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Mergers and Acquisitions-1998 M&A: The Year in Review

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Against the Grain

"Linking Publishers, Vendors and Librarians"

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Mergers and Acquisitions — 1998 M&A: The Year in Review

by **Linda Defendeifer** (Assistant Professor of Library Administration, University of Illinois College of Law, 504 E Pennsylvania Avenue, MC-594, Champaign, IL 61820)
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Subject line: ATG M&A [mm/yy].

Imagine you are a character in a fantasy moving from one world to another—one of those tales in which no time elapses on one world while centuries pass on another. The fantasy here is that two months have elapsed since we introduced this column using a metaphor from Greek mythology.

Two months have indeed passed in the world of *ATG*'s publishing schedule, but on my planet, Columnist Deadline, it is still December, 1998, and I wrote to you of Medusa and of publisher marriages only two weeks ago. And in the weirdest time warp of all, on a much larger, more rugged planet known as Potential Sources, the entire mergers and acquisitions year 1998 continually offers, accepts, declines, negotiates,

prevails, pulls out, and otherwise struggles to a mixed and chaotic close before the eyes of any researcher willing to visit and to explore.

On my fact-finding trip to that planet, via review of excerpts or full text of about a thousand (literally) articles, I tried to augment my librarian's general awareness of recent large mergers and my associate attorney's experience in corporate law practice, with facts and opinions to broaden my knowledge and yours regarding less-publicized aspects of publication ownership. By the time I finished, it seemed to me that Medusa's symbolic head had sprouted more snakes, in more colors and patterns, and with more darting moves, than anyone could imagine—but at least I can now look her in the

face and go forward. I hope you can too as you follow the results of my search. I have saved all documentation, so if you need to verify anything below at the source, let me know. All mistakes are the results of a) the time warp; b) typos; c) mental and visual fatigue, strictly my own.

Background. *Mergers & Acquisitions*' final 1998 issue described m&a activity in general as "at an all-time high." Charting leveraged

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If Rumors Were Horses

Well, the big news is that the truly awesome **Ward Shaw**, CARL's chairman and CEO, has purchased CARL and **UnCover** from **The Dialog Corporation** effective January 29, 1999. ALA Midwinter was abuzz when the buyout was announced! Shaw emphasized the benefits to CARL's library system customers. "We have always partnered with visionary libraries. CARL's independence will re-energize these partnerships." See this issue, **Rumors Focus**, p. 14 for more info.

Well, our wonderful, fabulous, energetic, swell, terrific, marvelous, amazing **Audrey Melkin** was downsized effective Friday, January 29! Audrey was in Philadelphia and looked

even more fabulous than ever. She is looking for a job. Here's how to reach her—phone: 212-213-0392 and 243 E. 33rd Street, Apt. 2A, New York, NY 10016.

The continually urbane and very lively

John Cox (John.E.Cox@btinternet, please note that this is case sensitive!) has established an international consultancy, **John Cox Associates**, to specialize in international scholarly publishing issues such as content

management, electronic publishing, licensing and consortia negotiation, and in seminar planning and management. Address: John Cox Associates, The Pippins, 6 Lees Close, Whittlebury, TOWCESTER, Northants NN12 8XF United

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by-outs from 1989 through the first half of 1998, *M&A* ranked printing & publishing third in sheer number of deals and eleventh in dollar value. Other sources identify low cost of capital and relaxed lending limits as factors catalyzing mergers. Another factor, according to one magazine executive, is the food chain trend pressure: eat or be eaten. The pattern is sufficiently pervasive for former **Little, Brown** CEO **Charles Hayward** to announce he would form a consulting firm to advise publishers in transition, *Publishers Weekly* reported.

Despite apparent flux, some things remain the same. *Fortune* invited officers, directors and securities analysts to identify the top ten printer/publishers of 1997 in its March 2 issue. They selected (from highest to lowest) **Tribune**, **Gannett**, **The New York Times** (a rise from fifth place attributed to the introduction of color), **Knight-Ridder**, **Times Mirror**, **R.R. Donnelly**, **McGraw-Hill**, **Dow Jones**, **American Greetings**, and **Reader's Digest Association**. Only the places had changed: the players were the same ten firms chosen by their peers in *Fortune's* 1996 poll.

Alliances of the rich and/or famous. The preceding might suggest that a great deal of m&a activity and other re-positioning is going on at the highest or at least largest levels, with little happening elsewhere, but that impression may not be accurate. An **Arthur Andersen** survey reported in February indicated that 79% of responding book publishers contemplated some m&a activity, 22% of those by the end of the year. Among the largest transactions were:

Deals closed. **Bertelsmann**, the world's third-largest media group, paid the Newhouses' Advance Publications \$1.2 billion for **Random House**, and acquired half of **barnesandnoble.com** for \$200 million. *The Economist* called RH "Bertelsmann's nearest publishing rival in America" and estimated that the combination of Bantam Doubleday with RH would raise annual revenues from \$900 million to \$1.5 billion. **Conde Nast** bought **Wired**, print product only, for \$75 million, after *Wired's* protracted search for a match. For \$10.4 billion, **MCA/Universal (Seagram)** purchased **Polygram** to become, possibly, the world's third largest music publisher. **Pearson** acquired **Simon & Schuster's** educational publishing division—the bulk of the company—from **Viacom** for \$4.6 billion; **Wolters Kluwer** obtained Baltimore-based **Waverly Inc.** medical publisher for \$375 million and **Plenum Publishing** for \$258 million.

Deals in the works. **Barnes & Noble** plans to buy wholesale distributor **Ingram Books**; **Bertelsmann**, if authorities agree, will spend \$600 million for an 80% stake in **Springer Verlag**; **Wolters Kluwer** awaits regulatory approval to complete its purchase

of **Ovid Technologies**.

Deals abandoned. Cassell's board rejected **MacMillan's** purchase offer of \$7.3 million (but see below for a match that worked). After its **S&S** acquisition, **Pearson** did not reach agreement with investment firm **Hicks, Muse, Tate & Furst** on the sale of **S&S** business and professional publishing divisions; and the same investment firm withdrew from a deal to acquire **MacMillan**.

Guidebook commentary: Explorers of the physical world may climb mountains merely because they are there, but on Potential Sources, observers are asked and answered questions about the significance of large corporate changes. *Newsweek* attributed the Random House deal to worldwide hunger for both American markets and American fiction, especially if a novel comes with a movie option. The news magazine credited online booksellers with enabling purchasers to bypass traditional reviews and quickly evaluate new books themselves. Other coverage of the large mergers included:

The anecdotal. *Newsweek* printed an (unattributed) assessment that **B&N's** purchase of **Ingram** as a "coup," but reported mixed interpretations of its impact. The weekly quoted a B&N executive's declaration that no book will ever again go out of print, alongside the fears of "struggling independent booksellers" that Ingram will give B&N preferential treatment: early or exclusive availability of titles. Small sellers reportedly also worry that book quality will decline when independents close and their voices—their word-of-mouth promotion of promising new authors—are silenced. *Newsweek* characterized the B&N Website claim, "If we don't have your book, nobody does" as ambiguous: promise or threat? But supporters of the consolidation remind readers that in "the old days," a large bookstore might stock 12,000 titles, while each B&N superstore carries 150,000 titles, according to *U.S. News & World Report*.

Publishers Weekly found some wholesalers describing the pre-merger **B&N** as a "significant customer of regional and specialized" wholesalers, a distinction they fear may change now, although some speculate the loss of B&N business might be offset by increased traffic from independent bookstores. *PW* also interviewed small and medium-sized publishers, many of whom regard the **Random House** combination an opportunity to publish authors who would not previously have been within reach. Some university press executives describe discouraged authors turning from the trade press to the academic. Management pioneer **Peter Drucker** might not be surprised; in an interview with *For-*

tune reporters, he stated cryptically, "I'm not sure that those huge, very expensive publishers like **Simon & Schuster** or **Doubleday** make sense anymore."

An often-adduced effect of mergers is downsizing, and press accounts supporting the belief that bigger is smaller included reports of **Seagram** cutting 3,000 jobs, **DIA-LOG** dismissing 330 (reported this year, following **M.A.I.D.'s** 1997 acquisition of **Knight-Ridder**), **Plenum** eliminating 122, *Money* firing most of its top editors as **Time Warner** realigned forces in its business publications, and **Ziff-Davis** letting go 350 (*Folio* attributes this last layoff to the global financial crisis rather than to changes in ownership).

The academic. Whether or not serendipitous, the seemingly ceaseless m&a activity has provoked research and new alliances in academia, where the continual rise in journal prices has squeezed libraries and discomfited scholars. *ARL's* (bimonthly newsletter of the **Association of Research Libraries**) special (October) issue on journals—which received article coverage in *The Chronicle of Higher Education*—presented four scholarly perspectives on the question of mergers. In his analysis of profit ratios for **Wolters Kluwer**, **Reed Elsevier**, **Wiley**, and **Plenum**, **Brendan Wyly** of Cornell's management library found indications that "scholarly publishing is among the most profitable segments for these companies ..." **Georgia Institute of Technology**

Assistant Professor Mark J. McCabe and **Dept. of Justice colleague David Reitman** analyzed price data for 3000 journals over roughly the same time period (1988-1989) as *M&A's* LBO statistics.

Their investigation concluded that "even after controlling for the effects of firm size and other variables, there remains significant residual price inflation." While these researchers want to conduct further tests, possibly recommending reform of antitrust policy, others are acting now to counteract what they view as anti-competitive tendencies.

Mike Sosteric of **Athabasca University** directs the **International Consortium for Alternative Academic Publication (ICAAP)**, a group of institutions united to foster electronic journals by providing editorial and technical assistance. Sosteric described libraries as "virtually powerless by themselves to offset the practices of commercial publishing houses." **SPARC (Scholarly Publishing & Academic Resources Coalition)**, an *ARL*-affiliated alliance of over 100 libraries and interested organizations, intends to spark market competition by encouraging the entry of new publications, guaranteeing to them a subscription base and sometimes

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providing start-up capital, and enlisting the goodwill of distinguished faculty and others.

Smaller shops. Outside the widely publicized unions of the rich and famous, other less glamorous liaisons took place, including these publisher alliances:

Keats, by **Tribune**
Chronimed, by **Wiley**
Routledge, by **Taylor & Francis**
Cassell by **Orion**
Carroll & Graf by **Avalon**
Peter Bedrick Books by **NTC/Contemporary**
Econ & List (Munich) by **Axel Springer**
Humanities Press, mostly by **Prometheus**

Anaya (Spain) by French media conglomerate **Havas** and these conquests of publishers by non-publishers:

Basic Books, **Westview Press**,
Addison-Wesley general books,
 by **Perseus Capital**
Gateway Books, **ICS Books**,
Cadogan Books, by **Globe Pequot**
 with the aid of **Morris Communications**

Various acquisitions of publishers by distributors.

Separations. The year brought its share of broken homes. **Penton Media**, publisher of *Industry Week*, left parent **Pittway Corporation** via a tax-free distribution. Penton wanted to play the field and surf the Web: it purchased: **Donohue-Meehan Publishing** and **Mecklermedia**, and formed an alliance with **CMP Media**. Other sales/divestitures included:

Troll Communications, by **Torstar** (**Harlequin**)
Mindscape, by **Pearson** (stock acquired by **The Learning Company**)
 Various product lines of its **Published Research Division**, by **FIND/SVP**, to **Kalorama Information**, **LIC**
Matthew Bender, by **Times Mirror**, to **Reed Elsevier**

Magazines. If academic publishing mergers prosper, principals and shareholders are hoping unions of magazine publishers will do as well. *Forbes* reported that Forstmann Little's excellent return on its purchase and subsequent sale of Ziff-Davis (1996-1997) has spurred others to seek similar returns, using a formula *Forbes* summarizes as "buy up undervalued and underfinanced companies, pump some cash into the titles, and consolidate back-office operations ... establish economies of scale ... shop for add-ons ... After a time ... the magazines are sold, together or individually."

Practice is not quite so simple as theory in this sector, however. Here are a few illustrations of the breathtaking variety of magazine transactions, with sources:

Petersen, publisher of *Teen* and of *Sport* monthly, has been acquiring more sports titles: **Century Publishing's** *Inside Sports*, the **Inline Publications unit of Sports & Fitness Publishing** (including titles *Gravity* and *Inline Hockey News*, **Harris Publishing's** *Slam*, *Slam Presents* (basketball) and *Blitz* (football). Petersen has also bought **Dobbs**, publisher of niche automotive titles. (*Mediaweek*, *The Washington Times*, *After-market Business*, *Folio*)

Conde Nast now owns *Women's Sports & Fitness*. (*WWD*)

Time Inc., owner of *Money*, *Fortune*, *Your Company*, purchased *Mutual Funds Magazine* and its publisher **The Institute for Economic Research**. (*Mediaweek*)

Newsline, publisher of *Golf Illustrated*, *Crappie World*, and *Bassin* persuaded **Essence Communications** to give up *Income Opportunities*. (*Folio*)

Media giant **Primedia** assisted **McClatchy Newspapers** in its announced intention to drop non-newspaper titles of its 1997 acquisition, **Cowles Media Company**, including **Cowles Enthusiast Media** and *Folio*. (*Folio*)

Perhaps most interesting were those liaisons that included trade show properties, as they seem to illustrate a trend towards local and cross-media acquisitions. **Primedia** acquired 15 trade shows along with **Cowles publications**, and a special-events trade show with **Miramar** and its titles. **Bill Communications**, a subsidiary of **Netherland's VNU BV**, acquired **Shore-Varrone**, with retail display titles and related trade shows. (*Mediaweek*, *Folio*)

What's going on here? These strange liaisons seem related to others in the newspaper and online communities, so bear with me as we explore phenomena that may seem irrelevant to much of the readership but which may bear on the higher profile unions that we know affect us all.

Newspapers and the girl next door.

George Bailey stayed home while Sam Wainwright left for the big city—but they both wanted to marry a local girl. It seems that publishers, too, regardless of size, are interested in you and me—as individuals who might attend a trade show in our line of work, read and advertise in a local paper, open an Internet account with a connector as big as AOL or as small as a neighborhood startup. Magazines acquiring trade shows are one evidence of this interest. Acquisition activities in newspapers are another, more obvious sign.

While well-publicized consolidations in

newspapers may seem to parallel that of book publishing (expansions of **Rupert Murdoch's News Corp.**, **Gannett Company**, **Conrad Black's Hollinger group** are frequently in the news), newspaper buyers seem to be aiming for smaller targets than book publishers have as yet done. In the United Kingdom, according to *Printing World*, regional papers are the second largest advertising medium and local papers a "prime investment ... fought over tooth and nail." Interest in such media extends beyond the domain of the Union Jack. Consider:

Liberty Group Publishing (Northbrook, IL) acquisition of three weekly groups in IL and MN

USMedia Group (MO) buying 14 California non-dailies—from the subsidiary of New Zealand based Independent Newspapers, Ltd.

Pulitzer Publishing Company's purchase of two Ohio papers—with circulations of 11,000 and 15,000, one daily, one Sunday, and with 65% market penetration (*Editor & Publisher Magazine*)

Tribune Publishing's Sun-Sentinel (FL) absorbing **South Florida News Network** and its 33 weekly papers and 12 regional magazines.

Blurring of media lines. "So what?" you ask. But consider with the above the following:

In a transaction *Broadcasting and Cable* asserts "cements ties between two of the world's leading medial moguls, **TeleCommunications Inc.** Chairman **John Malone** and **News Corp.** Chairman **Rupert Murdoch**," the two have formed a joint venture around venerable *TV Guide*. *B&C* reported that TCI's United Video will "leverage" the familiar name in connection with its product line, **Prevue**, "across print, on-screen and online platforms." Will this create the Big Brother of all advertising?

Free business and personal telephone/address/email directories are popular Internet destinations, and market researchers are polling their use. *Link-Up* reports that **InfoSpace**, one such online directory, receives most of its revenues from local ad sales: advertising representatives sell Internet space along with local directory space. *Link-Up's* **Wallys Conhaim** wrote, "InfoSpace is extending its reach beyond PC users by establishing relationships with providers of other information appliances, such as Web television, video games, personal digital assistants, cellular and personal communications services (PCS) telephones, pagers, screen phones, and information kiosks." Can anyone ever again hide from the IRS or a neighborhood creditor?

As of mid-November, **Netscape** announced it would acquire **AtWeb, Inc.**, pro-

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Profiles Encouraged

Barbara Meyers, President
Meyers Consulting Services
Organizer and Moderator,
Publishers Panel
1990-1998 Charleston
Conferences
HYPERLINK
mailto:mcsone@erols.com

Professional Activities: Barbara began her career in scholarly communications in 1974 as an editorial assistant and has worked in progressively more senior positions in both non-profits (including the **American Chemical Society**, the **National Academy of Sciences**, and the **Chamber of Commerce** of the United States) as well as some commercial firms. In 1993, she founded an independent consulting practice to help associations, professional societies, and commercial publishers increase their efficiencies and improve the dissemination of their materials. She served as President of the **Council of Biology Editors (CBE)** and still sits on the current Board of Directors as Past President while also chairing the Administrative Committee and Nominating Committee. She is currently a volunteer member of the **American Diabetes Association's** Publications Policy Committee and the **American Institute of Biological Sciences' Publications Committee**. She was also one of the co-founders of the **Society for Scholarly Publishing** (1978).

Avocations: Books, Japanese netsuke, movies, museums, music, and lectures as such as the GWSAE Distinguished Lecture Series on Leadership.

Last Book Read: *Einstein's Dreams, A Novel* by Alan Lightman.

Pet Peeves: Rudeness and unkindness.

Favorite Quote (currently): "Nature has given us one tongue, but two ears, that we may hear from others twice as much as we speak." Epictetus, Greek Philosopher.

The Future Should Be Cute from page 21

be an incentive to work with subscription agents and transfer that headache to them!) For a large publisher, the answer is also not in delivering CDs to those who cancel. Consider if every two-year college that decided not to continue in a consortium agreement had to receive the hundreds of CDs that would represent even one year's subscription to those 1,000+ **Elsevier Science** journals that they had access to as part of the consortium. That's not realistic.

Our present alternative is to make a distinction between current (3 years) and backfile. The current file is part of the current subscription (and records can be maintained to provide access for those who just canceled). After three years, all access to the older volumes—by anyone—would mean a modest charge. That raises a number of interesting issues: what is "modest;" is the backfile open to all, even if they have no current subscriptions—heaven forbid, even individuals; and do current subscribers to the title get a discount. Sticky questions—but good for late nights.

4) **Licensing**—As **Don Waters** says in *The Mirage of Continuity* (pp. 200-202), licensing has found an accepted place in library-publisher relations. Indeed, it was with some glee that I noted recent e-list comments on the need for **HighWire Press** to adopt a licensing regime. But there linger some real concerns because licenses create a different situation as to use than does a sale. One of the highlights of 1998 for me has been participation in a **National Research Council** study committee on "Intellectual Property and

the Emerging Information Infrastructure." Our report is in the works and I'm not allowed to leak it. But there is an interesting discussion on what constitutes "publication" in an electronic era of licensed access and what is the public's right to access licensed materials.

5) **Metadata**—Big buzz word this year. As an advocate of the **DOI**, I've had to learn more about metadata than I ever wanted to know. But it is clear that we will not succeed in creating links between and among digital information (to say nothing of e-commerce, for those so inclined) without a more rigorous, standardized metadata system.

6) **Linking**—In that connection, I worry still about linking. The messages I get are fuzzy as to what links—what "seamlessness"—libraries and their users want. Is it really desirable to create a raft of links (as in **PubMed**) that lead hopeful users to the door of the fulltext, only to be denied access because there is no authorization (i.e., no institutional subscription)? I worry that this creates frustration. And we don't seem collectively ready yet to encourage the alternative—direct sale of the article to the end user.

7) **Pricing**—What better place to end. We have been learning from the **PEAK** experiment in pricing that we are doing with the **University of Michigan** and look forward to sharing that with you in 1999. There are other things in the works as well—but this is not an easy area for any publisher or librarian.

So, is the future "cute"? I don't think so. But we need not be somber either. The things I worry about are susceptible to resolution if there are good faith discussions and a continuing willingness to work to find solutions. Happy New Year. See you around.

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vider of Web services and utilities for small businesses—and independent publishers, soon after **Microsoft** initiated the purchase of **LinkExchange**, a similar business, according to *Internet World*. Many of us have used Web Site Garage or Web Site Post Office, two of **AtWeb's** offerings. Will Web sites become as formulaic as network television programs?

Conclusion: to be continued. Before my trip to planet Potential Sources, I had a simple impression of publisher mergers and acquisitions, an impression derived from a stream of listserv messages and random perusal of news sources. My mind applied the term "publishing" in a serial fashion: companies publish books, and/or other media like magazines, papers, CD-ROMs, or Web sites, but the products seemed discrete, other than the best-selling book with the movie option and licensed characters.

Thanks to my investigative travels, "pub-

lishing" will never again imply a serial activity. Publishers are combining products in ways previously not possible, and simultaneously conduct activities in board rooms in London and Munich and in offices and showrooms and through digital packets in our neighborhoods.

Although I may not have gained a better understanding of what, at bottom, is driving media combinations, I can at least visualize them where they exist: in three dimensions, affecting the ways you and I communicate via the Internet, the telephone, our local directories, newspapers, and television stations, as well as influencing the prices we pay for books and our choice of where we buy them. The Gorgon's face is as now as familiar and unremarkable to me as a neighbor's face over the mailbox, no longer paralyzing. But is that a good thing? I have not calculated, and therefore have not reported to you, the portion of articles I used to prepare this column that were, regardless of vehicle title, ultimately published by a company called "Thomson." But that portion was very high.

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