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Papa Abel Remembers — The Tale of A Band of Booksellers, Fascicle 19: Economic Realities

by **Richard Abel** (Aged Independent Learner) <reabel@q.com>

By 1974 the competitive environment had changed markedly — particularly in North America. **John Coutts'** firm in Canada, after he spun off from our firm, had not only garnered a significant fraction of the Canadian scholarly book market but had established a U.S. presence first for the acquisition of books published in the U.S. and not co-published by Canadian publishers and, later, for the marketing of the firm's services to academic libraries along the northeastern tier of states. In a parallel development, several regional booksellers of scholarly books had emerged from among some local or specialist booksellers. All of them began to offer some parts of our services — filling firm-orders generated by libraries; standing orders for books in series, Approval Plans based upon LC card or MARC records, the supply of cataloging for books supplied, etc. All had been patterned after the body of services we had developed. We well understood that the competition would imitate this integrated body of services, for we had widely and openly distributed the relevant explanatory literature to academic and research libraries across the continent and abroad. But we were somewhat taken by surprise at the number of regional imitators that had sprung up. In addition, of course, we had to contend with the assorted regional university networks which had materialized around the country thanks to the largesse of various state capital grants and those of the **CLR**.

The consequence for the Argonauts was that we had to work harder at marketing our services — both in North America and abroad. The overseas demand for scholarly books was becoming, both in fact and in our planning terms, of increasing importance. It had proved an increasingly profitable segment for the firm.

This was not only because overseas libraries required increasing numbers of scholarly books published in the English language to compensate for the dearth of books acquired during the war; for the massive rebuilding effort demanded after the cessation of hostilities, and lastly due to the increasing dominance of English language scholarship. They also were grateful for the rapidity of our air-transport system as well as the fact that we attached no mark-up over list prices as both the ossified system of book distribution overseas had imposed and required.

It will be recalled that the business plan worked out with the underwriting firm, which had agreed to take the firm public, called for making this stock offering in 1975. This plan assumed that our sales volume and level of profitability were such as to price the shares at \$10. So, we were keenly aware of these newly-emerged competitors and the exigencies resulting therefrom. We were maddeningly pressed by the need of resolving on schedule the financial stringencies under which we had labored from virtually the first days of the firm. Having our necks and spirits relieved by the removal of this financial albatross was keenly anticipated by nearly the entire staff. So, we bent every effort to realizing the objectives of the financial projections — and were on track to that end despite the newly emerged competition.

But as the year evolved, the remarkable inflation, which had already persisted for a couple of years, became harder to deal with — particularly in connection with keeping our wage and salary programs intact. But this difficulty soon proved of lesser significance than a couple of others which had cropped up. The first of the latter were that the results of the research by **Charles Marshall** into our specific costs

of doing business were beginning to come in. They were disquieting. Even more disquieting was the observation by **Keith Barker** that our conventional accounting results were showing a decline in our profit margins. He recruited **Paul Sibley** to help in uncovering the causes of this decline. Within months the principal cause was discovered to be the fact that the ratio of the library-originated orders coming in had been progressively skewing to a growing number of orders for hard-to-obtain or no-discount titles or low-priced short discount books. This finding could quickly be related back to the increasingly frequent reports from the firm's various domestic office managers that libraries that had switched part of their business to the newly emerged competition were clearly sending us all of their orders for hard-to-obtain or no-discount or low-priced titles. Meanwhile, **Charles Marshall's** cost studies had revealed that short discount books bearing a list price of less than \$20.00 would not support our costs in providing them. Our firm was, in short, the default supplier of such books as the other booksellers returned, such library orders as "OP" or "indefinitely out of stock" or "not available through the trade" or other such dodges invented to maintain the competition's margins. This was, of course, a sensible thing for the libraries to do, for we were prepared, as we had always been, to provide a total service regardless of our margin. So the librarians playing this strategy could feel good about cultivating assumed dealer competition and satisfying regional loyalties while obtaining all the profitless materials demanded by faculty and graduate students.

What was the answer to this cluster of related problems, which were weighing increasingly heavily upon our economic viability? After some months of debate and the examination of a wide range of alternatives to the resolution of that conundrum, we settled on a radical approach to the solution to this knot of problems. We ultimately concluded that a cost-plus pricing schedule based upon the actual costs of handling various classes of books and attendant services best fit our circumstances and the interests of libraries whose budgets were being increasingly hard-pressed. Thus, a title carrying a high list-price and a trade discount would command a far greater discount from list-price than a low list-price title sold to us at a short discount. By way of further example, a title in-series would be assigned a lesser discount if provided as a library-generated order for the same title — this to provide for the greater costs incurred in managing and policing the standing order. Yet one more example: a title supplied on the Approval Plan would carry a lesser markup than a library-generated order, as the former was a mass-produced service while the latter required additional costs of shelving, picking, and the increased risk of becoming dead inventory stock.

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five, only one was a computer manual while the others were surprising: *Russian Origins of the First World War*; *Place, Writing, and Voice in Oral History*; *New Science of Religion: Exploring Spirituality from the Outside In and Bottom Up*; and *Metaphor and the Historical Evolution of Conceptual Mapping*. The STLs covered all subjects across the board, including humanities (e.g., religion, history, language arts, political science, and literary criticism), science, and social science (psychology). The cost was \$1300.

ebrary offers good statistics at their Website. It was interesting to see how many and what books were viewed, how many pages, and how many user sessions. This again shows that our patrons were making use of the electronic content.

There are some complications. We discovered that the links to the contents may not work.

The invoices for STLs are in paper, so the Acquisitions staff will have to design procedures to accommodate them. The Acquisitions staff will also need to account for any titles purchased outside the **ebrary/YBP** system (standing orders, **Amazon**, etc.) to make sure duplicates are not received.

As more libraries experiment with PDA, hopefully more will publish about their experiences. The April 17, 2012 issue of the *Chronicle of Higher Education* has an article called "Is psychology about to come undone?" All of the studies published in the 2008 issues of three psychology journals (*Psychological Science*; *Journal of Personality and Social Science*; *Journal of Experimental Psychology: Learning, Memory, and Cognition*) will be reproduced to check the validity. If psychologists can check the results of their peers, in that spirit, we hope other libraries will consider comparing their PDA results. This version of "PDA" is still a pilot for us, but the initial results are intriguing. 🐼

We had a second objective in mind in opting for a cost-plus system. While it would be marginally more complex to install and operate, it had the enormous virtue of being a much more transparent system and could give any half-way savvy acquisition librarian the means to identify those dealers playing the traditional games of diddling discounts — some almost monthly in response to the news from the financial officer as to margins. In short, a cost-plus pricing system would assist librarians in smoking out those dealers with a penchant for playing fast and loose with prices and discounting. Thus, cost-plus pricing placed in the hands of librarians a superior means to monitor the most effective management of their materials budgets.

Almost immediately upon the launch of the cost-plus pricing system, the academic librarians began to complain, some quite vigorously. The special librarians in corporate and research libraries in contrast really welcomed it. It seems that the latter were both accustomed to such systems, as so many corporate and laboratory organizations fairly routinely employed such arrangements in their purchasing or supplying of services. Further, they valued the ability to manage their library materials budget, for that is the environment in which they operated. The reasons behind the near-universal and visceral academic library dislike of the system puzzles me. I still have no satisfying explanation therefor even today.

When the North American office managers met shortly after the introduction of the cost-plus discounting system, they were opposed to it to a man and strongly urged a hasty return to the traditional pricing method. So, on the strength of these remonstrances we reverted back to the old practices.

But with this reversion we were faced with the associated return of the unpleasant financial facts that had led to the decision to move to a more rational and transparent pricing practice. What were we to do? We had to solve our long-term capital requirements. But we were faced by an apparently insoluble competitive predicament. We were left to generating some other ethical and transparent but rational pricing system to replace the traditionally obscure and easily abused system which had been the practice from before the time the firm had ever become a specialist dealer to academic and research libraries.

But other events overtook this effort — we were now faced with the sudden onset of the sharp recession that began in earnest in mid-1974. The firm had successfully weathered a couple of earlier recessions and the almost universal associated tightening of cash flow. These earlier downturns had created genuine difficulties, but we had succeeded in dealing with the accompanying slowdown in cash flow. But in the 1974 recession everyone seemed to be hoarding cash. The consequence for our firm was that our average account-receivable (the money owing us for books and services delivered on open account) moved from the usual 70-75 days from invoice date to payment received date to 106 days. This rapid slowing of cash flow occurred in less than

six months. So, by the summer of 1974 we had reached the 106-day mark.

Now, this length of time, 106 days, was well in excess of the more-or-less informal 90-day terms allowed library booksellers by most publishers who well understood the realities of institutional accounting. But another financial exigency appeared. To provide the working capital needed to operate the firm, we borrowed from a local bank. Our terms with the bank were that we would pay several points over prime. (Banks do not feel comfortable with financing things so seldom in demand as books and so vaporous as Approval Plans and book-cataloging.) The even more onerous term in these recessionary circumstances was that they would finance our accounts receivable for only 90 days. By the summer of 1974 our interest rate had climbed to 21.5%. This percentage was well over our margins, so we were losing money on every sale. And our average account receivable was outstanding 106 days, so we possessed inadequate working capital to sustain our operations. We were operating at about \$4 million of purchases a month at this point, so obviously we needed an injection of cash in the amount of roughly \$2 million. We were not going to long survive in these circumstances absent additional working capital.

I brought aboard **Fred Meikle**, who had distinguished himself as a business consultant and a proved manager in difficult settings, to run the operation while I sought to raise capital. The latter demanded extended trips and stays in the principal money markets of the U.S.

My first assay was in New York City to the underwriter which had agreed to take the firm public — and whose man in charge of putting together such flotations had assured me at the time of signing with them that his firm always stood by clients when they experienced hard times. After several weeks, as they considered what to do, I was called to learn that if they supplied the cash we needed they would lose money on the securities they would have to sell to do so. This became an all too common recital — the front office seeming to be interested in and prepared to work with us only to be told after many submissions of data and projections followed by conversations that the back office had rejected any help. So, we were faced with discovering and pursuing other avenues of financing to tide us over this recessionary period and to the time when receipts against receivables had returned to their normal cycle.

Lyman Newlin was a daily companion in these pursuits as I was virtually living in New York City, and the city was his stomping ground. We, together with **Keith Barker** by phone, finally concluded that our best shot was to try to sell an interest in the firm rather than continue to seek a loan of some kind. To this end we went to some old friends now retired from various publishing houses gathered together by **Cameron Moseley** (**Mose**) and known as **Moseley Associates**. **Moseley Associates** were then the leading publishing consultants and were involved in a variety of deals in the book trade. We also turned to **Daniel Melcher**, who had retired after selling the **Bowker Company**. Some unlikely help turned up from several of the immigrant publishers from Germany and Austria, who had founded

outstanding publishing firms in the United States — most especially **Walter Johnson**. They too had lived through hard times and by virtue of long associations in the international trade recognized the commitment of the Argonauts to the book and to the brokering of knowledge world-wide and of the value and contribution of the firm to the international scholarly book trade.

These several generous supporters pointed to or introduced us to prospective backers not only in and around New York City but in Boston, Chicago, and elsewhere as well. As these prospects were suggested I traveled to meet with them to make our case. Several expressed a genuine interest but as was becoming an almost universal response, they concluded that the losses they would suffer in selling financial assets in a depressed financial market to raise the amount we needed might well not repay them for the risk they would sustain by investing in the firm.

In the course of these various conversations I picked up the rumor on several occasions that the **Blackwell** family was tentatively seeking to gain a footing in North America. So, in the spirit of leaving no stone unturned I called the **Blackwell** offices in Oxford. I was put through to **Miles**, the son of **Richard Blackwell**, who was then the CEO of the firm. **Miles** was the chief factotum of the library supply division of the firm. Our conversation was cordial, and **Miles** seemed encouraging. Within a week or two **Miles** called back to advise that he, his father, and the CEO of **Blackwell Scientific**, **Per Saugman** would like to come to Portland to talk with us. Arrangements were made, and the meeting was soon arranged. To make a long story short multiple trips by both organizations between Portland and Oxford were made — complicated by the Christmas and New Year holidays. A solution to our problems seemed to be close to realization.

At the end of the day, however, it became clear that the **Blackwells** had settled on a strategy of letting our firm go into involuntary bankruptcy at the hands of the bank. After the bank had auctioned off those assets which **Blackwell** did not want, **Blackwell** would buy from the bank, for the balance on the bank's loan to our former firm, those assets which they wanted — the integrated Approval Plan software, standing order, and cataloging software; the bibliographic and cataloging databases; office and warehouse furnishings, etc.

Some of the managers seeing the handwriting on the wall sensibly spun off into separate businesses doing the same thing. The largest of these in the United States was **Academic Booksellers**. **Tom Slatner** started a United Kingdom firm under his name to deal with the former UK libraries. **Bernhard Starkmann** started a Dutch firm under his name to deal with the former Continental libraries. Both of the latter opened U.S. buying offices to supply their libraries with their North American titles. **Starkmann** ultimately bought **Slatner** out and removed his company to London from Amsterdam.

And so the Band of Argonauts went their various ways, some in company with others of the Band, the remainder as single, venturer bookmen. It is hard for me to imagine anyone ever again assembling such a formidable and competent band of knowledge brokers. 🌿