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Issues in Library Vendor Relations — The Urge to Merge

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Within a period of just sixty days, two of the three largest independently owned library book suppliers that specialized in the academic market, were acquired: **Academic Book Center** was purchased by **Blackwell's** in mid-April, and **Yankee Book Peddler** was purchased by **Baker & Taylor** in mid-June. The library community has every reason to ask why this has happened, what it means, and what the future may hold.

To answer the "why" question, here is my view on this mini-merger mania. Since Dan Halloran and I owned **Academic Book Center**, my thoughts on the issues involved here will quite naturally reflect my perspective as a participant, but I'll try to explore this more widely, and as objectively as I can.

Mergers and acquisitions (M&As) are nothing new in the business world, but their form and motivation are somewhat different now than in the recent past. In the 1960s and 70s, M&A activity was largely directed at assembling conglomerates, business organizations that often were composed of many different, and in some cases even competing, businesses. The aims of the conglomerate builders were diverse, but the underlying principle was to spread administrative costs and management expertise over a wide network of businesses that had little in common except common ownership. As a successful business model, conglomerates were flawed, and few survive today.

The 1980s and early 90s saw the breakup of these organizations, while another concept began to fuel merger-mania: M&As driven by economies of scale. These business models assembled huge companies within the same industry or product line. Beginning with the airlines, real estate operators, agriculture businesses, financial institutions and other commodity-like products or services, the 1980s and early 90s were a time of mega-mergers resulting in fewer, much larger companies that dominated particular industries. By dominating markets and spreading fixed costs over increased sales (attained by acquisitions or mergers), many of these companies were much more successful than they had been in their original smaller guises. In the 1990s even airlines began making substantial profits as a result of mergers and market dominance (and thanks to low oil prices and affinity programs). The local community bank has become a pleasant memory, like record players and independent neighborhood bookstores.

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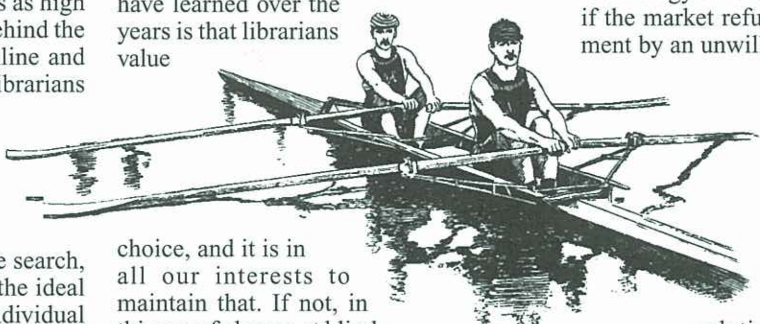
In this last decade of the 20th century another factor is fueling M&As, and this one accounts for the two recent mergers I am discussing here: business organizations use acquisitions to solve problems or extend market reach into areas that are related to their field of business but in which they do not have the necessary expertise. Another way of thinking about this is the increasing use of Outsourcing as a business strategy (or, for that matter, a library management strategy). High tech companies are masters of this strategy. **IBM**, **AT&T** and other similar companies make acquisitions continually in order to instantly avail themselves of a new technology they need, or a new market segment they find attractive. Because the high tech business is such a fast-paced environment, it is often more effective to buy a company that has solved your problem than gear up to solve it yourselves. Selling books to libraries is as high tech as you can get, and lagging behind the competition in developing the online and other technological services that librarians want will inevitably lead to decline and demise. It's only a matter of time.

Blackwell's had a problem they needed to solve. They needed a new CEO, and after a worldwide search, they identified **Dan Halloran** as the ideal candidate. In addition to Dan's individual qualifications, is the fact that he, along with a group of fine managers and staff, ran a successful company that provided superb service and technological innovation. By acquiring Academic from Dan and me, **Blackwell's** gained the CEO they needed, a team of experienced managers from both companies, and an almost instant creation of new ideas and approaches to problems that all library suppliers face today. By combining companies with two different cultures, but the same kind of commitment and expertise, **Blackwell's** got the best of both organizations. For Dan and me, the purchase of our company gave us the financial stability we had worked many years to achieve, and just as important, an opportunity to work with a group of enthusiastic people at a company with a worldwide reputation for bookselling excellence.

Baker & Taylor has, for many years, been an outstanding supplier of books to public and school libraries, as well as one of the two largest wholesalers to bookstores throughout North America. But **B&T** has never achieved in the academic library market the same success it enjoys in these other two segments of the library market. By purchasing **Yankee**, **B&T** has gained a highly esteemed academic library supplier. The **YBP** management and staff, with a proven track record of success in this highly competitive segment of the market, enable **B&T** to achieve more than it could have on its own, and to do it more quickly. For **John Secor** and his family, the value that he built over many years of hard work, can now be realized.

What does this mean for the library community? In each of these cases, the purchasing companies bought solutions by buying competitors. These acquisitions were not about cost cutting or economies of scale. They won't result in higher discounts to libraries as a result of higher projected profits. Profits at all these companies will have to be mostly reinvested to continue the technology development that libraries want. Nor will these acquisitions narrow choices for libraries. **B&T** states that **YBP** will continue to operate separately, and we at **Blackwell's** are committed to maintaining as much choice in approval plans and other services as possible. The one thing we all have learned over the years is that librarians value



choice, and it is in all our interests to maintain that. If not, in this era of change at blinding speeds, other, unthought of choices, will emerge. Technology and better management abilities mean that the needs of the market, the demands of the market, will be foremost in the minds of library suppliers. If librarians place choice as their first choice, the companies that want to achieve market dominance will insure that there is plenty of choice. Otherwise, they will fail.

What about the future? Librarians are sending us two conflicting signals, and we are trying to respond to both. These signals are:

- Give us solutions to our problems, and mostly technological solutions, and these solutions should address understaffing and an explosion in the amount of information we have to buy, store, and make available to our users.

- Save us money at the same time, but do it in a way that we can easily demonstrate to our bosses, meaning higher discounts.

The reason that these two signals are in conflict is that the market is asking us to differentiate ourselves from our competitors by expanding existing services and inventing new ones. This differentiation, this demand that we continue the competitive race to be more useful to the buyers of our services, is expensive but has real, tangible value. Yet, at the same time, we are being treated as a commodity because the buyers of our services are not willing to pay a price for the value we are creating. This situation cannot last; it defies the laws of economics. As librarians find the services valuable, they will ultimately have to pay something for them, and that will be realized in lower discounts or specific charges for enhanced services. Meanwhile, before the market adjusts to this new reality, the cost of developing these services that the market wants is forcing a kind of consolidation in the library vendor community. As stated above, however, this consolidation does not necessarily mean fewer choices, as long as the market continues to demand choices. But there is a danger, probably a short term one, that consolidated vendors may restrict choices in order to fund future technology development. This may happen if the market refuses to fund the development by an unwillingness to pay for it.

Of course none of this is quite as rational and straightforward as I am describing. Markets react sporadically and sometimes, for a time, irrationally. But ultimately the numbers don't lie, and the whole relationship between buyers and sellers settles into a system that reflects real costs, real values, and real prices. It is inevitable that some vendors will avoid the race, either by going away or being acquired. Just as libraries have joined together in consortia to leverage buying power, so too are vendors consolidating to leverage selling power. This can seem threatening, and in fact, it can result in only a few big vendors with a take it or leave it attitude. But I think there is a greater possibility that mergers and acquisitions will actually offer librarians more varieties of services, more differentiation, and more useful methods of accomplishing their work. The financial strength of these new consolidated vendors will remove some of the obstacles to technological development. The rational demands of librarians, who value choice among vendors, will encourage vendors to maintain those choices, even enhance them. It may well be that a few large vendors end up offering an assortment of approval plans, accounting services, Internet connectivity and interaction, richer databases of bibliographic information, and information in a variety of formats. It really depends on what librarians want, and whether they place value on it.