sotto voce-Thoughts on Whether Newton's Apple Always Falls to the Ground

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sotto voce — Thoughts on Whether Newton’s Apple Always Falls to the Ground

by Bob Schatz (Manager of North American Sales, Everett’s) <everbob@yahoo.com>

Help me make sense of this. Last year Amazon.com doubled its sales, but increased its financial losses eightfold. At the announcement of this news, its stock went up. The only experiences I’ve had where my losses seem to make someone happy are at the track or in a casino. I’m glad I’m not much of a gambler.

There’s no doubt that Amazon has accomplished great things, both in redefining the movement of merchandise to consumers, and in raising the visibility of books to the average person on the street. Both accomplishments are worthy of note. Still, I’ve never had much use for Amazon personally. I’m not much of a bookseller reader, and I find I can feed my eclectic reading tastes by wondering through bookstores, or perusing the “shelves” of other e-traders like Alibris or Powells. From a professional standpoint, Amazon has never been much of a competitor; it is too cumbersome and expensive to meet broad enough library needs to be a viable, broad-based option for the kinds of material supplied by most library booksellers.

While Amazon is not a serious competitive threat to service-oriented library suppliers, it represents another kind of threat by giving the impression that businesses can offer deep discounts, sustain significant ongoing losses, and yet somehow thrive in the marketplace. While logically we all know that such a reality is no reality at all, the commanding presence of Amazon in the world of commerce clouds our ability to understand which rules of business still apply and which have been replaced by new rules created somewhere out in cyberspace.

By my reckoning, Amazon is no more a bookseller than COSTCO, or Walmart. Including books in a vast electronic inventory of available consumables does not make it a bookseller. Its real business seems to be to provide a structure through which individuals can build wealth though the purchase and inflation of stock. Few people, if any, have invested in Amazon because of the proven strength of its business practices as a bookseller.

From the traditional measures of profit and loss, no such strengths exist. Rather, Amazon is the equivalent of a giant pyramid scheme from which hundreds of thousands of people have hoped to get rich quickly. While vast numbers of people have gotten rich this way, the model is wrong-minded and ultimately doomed to fail. There’s no reason why companies whose names end in dot-com should be excused from the traditional demands of meeting their overheads that corporeal enterprises have been subject to for centuries. When a business’s income falls short of its expenses, its options are fairly simple: improve internally and externally in order to achieve profitability or close up shop. What you can’t do is continue to pile up losses indefinitely on the assumption that enough people will continue to buy your stock as to make profitability irrelevant. Yet isn’t this the model so many people have embraced with Amazon?

What is Amazon.com’s mission? If it is an advertising business, the company is eventually going to have to own-up to the realities of book distribution that the rest of us learned years, if not centuries, ago. If books are merely an excuse for generating revenues via other means, they’ve picked a curious medium for achieving their goal; books are so low margin, there is no basis upon which you can offer deep discounts and expect anything but financial losses. If you wanted to use products to assure Amazon’s advertisers of a lot of traffic, wouldn’t you want to pick something less labor-intensive and more profitable than books?

In the 1960s, the Saturday Evening Post, that bastion of Norman Rockwellism on which so many of us grew up, started giving away subscriptions in order to drive up circulation. The intention was to make lots of money by being able to charge advertisers more, based on increased circulation. Indeed, circulation did go up, but advertisers, wary of the suicidal way in which it was gaining new readers, did not buy more ad space. Shortly thereafter, the Saturday Evening Post ceased publication.

Whether Amazon recognizes it or not, the editorial content of real bookelling operations is service, for which customers have to pay fair prices for the titles acquired. Involved in the bookelling task are a plethora of operational costs and diseconomies, the management of which requires enormous skill and experience. Technology, in and of itself, will not substitute for that experience. Amazon’s problem, and it has a big one, is that it hasn’t prepared itself to live the life it has chosen. Assuming that its stockholders eventually insist that it become profitable, it will have to choose either to modify its business practices to address the harsh realities of bookelling, or find a more appropriate catalyst than books for running an advertising business.

When the balloon bursts and the novelty of e-commerce wears off, Amazon, and other IPO-rich electronic businesses will have to learn to live within the same parameters of good business and good bookelling that have been exemplified by more traditional companies. Until then, I will continue to wonder at a world in which an enterprise can exponentially increase its losses, yet go on counting its wealth in dollars numbering in the billions.

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