

## The big squeeze

(or Are we living through the death throes of publishing as we know it?)

*Peter Donoghue*

Just over two years ago I was privileged to be able to introduce one of the keynote speakers at the inaugural CASE national conference in Brisbane. I said this:

At a time when:

Celebrities can't write

Corporations lie

Actors can't sing

Journalists run agendas

Politicians deceive

And institutions cower —

we need editors with high standards to produce text readers can trust.

At a time of insecurity, a time characterised by the misuse of language, those of us professionally engaged in the business of information need courage to confront misinformation, hype, cant, cliché and spin.

More than ever, we need editors committed to quality and excellence. Such editors have always been underrated in the publishing industry. Large and critically important parts of the editorial function have been outsourced for decades. We publishers have decided we don't 'own' that function, just as we don't own the composition or printing functions.

But it has always seemed to me that we are an impoverished industry because of it. Our standards, as publishers, have been lowered. Our regard for quality, for the quality of the text itself, is off our radar screen. The less we pay for editing the better. That's all we care about.

The hope for quality therefore rests with editors themselves.

I'd like to put these sentiments into a far larger context and use the opportunity to reflect on some real challenges we face as a publishing industry as we plummet headlong into a very uncertain future.

I've titled this paper 'The big squeeze' because I think the industry is being squeezed by some very large and profound macroeconomic forces. These forces or pressures are unstoppable, and they are all the more powerful by being relatively invisible, by playing out in the background of our rather more quotidian issues and concerns.



## Big Retail

First, let's look at some sober statistics on our industry. As you know, the Australian Bureau of Statistics has been collecting statistics on the book industry consistently for the last ten years: on publishing since 1994, and on bookselling since 2001. These statistics provide lots of useful data on all sorts of things, and they've received wide coverage in the trade and in the media generally. One of the best analyses is the one prepared by Jeremy Fisher from the ASA in his booklet *Current Publishing Practice* released in September 2005 and available directly from the ASA.

But most commentary has missed the two critical facts that emerge from these figures. Firstly that our total revenue growth has come to a shuddering halt (in fact we're selling exactly the same number of books now as we did ten years ago!), and that bookselling profitability has been on a consistently downward trend and is now, at barely above 1 per cent, at an unsustainable level. No-one, repeat no-one, believes profitability will improve, at least without major structural changes.

The complicating factor in this is that the profitability of publishers has shown the opposite trend. Publishers' profit margins have gone from the low single digits four years ago to close to 10 per cent in 2004.

I make this prediction: retailers are not going to stand back and let this situation continue. They are going to come at publishers far more aggressively than they have to date. They are going to want a more equitable sharing of trade profitability.

What the ABS figures show is that, the larger the bookselling business, the less profitable it is. Yet the definite trend, not only in Australia but around the world, is towards bigness and conglomeration. The Waterstone chain is buying Ottakers in the UK (perhaps to be known as 'Wottakers'!). Borders is rapidly expanding in Australia, and along with A&R and Dymocks, will dominate the retail trade. Even in the school supply retail sector two giants have emerged through acquisitions over the last five years – Landmark and Campion.

So Big Retail is one element of the Big Squeeze. The second major one is China, or let's call it, for the sake of symmetry, Big China! You may wonder what China has to do with the book industry in Australia apart from its possible attractiveness as an export opportunity. I don't think I'm drawing a long bow in believing that it matters a whole lot. It relates to the slowdown, or more accurately, the shutdown, in our revenue growth.

## Big China

Let's look at some facts.

Australia's imports from China have doubled over the past four years. They now make up 13.6 per cent of our total imports, compared with 13.7 per cent from the US. In another two or three years China will be head and shoulders above the rest. Whether it be whitegoods, foodstuffs, homewares, clothing, whatever — the pressure on Australian manufacturers and other importers is intense and unrelenting.



Across the whole gamut of consumer goods prices are being forced down, cost increases are having to be absorbed and margins are under severe strain. Price expectations are being re-moulded daily.

But not in the world of books! Oh, no! We publishers are so used to getting our price signals from our UK and US parents, principals and suppliers, that we have remained oblivious to this huge tectonic shift under our feet.

Book prices are getting way out of kilter with other commodities and items of value on the Australian market at a time when we are fighting hard for the discretionary consumer dollar. I'm coming round to the view that our general level of book prices in this country may be up to 30 per cent too high. We have been propelled there over the last five years by the fall in the Australian dollar early in the decade, and the GST. But both these are now over as issues.

All our hardbacks are \$10–\$15 too expensive. The \$29.95 trade paperback should be no more than \$24.95 but in fact we're seeing more and more \$32.95s recently, a disastrous trend in my view. And as for mass market paperbacks, they should be no more than a movie ticket: \$12–\$14.95.

These are, after all, the actual price levels being charged on the more popular titles by most of our downtown retailers, but in the form of discounts off RRP. These people know their consumers intimately.

If our prices were a lot lower, then simple economics would suggest there'd be no room and no need for deep publisher discounts to retail behemoths (which hurt independents acutely), and it also suggests that volumes would significantly increase, at least to a greater extent than any Books Alive campaign could possibly achieve.

But mostly it would work to restore the credibility of our industry with the consumer, and the vital importance of books to our society and culture. It might even help awaken generation Y to books and reading, although that might be stretching it a bit!

Ultimately, we would give revenues a much needed kick-start.

Unfortunately, however, getting to this new place, if we ever as an industry accept the challenge to go there, will be very painful indeed. But we are certainly not alone as an industry in having to accept some pain in a period of transition. Look at the telecommunications industry and, in particular, Telstra.

## Big Technology

My third and final mega-trend, and perhaps this is the one that ends it for all of us, is Big Technology.

As publishers we are being called on to make large investments in technology right across the business: to enhance our customer service and distribution competitiveness; to reduce costs and greatly increase productivity in our editorial and production areas; to make our sales and marketing people far more effective; to bring the supply chain into the twenty-first century through EDI and e-commerce initiatives.



We simply must do this and more, if we are ever going to survive the coming price–value challenge.

However, that's not the big technology challenge as I see it. The tectonic plate challenge is the one that is forcing us into wholly new paradigms for content supply: where customers, not products assume centre stage; where customisation becomes a matter of course; where granules of content are freed from their analogue bundling and sold separately or in a myriad of combinations.

If customers chose to only buy the bits and pieces they want when they want them – sort of an iPod model of supply – then that has the potential to fundamentally subvert our revenue flows and profitability.

Various parts of the industry will confront this challenge at different times over the next decade or so, with educational, professional and scholarly publishers leading the way.

What does it say of our general preparedness to confront this transition however, when even such benign digital ventures as those currently being propounded by Google seem to scare us witless? The Australian trade publishing community still believes the possible abolition of the territorial copyright provisions to be the number one threat to our business!

## The big squeeze

So we are facing three major economic and social forces: Big Retail, Big China and Big Technology. The one undeniable fact of life in publishing over the next decade is that we will all be unbearably squeezed!

You may think it's hard if not impossible to muster optimism in these transitional times! But reflect on the following: We find ourselves in the content business; we find ourselves in the communication business; we find ourselves in the quality business.

Content and communication of quality. If that's not a definition of publishing and editing, what is? Are these things no less needed and desired? We know they're needed, and will be needed, more than ever.

I said in my introduction two years ago that our standards as publishers have been lowered. That our regard for quality, for the quality of the text itself, is off our radar screen. Editorial is the most challenged role in the organisation. My belief is that unless we rediscover this essence of what publishing is about we will have little to offer and will certainly be squeezed out of the value equation.

So, ironically, we need to rediscover the value of the age-old craft of editing, that serious, collaborative, sympathetic profession that currently we treat so dismissively in our organisations. That which we outsourced, because we were into huge distribution centres, huge marketing and huge authors and all the other appurtenances of big conglomerate publishing, needs to re-assume its central place at the core of our business.



Perhaps I'm naive in thinking that things more coldly commercial won't survive the squeeze as well as the old, intense, creative relationships; the old skills and craft of recognising, developing and editing talented authors; the ancient role of challenging, clarifying, re-writing, querying, red-lining and binning.

But I do know this: People are sick to death of unedited prose. We're drowning in it. The knotty, clotted, jargon-infested illiterate bilge that clogs our time and space. How refreshing and joyous it is to read clear, lucid, beautifully balanced sentences that sing and instantly communicate.

In conclusion, I urge you to be passionate about your space, to fight for your place, to withstand the squeezing, to resist the marginalisation. What you do is too important because it is centrally important to the future of our industry.

You know this. Make it known to others.

Be loud and vocal.

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