued after he and his family moved to Chapel Hill, North Carolina, where he held the position of Collection Development Librarian at UNC until his untimely death in 1978. I don't recall the exact date that Patrick first talked to me about approval plans. My memory says it was during the summer of 1972. "Whether the Abel company fails or not," he said, "you should develop an approval service." I remember looking at Patrick and saying, "We're a firm order bookseller and, besides, I know nothing about approval plans." To which he replied, "We're beginning to change the way we do things, including the way we buy books. Approval plans are going to become an important collection development tool and if you want to grow, you'll have to change with us."

Patrick was a patient teacher and I eventually learned how to write a profile. And later I took his advice to hire a full-time librarian to design the structure that would support the service. Most important, Patrick Wreath taught me both to keep my eyes on the environment so that I could anticipate change and to turn to my customers for guidance. In its long struggle for survival, the loon—"the most primitive of today's

birds"—has learned to continually examine its environment and to change. The call of the loon is an echo of antiquity and serves as a reminder that if we want to survive, we must continually change.¹

Wednesday, October 4, 1995, Lake St. George, Liberty, Maine

The Sea Gives and the Sea Takes

I awoke to the wonderful sound of rain. Not to the soft sound of a shower but to the fury of wind and driving rain. It's been a very dry summer and we desperately need a week of inclement weather. I'm not a morning person. After several cups of strong, black coffee, during which I listened to a selection of Wagner's orchestral works, I ventured out—driving to Belfast, 20 miles to the east of Liberty. Once a prosperous shipbuilding community on Penobscot Bay, Belfast has been eclipsed as a tourist drive-thru by Camden to the south and by Bar Harbor to the north. After a visit to the supermarket, I walked down to the water and lingered while I drank another cup of coffee.

As the rain whipped around me, I thought about how the alternate rising and falling of the surface of the ocean both destroys and creates land masses. About how confusing and uncertain the past 15 years have been for most organizations. About how, like the fluctuating tides of a sea, the surging movement of societies, economies, technologies, markets, and customers destroys the current realities of doing business and creates new ones. And, finally, about how some organizations, in learning how to be competitive, will grow and thrive while others will wither and die.

Back at camp, I filled the woodstove and reflected once again on business. I'm a big fan of small business perhaps because most booksellers are small businesses. In fact, about 90% of all companies in the United States are small. In a special report on "The State of Small Business," *Inc.* magazine says that, "In 1992 more than 21 million 'businesses' filed tax returns." Most of those returns—15 million—were filed by self-employed individuals. The report notes that,

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"In 1992 the United States had 5.7 million companies with at least one employee. More than 50% of the 5.7 million employ fewer than 5 people. Ninety percent employ fewer than 20. Only 70,000 companies have more than 100 people on the payroll, and only 14,000 have more than 500 [and are considered by the Small Business Association to be large businesses]."²

The number of start-ups across most industry sectors has risen dramatically since 1980. I could rattle off a series of trite slogans such as "Big is Ugly!" and "Small is Beautiful!" as a way of explaining this increase in entrepreneurialism. But the driving forces behind this upsurge are complex and difficult to explain. While slogans may provide the adrenaline they do not explain the why.

Certainly complex changes in the structure of the organization as we have known it are contributing to this explosion in the number of self-employed and incorporations. Many companies have downsized, swelling the ranks of the unemployed. Others have restructured, reorganized, and reengineered job security and employee loyalty out of the workplace. As a consequence, many people have gone into business for themselves.

Big companies also opened the door to start-ups by becoming arrogant and insular. IBM and General Motors are prime examples of what happens to an organization when it turns a deaf ear to its customers. Many organizations have forgotten how important it is to continually examine their internal environment: structure, procedures, priorities, resource allocation, and organizational and employee renewal — as well as their external environment: social, economic, and technological trends. As a result, they have lost their competitive advantage and increased their mortality rate. In the November 14, 1994 issue of *Fortune*, **Kenneth Labich** writes, "About 50,000 U.S. [corporations] reached the point of ultimate failure in 1989 as gauged by Dun & Bradstreet: They ended their business, leaving behind unpaid creditors." He reports that "by 1992 the number of failures had nearly doubled, to some 97,000."³

Many small companies have also made making money their central attention, forgetting that, first and foremost, a company exists to serve its customers. While start-ups have increased during these turbulent times, so have failures. *Inc.* reports that "between 800,000 and 900,000 new companies with employees come into being every year." Almost as many go out of business each year. According to *Inc.*, "On av-

erage, about 75,000 more companies are created in a year than go out of business."⁴

The sun is just starting to set and the wind and rain have nearly stopped. As I sit behind my typewriter listening to Mozart piano sonatas, I find myself reflecting on how very different our little corner of the world is from other business sectors. Unlike

"The surging movement of societies, economies, technologies, markets, and customers destroys the current realities of doing business and creates new ones."

the explosion in the number of new businesses in other service areas, the number of new library vendor incorporations over the past 15 years has been little more than a soft pop, particularly in the library bookselling arena. While bookselling is good work, few budding entrepreneurs see opportunities in selling books to libraries. Couple this decline in start-ups with the rather steady pruning that has occurred over the past 15 years and it is necessary, I believe, that we frame the confusion. Only then can understanding begin.

Two factors come to mind. Barriers to entry such as capital requirements and pretax profit of 2 to 4 percent make it highly risky, if not outright foolhardy, for start-ups to enter this enterprise. The second is that, after more than a decade of declining book budgets, the business of selling books to libraries has become a zero-sum business: one bookseller's gain entails a corresponding loss for another. And while I have been talking about booksellers, I sense that similar factors exist in the periodicals arena.

We can say that this is yet another example of the big getting bigger and the small getting smaller. However, such a statement would be simplistic. I am a bookseller who believes that the end of competition is not in sight simply because small booksellers grow into big booksellers. Remember that big in our little corner of the world is not big as in Fortune 500 Companies. Also keep in mind that effectively led and efficiently managed small companies in any industry sector will grow bigger and that only those companies that bring creativity, innovation, vision, and values to the marketplace can properly serve their customers. I believe that our focus should be on how well a company serves its customers and not on how big the company is.

I remember a time in the mid '70s to mid '80s when nearly all booksellers were viewed equally in terms of service. Library expecta-

tions during that period were rather straightforward: the right book the first time, in a timely manner, at a fair price. The last ten years have been a period of rapidly increasing industry change, and while we are still expected to deliver the right book the first time, in a timely manner, at a fair price, we are also expected to respond to a growing list of "shall provide" and "highly desirable" value-added services. "My fear," says

Tia Gozzi, Associate Director at the University of North Carolina at Charlotte, "is that the fiscal viability of some vendors is again being stretched and tested by the latest flurry of 'wish lists' [library RFIs] concerning technical processing services."⁵

How should we address these new realities? There is a need for booksellers to rethink the rather lumpy "fair price" question. Few booksellers regularly engage their customers in a dialogue that speaks to the profit margins their company needs in order to meet critical objectives and goals. This is sad because a vendor's ability to serve its customers in a world-class manner, to finance technological development, to provide continuous skills training for its people, to pursue business opportunities that will enable it to offer both job security and job advancement, to fund employee benefits, and to make contributions to the library community and to the communities in which its people live, all depend on the company's ability to make an adequate profit.

Many booksellers have taken a process approach in order to improve their profitability. Unfortunately process improvement, while changing the way that booksellers operate, has not offset declining publisher discounts and increasing library discounts. While I have not talked to every academic bookseller, I have talked to many and each says that publisher discounts in 1994 declined almost one percent while discounts to libraries rose one percent. I sense that periodical vendor margins are also slipping.

If our attention has not been on defining "fair price," as I suggest it has not been, then where has it been? In one word — growth. This preoccupation with increasing market share, or simply surviving, has driven discounts into the stratosphere. I believe that nearly all library booksellers share, in equal measure, the responsibility for this escalation of discounts. And while continual growth is strategically important, we have allowed profit margins to erode to the point where the business of bookselling is now a rather fragile enterprise. But no growth — even slow growth — is not an alternative. Without real growth a company's ability to compete will quickly diminish. There is a

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need for booksellers to define "fair price" so that profitability and growth are integrated. There is a need for librarians to rethink their definition of this "fair price" phrase. Arguably librarians also share a measure of responsibility for prevalent pricing models. Librarians are under great pressure to "do more with less" (another lumpy phrase), and these top down pressures ultimately squeeze the vendor. "Pressures," says **Tia Gozzi**, "to develop and provide more and more of the services that have traditionally been the responsibility of the library; pressures to provide bigger discounts and more pricing options so that shrinking budgets and budgets that must stretch over more territory can hold out a while longer."⁶

We need to talk with each other if we are to work our way through the confusions of our times. There is a need to enter into what I call a "coming to circle." Today, we look at the environment through only our own lens. We need to develop the ability to view the environment through many lenses. Today, we stand on lines that never touch. We need to recognize that vendors, librarians, and publishers are all parts of one circle. If we commit to understanding each other's business, we will come to circle. In view of the outsourcing interests of librarians and the deep relationships with vendors that will be required to make those activities successful, I suggest that we start talking together about individual and shared objectives — today.

While the following comment is tripping into the next section of this paper, let me say now that, before this decade ends, most booksellers will have unbundled their services and will be charging for each individual service. "Attempting to squeeze the costs of outsourced services within the margin between the cost of books to the [bookseller] and the discounted sales price to libraries is unacceptable in the long term," says YBP's Chief Information Officer **Gary Shirk**. "Current margins are already razor-thin and cannot support further value-added services within current discount levels."⁷

Some librarians have told me that they believe today's accelerating technological expectations are being driven by vendors who, after developing such services, create and exploit the market. Others have said that it is senior managers in libraries that are the real drivers. From my perspective, the answer is "both are driving." When I look at vendors, I see several companies that have made technology their value proposition. Technology leadership is one of the four distinct customer values that a company can

offer. And, while it is certainly appropriate for a company to create customer "wants," it is equally appropriate for the customer to reject technology that is ahead of the curve. When I look at libraries I see two groups of drivers who are shaping our industry. There are those who have invested a lot of intellectual energy in trying to determine a structure that will be successful in the future. I find these librarians to be aware of what it costs the library to do business and oriented to teaming with their vendors — willing to work together to develop and test new services, and open to the concept of paying for value-added services. There are those who are infatuated with both "cutting edge" technology and new management techniques. I find this group more "want" oriented than "need and benefit" focused. Unlike those in the first group, they are less inclined to work closely with vendors. And as for paying for a service — forget it.

What is most destructive about requiring that vendors — in order to get or keep business — supply a service that has not been carefully thought through and is later determined not to be a first-order priority is that it tilts the playing field. Those who can quickly develop the service stay on the field. Those

"Only those companies that bring creativity, innovation, vision, and values to the marketplace can properly serve their customers."

who can't, even though they could produce the service with sufficient lead time, are knocked out of bounds. By now Mozart's Requiem is playing, and I'm sitting behind my typewriter wondering if there is any significance both to my musical selections and to their sequence this evening. Having said that, I'll go out on a long and, I think, sturdy limb and say that over the next 2-3 years several academic booksellers will go out of business. Why do I say this? For all the reasons thus far discussed: declining library book budgets; declining margins and profits; the accelerating expectations' treadmill; and for reasons still to discuss.

Thursday, October 5, 1995, Lake St. George, Liberty, Maine

The Future

In *The Age of Paradox* **Charles Handy** writes, "Prophets, in spite of their name, do not foretell the future. No one can do that," he says, "and no one should claim to do so."⁸

With that in mind, Abigail (my Choco-

late Lab) and I donned our orange vests — it's hunting season in Maine — and ventured into the early morning fog. As we headed up the dirt road that winds around part of the lake, I remembered a time in the early 1980s when I tried to look deep into the future. I predicted that by the end of the decade only 4 or 5 academic booksellers of the dozen or so in the marketplace would be vital organizations. I was wrong. While a few did not survive, most did. That's the good news. Unfortunately, only a few prospered; the turbulence of doing business in the 1980s bruised a significant number of academic booksellers. Recent acquisitions and failures would seem to support this observation. Vendors in general, booksellers in particular, are on a course that will lead to more pruning through mergers and acquisitions as well as to more outright failures. And we should expect an increase in strategic alliances, companies collaborating in the development of technology and marketing strategies. I can't predict how many academic booksellers will be alive in 2005 — a short ten years from now — any more than I can predict the future of print-on-paper, the future of electronic publishing, or the future role of libraries. And crystal ball gazing will not produce any more clarity today than it did in the early 1980s. The unpredictability of life today has further scrambled most signals.

Earlier, I said that bookselling is good work. It is. In our little corner of the world there are a number of booksellers who are very good at doing this good work, and while I sense that more pruning will occur — today's book budgets simply will not support the existence of a dozen or so booksellers — I do not expect our ranks to reduce to just two academic booksellers despite the predictions of some.

In a recent issue of *Against the Grain*, "Name Withheld by Request" writes, "It is obvious to most that Yankee [YBP] and BNA are both in a battle to see who can land on the moon first. Both are investing huge resources in the war. The winner supposedly will become the next **Richard Abel Company**."⁹ While I cannot speak for **Fred Philipp**, President of **Blackwell North America**, I can state YBP's reaction to this letter to the editor. First, we haven't declared war on any competitor; nor am I aware of any bookseller who has declared war on us. Rather, we are investing our resources in the future, developing new core competencies in order to deliver new customer benefits. If a metaphor is appropriate to making clear the action relationship between YBP and its competitors, I prefer a game of "chess" to the political game of

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"war." Second, strategically I know where we are, where our competitors are, and where I want to take YBP. It's not to the moon. We don't spend a great deal of time worrying about competitors' processes; we're too busy trying to make ours better, more responsive to our earthly customers. Finally, regarding the reference to the **Richard Abel Company**, it is absurd to suggest that innovation on behalf of the customer is synonymous with going down the tubes.

Our mystery writer also posed several questions that deserve answers:

- Is the current effort to consolidate ordering at many major university libraries being dictated by the libraries or the vendors? Answer: The times we live in dictate that all organizations reduce the number of suppliers they deal with in order to lower costs, increase efficiency, and negotiate better pricing.

- Are libraries self-censoring their collections by over reliance on vendors? Answer: No! Efficient approval profiles are efficient because they are monitored by the library and revised when underlying assumptions no longer fit reality. It is also important to consider that automatic book shipments, i.e. vendor "controlled" selection, rarely account for more than 70% of the library's purchases. The rest is slips, claims, and firm orders.

- Where is the expertise in library collections today? Answer: In libraries and in a few booksellers where collection management services are a core competency.

- Are patrons going to be better served by limited vendor choices? Answer: They will be best served by well-run libraries and by well-run companies.

- Are libraries really going to save money in the long run? Answer: I assume that the writer is referring to outsourcing services, and I turn to **Gary Shirk** who says, "Most librarians will outsource because they expect, at least in part, to save money."¹⁰ But he also points out that there are other reasons why [organizations] outsource. "They outsource," he says, "to achieve greater focus, save money, gain from the technological investment of the supplier, and achieve serendipitous attention to costs overall. [Organizations] outsource to concentrate on those key functions that contribute most directly to their future success."¹¹

As I reflect on my sense of what is happening, I ask myself why are we on this course toward more vendor pruning through mergers and acquisitions and business failures? What does it mean in terms of build-

ing a stable and competitive industry? In part, the course is being dictated by our external environment and, in part, by the level of entrepreneurship leaders bring to their internal environments. **Howard Stevenson**, Professor of Business Administration at Harvard University and author of Harvard's definition of entrepreneurship: "the pursuit of opportunity without regard to the resources at hand," says, "Entrepre-

"Publisher discounts in 1994 declined almost one percent while discounts to libraries rose one percent."

neurs employ innovation, creativity, and vision to exploit opportunity."¹² Why this course? Because while a few vendors see opportunities as they peer down the road, most do not.

In *Competing for the Future*, **Gary Hamel** and **C.K. Prahalad** write, "It takes substantial and sustained intellectual energy to develop high-quality, robust answers to questions such as what new core competencies will we need to build, what new product concepts should we pioneer, what new alliances will we need to form ..."¹³ This

mental energy is difficult to harness, harder still to keep and nurture, and more difficult still to put to work consistently on the future.

To be aware of these questions is one thing; addressing them is quite another. I believe such questions have been mostly left unanswered by many vendors. Like so many other organizations, many have done little more than fight fires over the past 15 years. By this I mean that they have spent their energy solely on managing dilemmas, and some have been caught in backfires. When eyes are riveted on today's problems they are blinded to the real issue: the way the company is doing business no longer is working. Gone are the days when all that was required to be successful was to efficiently manage the resources at hand, day in and day out. Today, envisioning the future is critical.

Why this course? Because some vendors have failed to ask such questions as what business are we in? What new competencies do we need to develop? Consequently, services such as approval plans, which today provide the infrastructure for a wide range of collection management services, have not been developed. Failure starts at

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the top, with people who have forgotten how to think and how to build images of the future; and, thus attending to problems, rather than pursuing opportunities, becomes the daily agenda. In the short-term, I expect that today's uncertainty over the vendor landscape will become more pronounced as more pruning occurs. In the longer-term, I anticipate that the number of vendors, across all boundaries, will come to fit the reality of the marketplace, and that we will see a more stable and competitive environment.

Friday, October 6, 1995, Lake St. George, Liberty, Maine

Why Some Vendors Will Endure and Others Will Not — Final Reflections

After yesterday's early morning fog, the day turned bright and cheerful. But today, the sun is obscured by dark clouds. The wind is increasing and big drops of rain are hitting the windows as the remnants of Hurricane Opal cross the state.

Earlier, I mentioned that there are four distinct values that a company can bring to the marketplace.¹⁴ The first is **price-best price**. Wal-Mart with their "We sell for less! Always." customer proposition is a good example of a "best price-focused" company. These companies, while they provide good service, do not generally create relationships with their customers.

The second value proposition is **technology leadership**. Companies that pursue this value develop services for which they create a market. One might use the phrase "ahead of the curve" when referring to these companies. They focus on creating customer

"wants" and "highly desirables." Microsoft is such a company.

The third customer value is **closeness-to-the-customer**. Companies that build deep relationships with their customers work to create effective partnerships that improve quality, link technological development, and conjoin individual and shared objectives. In this way, both the company and the customer come to understand each other's work. Such companies do not develop products or services designed to create market wants. They work closely with individual customers to meet specific needs, at a fair price. They offer best solution. Xerox is such a company.

The fourth proposition is **operating excellence**. These companies benchmark against customer measurements. They push strategy, operations, and human resources to deliver value. They constantly ask themselves whether they are delivering what they promised. Allied Signal is such a company.

No company has the financial resources to excel, to be superior, in all four values. World-class companies commit their resources — money and people, research and development, and energy — to delivering and continually improving one value. But they keep their eyes on the other three values to ensure that they are meeting customer expectations.

For me, understanding these four value propositions and focusing the company on one while attending to the others provides the opportunity for several vendors to endure. Ours is a diverse marketplace, and by that I mean that it is broad enough to include a large customer base in each value preference. While developing superiority in one value may be easier said than done, it is possible. But it does require leaders to coalesce vision and purpose.

We have already talked at length about why some organizations are successful and others are not. Some listen to their customers and their people; others do not. Some pursue opportunities; others do not. Some have a vision of the future; others do not. A few excel in one of the four customer value propositions; most do not excel in any of the four.

But we have not talked much about the role that leadership plays in the success/failure equation. A few minutes ago I said that organizational failure starts at the top. It stands to reason, then, that leaders who employ innovation, creativity, and vision to exploit opportunities, contribute to their organization's success. The leader's job is to serve the organization. This means that he or she must understand how reality has changed in order to identify what policies and practices need changing. Some leaders are effective leaders; others — short-terming leaders — are ineffective. They look at their title as a position to be used for the pursuit of personal goals and forget that it is a job. Today's turbulent marketplace will not suffer ineffective leaders. In any business sector, their companies are the first to go down the tubes when old business models break apart, as they have today.

I want to close by simply sharing with you my sense of why a few vendors will go beyond short-term success and become enduring institutions. Endurance isn't just a matter of having deep pockets or making lots of money. Enduring success requires firmly held purpose. In *Built to Last, Successful Habits of Visionary Companies*, James Collins and Jerry Porras write, "Purpose is the set of fundamental reasons for a company's existence beyond just making money."¹⁵

Highly successful companies have a set of individually unique beliefs, guiding principles, on which they base their behavior. They adhere to those beliefs. They exist, first and foremost, to deliver value to their customers, believing that if they provide total quality service, they will make a profit. And they exist to encourage their people to be the very best they can be, believing that if their people continue to develop, the organization will endure. Finally, they exist to make a contribution to the community at large. In a single sentence, vendors who focus on purpose, customers, employees, integrity, quality, teamwork, innovation, and yes, making an adequate profit will endure. Those who do not, will not.

FOOTNOTES

¹For more information on loons, see Kate Crowley and Mike Link, *Love of Loons*. Stillwater, Minnesota: Voyager Press, Inc., 1987.

²John Case, "The Wonderland Economy," in *Inc* (Special Issue, The State of Small Business 1995), p.19.

³Kenneth Labich, "Why Companies Fail," *Fortune*, November 14, 1994, p.52.

⁴Case, p.23.

⁵See *Against the Grain*, 7: 3, June 1995, p.57.

⁶Ibid., p.56.

⁷Gary M. Shirk, "Outsourced Library Technical Services: The Bookseller's Perspective," *Library Acquisitions: Practice & Theory*, 18: 4, 1994, p.39.

⁸Charles Handy, *The Age of Paradox*. Boston, Mass: Harvard Business School Press, 1994, p.15.

⁹See Letters to the Editor, *Against the Grain*, 7: 3, June 1995, p.7.

¹⁰Shirk, p.391.

¹¹Shirk, p.386.

¹²Howard H. Stevenson, "We Create Entrepreneurs: What Harvard Teaches That You Need to Know," *Success*, September 1995, p.50.

¹³Gary Hamel and C.K. Prahalad, *Competing for the Future*. Boston, Mass: Harvard Business School Press, 1994, p.4.

¹⁴See Michael Treacy and Fred Wiersema, *The Discipline of Market Leaders*. Reading, Mass: Addison Wesley Publishing Company, 1995. Treacy and Wiersema discuss three value disciplines: Operational Excellence, Product Leadership, and Customer Intimacy. I believe that the four value disciplines I have noted more accurately define the propositions that vendors offer libraries.

¹⁵James C. Collins and Jerry L. Porras, *Built to Last: Successful Habits of Visionary Companies*. New York: HarperBusiness, 1994, p.76.