



Beyond the Book

A podcast series on the business of writing and publishing

PUBWEST



PubWest Conference 2012

Keynote Session:

Len Riggio, Chairman, Barnes & Noble

Introduced by

**Dominique Raccah, Founder, President & Publisher
Sourcebooks**

RACCAH: I'm going to be brief, but I wanted to say a couple things to Len and to you guys. I'm incredibly honored to introduce our keynote speaker this year, an extraordinary entrepreneur. You guys all know that. A pioneer in our industry, and one of my personal heroes, Barnes & Noble Chairman Mr. Len Riggio.

I can't think of a better fit to deliver the keynote for this year's theme – this year's theme, Beating the Odds: Making Money Making Books. In 1965, at 24 years old, Len opened his first college bookstore. Just a few years later he bought and revived Barnes & Noble, building it into what is now the world's leading bookseller. I would say Mr. Riggio knows something about making money making books, right?

In the fall of 2009, Barnes & Noble introduced Nook, the first Android-based reader. Last year, Barnes & Noble was manufacturing Nook Colors at a rate of 18,000 a day. Barnes & Noble now has well over a quarter of the e-book market, and is an undisputed leader in the e-book world.

Len has said that he's especially proud of the Nook Color, which he said is the first time in the history of the company we made a technology leap over our competitors. This fall, you're watching a lot of other people trying to catch up with Nook Color. And, by the way, they've got some big announcements coming up. You guys are all hearing about that, so that's pretty cool too, pretty extraordinary.

Although Len is steadfastly leading Barnes & Noble through the digital transformation, he remains a bookseller at heart. He says, I love books, I love selling books. It's been a privilege to have a career in a business consistent with my personal values. And his willingness to take risks, and his undeniable passion for this industry, has made him a titan in the book world, and a hero to many of us.



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Many of the people in this room, myself included, are where we are because of Len Riggio. More than two decades ago it was his culture of organized risk-takers that gave my tiny company its first buys. In the years since, they've been key partners in creating many of our most – all of our successful books. I doubt you'll find a trade book publisher who can't tell you similar stories about the central role that Barnes & Noble has played in helping to create their most important titles.

I know we all can't wait to see what's next for Barnes & Noble, and are thrilled to hear Len's thoughts on the future. And on behalf of myself personally, all the publishers here in the room at PubWest, all the independent publishers who have taken a risk and taken a gamble and been supported by Barnes & Noble, I want to thank you, Len, for your efforts, and those of the people who work for you. You've built an extraordinary world-class organization that has literally changed the world. Thank you.

(applause)

RIGGIO: Thank you all. I just have to start out by saying that Dominique has spoken from the Nook, and (laughter) and here I am with legal scratch paper. (laughter) So much for technology. So let me reminisce a little bit about my – as we get started here – 50 years as a bookseller. And I guess it should be obvious to you that I've loved every single minute I've been in this industry. And it's been a privilege, as Dominique has said.

Bookselling has always been, for me, a mission, much more than a business. So I clearly think it's possible to be commercially successful and also work for a lifetime in the public good. We like to say we do important work. I think it's clear that everyone in this room does important work.

Now, my love affair with books began in the late '50s. So I'm an engineering student in high school, and then college, and never had a literature course at the time. And I happened into the NYU bookstore, where I worked as a clerk, and here's the paperback revolution – Washington Square Press, Bantam Books, books for 35¢ and 45¢. I hate to date myself. And so the affordability of books turned me into a voracious reader. And it opened my eyes to the whole world around me, things that I never imagined. So I've always been an aspirant, then and now. And the stores that I would build were all about aspirants, not just the already arrived. So it became a passion for me, and it also informs my work outside of bookselling. And as some of you may know, I do lots of that.

Now, during the period, publishers expressed concerns about the growing sales of mass-market paperbacks. If you remember the day, they would sell about seven paperbacks for every hardcover. But some of the geniuses in publishing decided that paperbacks were a threat, and what they did is they began to raise the prices of



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mass-market paperbacks in order to kill them, in order to preserve the hardcover. And so, over time, you saw the mass-market industry go away – largely go away. So they derided the mass marketing of books, and back then, many bookstores refused to carry them.

Also, at the time we started, bookstores were very elitist, very intimidating places. They never opened Sundays, never mind provide public restrooms, seating, or many other amenities that might actually make people feel comfortable. So we think we had something to do with the times changing.

Now, in spite of the burgeoning sales of mass-market paperbacks, and the ever-widening base of avid readers, the prevailing wisdom in the publishing houses and in the New York press was that Americans, especially west of the Hudson River or east of San Francisco, were not inclined to read. And some called the American heartland a cultural wasteland. Now, I wasn't the only one who knew better.

Now, as it turns out, we followed our beliefs, and we proceeded to open book superstores in every upscale community in America. And the most profitable of them were, incredibly, in cities that our critics said would never support a large bookstore. And this has been the inspiration for my lifetime body of work. So of course, I have to thank the giants from whom I learned, like Ian Ballantine and Oscar Dystel, the folks at Washington Square Press. They provided me the fodder for my intellect. They believed that books were the building blocks of a civilized society, and our job was to make them more widely available to every citizen.

Now, their genius is being validated today, because the combination of lower price points, and the easy accessibility of digital books, has unit sales soaring once again. Does anyone still believe book sales are inelastic? But then, who could have imagined then that the contents of an entire bookstore would soon exist in everyone's pocket? So it's not just the bookstore that's near you, or on your way home. It's not just the bookstore on your desk that's available 24/7.

It's a bookstore with a library in your pocket. Yet, at that time, the prevailing wisdom still held. And right up to the '90s, when publishers and the press scoffed at the notion of superstores – many, many articles written about, we're about to go under, we lost our marbles, on and on – and it continued through the revolution in Internet bookselling. It was all about denial. And, amazingly, 11 years ago, I spoke to the AAP about the coming digital age of bookselling, 11 years ago. What I said, was, if Marshall McLuhan – I know I date myself talking about McLuhan – were alive today, he'd be urging publishers to explore the infinite possibilities of the digital paradigm. And he would see digitization as another step in expanding this global village he envisioned by linking the world together in a single network. Achievers would abound in this new village, but laggards would be swept away.

Now, as a result, the previously neat and tidy lines between author, publisher, wholesaler, and bookseller, and reader, are becoming ever more blurry. So some of the distribution channel will not make the cut. In that talk, 11 years ago, I mentioned our having sold 175,000 copies of a Stephen King novella in eight hours. This was before digital devices. And I implored the publishers to look at this, the possibilities this represented. And I have to say they rejected – they refused to support the platform. We had a Rocketbook which was ready to go. The publishers – their answer to the Rocketbook was to actually raise the prices. Could you imagine that if a book was selling for \$20 they'd sell a digital edition for \$30? Think about that.

So I think we all could see that – I just re-read *Understanding Media*, and I still don't understand it. If you've ever read McLuhan – but I think it's obvious that his predictions for the convergence of media and technology have come to pass. And I would argue that, with increasing specificity, media and technology have become interchangeable. McLuhan might suggest they are one.

So what happens? What does the future hold for us? The problem that I see now, as I've always seen, is that too many of us in this industry see this as a zero-sum game. The mass market or the major publishers saw a paperback as a replacement of a hardcover book. Ergo, they would make less money. We're all kind of locked into this Darwinian embrace for market share – publishers competing for authors, bookstores competing for customers, individual titles competing for shelf space and the attention of readers. We've been too slow, I think, to realize that more publishers, and more titles, and more bookstores, and more formats, equals more sales. That market size is readily expandable, with imagination and vision, and expanded markets will lift all boats.

Now, the biggest question today – which I ponder all the time, and I'm sure you do – we know how steep the ramp is of e-books. Many of you see this in your own sales, and some of you are beginning the process. So we can see where it's heading, but what will happen at the upper levels to bookstores and then ultimately to publishers? Can publishers exist without bookstores? Will they be disintermediated? Will you be disintermediated by technology giants who will replace publishers as content aggregators? Will less shelf space in bookstores result in less demand for physical books, and therefore cut off the spigot which now nourishes our whole ecosystem?

Beyond the commercial marketplace, there's one more thing I'm sure you've all pondered, and that is, to what extent will content be ever more pervasive, ultimately causing a significant drop in book reading? You see people – where, in the past, you'd go into a Starbucks and you'd see people reading a book, and now everyone's got their tablet open, and plying it virtually all day. Is it possible to be



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literate without reading books? Is there a new literacy that these technology devices pose?

More than ever, I think predicting the future can't be done from an armchair. We've got to roll up our sleeves and get involved, and happy to see all the workshops you have here. I know you're all engaged. And let me mention that last night, when I came here, I didn't know what to expect. And I met some really, really great people, some of whom I met in the bar, which is a great place to meet them. And I said, my god, this is the beginning of something new. This reminds me of what publishing used to be, before all the publishers got gobbled up by the big houses, and then their imprints got extinguished. But I see this bubbling of entrepreneurship, of passion, of people who either own their own businesses or work for small businesses. This is the kind of entrepreneurship that's going to bring publishing back. The big publishers are going to have their battle with the Amazons and the Googles and the Apples, but there's room for the people at this level in this room and beyond. So what I'm hoping for is a whole spate of entrepreneurship, small publishers again starting out, becoming big, and then hoping not consolidating to the point of oblivion.

Now, I'd like to point out that no industry, in my mind, including technology, is, as I said before, more important to the advancement of our civilization. And the work we do is even more important, because publishers and booksellers provide the means of navigation through an ever-dizzying range of possibilities. How can you think about a catalog of 20 million books? Who's to navigate that? You'll need publishers, and you'll need booksellers, in order to take people through.

So, first things first. Barnes & Noble has a lot to say about whether bookstores will exist. I'm not happy that Borders went away. That was never an objective of ours. I am not happy to see any bookstores fold. Never was. But take it as a given that we have the resolve. We are as committed as ever to the future of our bookstores, and more than that, towards bookstores in general. We've spent a lifetime at bookselling, and I have to say, a world without bookstores is not a place in which we'd like to live. It's just not going to happen. So we will adapt, as Dominique has told you, and you've witnessed, to whatever the new world brings us.

And I don't see us being alone out there, because smaller-format stores will do well, independent booksellers will adapt as always. But the larger issue for publishers – maybe not those in this room – is the mass merchants who represent more than half of American book sales. And with digital sales really hitting the mass market more than anything else, the mass merchants will definitely reduce shelf space. In fact, the beginnings of the contraction of that shelf space are occurring as we speak. Less shelf space for bookstores means less titles will be sold, and it compromises the publishing model in the long range.



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So whether you see our stores as incubators, or you see them as showrooms, or as portals, our superstores loom critical to this industry, never mind to us. And these grand emporiums or piazzas of contemporary culture, as I call them, they make a statement about who we are as a people. And they represent, more than anything, an ideal to all those who aspire.

By the way, our stores now exist at the entrances to major malls, which is a big development. And the reason they get this positioning is because landlords see the connections between upscale readers and people who have a pocket to spend. And they, too, have become dependent on the traffic that we bring. So we're making better and better deals now with landlords. They're as committed as we are to making bookstores successful. And what's happened is the landlords, interestingly, are giving us better locations for less rent, which makes the bookstores even more viable.

Now, it's also true that Amazon and other online retailers have noticed the connections, and so what they see is that, if they heavily discount books, they'll be able to create online accounts with upscale shoppers. One of my questions is, can publishers continue to offer better terms to the new at the expense of the old? So, obviously, what's an opportunity for some is a problem to others. I don't know where all this shakes out, but I would only tell you, we're not shaking out.

Most important, our emergence as a major digital player has enabled us to support our stores, and ultimately made them stronger. You can call them bricks and mortar if you prefer, but they're not clay tablets. In fact, during the last holiday season, when we sold more than one million Nook devices, our sales of printed books actually went up, reversing a negative trend. Now, part of this is the halo effect from a major advertising campaign we ran, and also just the availability of having devices the consumer wanted inside a bookstore. So if they go into Best Buy to buy a device, they're lost. They come to Barnes & Noble, they buy a device, we show them how to work it, we take it back, we repair it, we give them lessons on how to use it over time, and they come into the bookstore to discover and download.

I can't be more excited about our digital sales. We have tracked customers who own Nook who are also members. So because they're members, we're able to see what their behavior is. Right now – and it's going up every day – our members who own a Nook are spending – are buying 60% more in units, book units, than they used to. And I think that's astounding. Because the unit prices are lower, they're spending an average of, right now, north of 120% of what they used to spend on book content alone. Our digital catalog now is only 50% of what it will soon be, so imagine where that's heading. As you know, our market share is north of 25% in digital books. And think about this – it was 0% 23 months ago. Nook Color, as Dominique has said, has enhanced our foothold in the digital marketplace,



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and our owners of Nook Color, interestingly, are spending even more. They buy magazines and subscriptions, and now Android-based apps, of which we now have thousands of titles. So together, we're producing significant revenue streams. And we also are endearing our customers to our ecosystem, and our brand and services.

Someone has mentioned the coming press release on Monday, November 7, and stay tuned, because we'll have more to say about our plans for digital content and devices.

So our strategy, again, is to use our standing as a bookseller to create branded devices, devices which read books and sell other content, they add to our bottom line and to our sustainability. This is not a zero-sum game. Now, our strategy also includes enhancing our already strong relationship with publishers. And along these lines, I have to say that not just the small publishers, with whom we've always had a great relationship, but even including the major publishers, I've never felt more confident that our interests were so precisely aligned. I've never felt this level of commitment from publishers in terms of the capital that's being spent and the technical innovation that's coming from many of you, and all of you as a group. And it's all aimed at securing for us, together, a dominant position in the marketplace of content. So I thank you for what you do. And hopefully, you'll note that the enormity of our investments in technology serve you as well. We never did and never will stint on investing in the future.

Now, it's also nice to say that publishers understand, more than ever, the value of full-service booksellers. For too many years, the publishers would produce books which the full-service booksellers – including, of course, the independents – we would bring a book to the marketplace, help to make the author known, and then once they became known, the publishers were so quick to rush to develop other markets that they in fact cannibalized the market they needed most. So we saw – for years and years people would call us the chain, or one of the chains, and I guess I'm OK with that, except we're pretty damned independent. And, to me, the chains were the chains like K-Mart and Wal-Mart and Target, and the Price Clubs and what have you, who sold at deep discounts, and didn't do anything for the publishing industry. And I think that the publishers are beginning to understand that full-service bookstores are where the whole proposition begins. As I've said before, we have to be mindful that rushing headlong into the new world, we must also make whole the old.

Let me talk to you about my thoughts on digital bookselling and content in general. I'm almost done here. First off, I think the digital marketplace – and I tend to get a little excessive sometimes – I think it's exponentially bigger, greater than most people do. As a result, I'm more optimistic about the future of bookselling and publishing than ever. The digital content business is growing faster than nearly any industry, or any sector of any industry, has in the past 30 years. So when you look



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at your sales, or total book sales, we see that it's flattish to maybe growing a bit. It doesn't look like a growth industry. But if you look at the digital book sales, which are growing at – I don't know what your numbers are – growing at 50%, 60%, 70% each year, and you follow that line ahead, you'll see how exciting the future of this thing is. So hopefully you can all see that we're not just replacing sales of bound books. We're adding unit sales as well, and we're bringing more readers into the system.

Now, you have to remember that there are – Forrester estimates that – this is mind-boggling – 20 million plus reading devices – not iPads – will be sold in the next 12 months. Twenty million. They estimate that four years from now, close to 50 million reading devices will be sold in a year. Some might look at that as a challenge. I see this as having enormous potential. Take a look at Nook Simple Touch. To me, that's the greatest device in the marketplace today. It's a black and white reader, but back to my roots, it is the size and heft of a paperback. It's just so easy to read, and to use. And the great thing about it – it's the size of a paperback, but we can have – I need that – we can have large type.

So it's paperback sized, it reads like a hardcover. And you don't have to bend back to get to the content. It's not heavy. You don't need to rest it on – like I do – on a pillow on your belly. But take a look at it. And it's kind of amazing, and I have to say – and you think about it, that it's not just that you can buy books. You have a library, a whole library, 1000 or 2000 books, in your pocket. So it's become indispensable for people who travel. And then if you get people like me and people in my family – I'm not into the color – whatever. But when I travel, I have to carry the Nook Simple Touch. I still like to read books, but I'm getting there. And I think most people will.

So for 20 million reasons, we need to look at e-books in the broader sense as being able to sell more content than we ever dreamed possible. Ours has always been a long tail business. I think the tail is getting longer. Years ago, paperbacks in print, in the '60s, was 100,000 titles. I believe a catalog of 10 million e-books or more is in the offing before the end of this decade.

Now, with this in mind, a suggestion to publishers. I know many fear Google, but maybe you should emulate them more than fear them. Who's to say that you can't apply your imprint to some of the content that is available online, and make a book out of it? Who's to say that you can't take some of the world's great treasures that are in the public domain, and brand them with your imprint, properly curated and navigated and packaged? You could add thousands of books to your catalog with no cost. The Internet's central promise is to make all the world's information available free. But the digital technology and marketplace allows for and facilitates content ownership. It's a really critical point. So while the Internet has disintermediated publishing and bookselling – and you've seen some of your titles



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collapse because of the content being available free – the digital world empowers us. We can sell our content. We have a marketplace for that content.

Now, another thought I have is, who's to say that all books are read cover to cover? Do they need to be read cover to cover? Do they read cookbooks cover to cover? Are magazines read that way? Is anyone still buying a whole CD? So what about publishing shorter versions? I know some are. What about updated books? What about enhanced books? Chapters of books? Brief biographies, essays, novellas? I know publishers are doing this already. I don't think it's heresy. We want more of the same, and any other thing that you can bring.

Here's something amazing. We have an imprint called SparkNotes. We had bought an online site, which is actually the most frequented site for teenagers on the Web. And they're SparkNotes. And they're cribs of works of fiction and literature. We make them available free online. You don't have to pay. You can get a SparkNote. We sell them in the stores, and we do more than \$20 million a year selling those books in the stores. So what can you learn from this? I mean, there's just so much available for you to tap into.

So I believe that our potential is limitless, and I think, again, we have to understand that the public cannot navigate their way through the myriad of contents, the myriad of possibilities, without you. And unedited and unpublished content just doesn't work as well, and people know this. So our proposition, I think, in a way gets stronger as there is more content readily available.

I'd like to also add a couple of things you should think about. Publications in color, sound, and motion. Nook Color was the beginning of this. And I hope you take a look at Nook Color. I won't send you a free one of those. Look at what we've done with children's books. We've set them in sound, motion, and color. Now, if your kids get a hold of one of those, or your grandchildren, they'll never give them back. It's an interactive teaching device. And I think you need to think about revisiting the world of color publications, because color has pretty much gone away because of the limited print runs. But why not print a small number of copies to defray plant costs, and then sell them for the next 50 years as a digital edition? Trust me, if you look at the digital color technology, far better resolution than anything a printing press can do. So why not go there? Why not have a book that has 50 illustrations, and a digital version that has 2000? They'll remain in your backlist forever. Another thing about digital – nothing goes away.

So let me last note that today's developments, investments in technology, are soon going to be matched by huge investments in marketing as well, and you have not yet seen some of the things that people like us and others will be doing, and you as well will be doing, to bring marketing power, marketing savvy. And you can think of the world of possibilities, be it book clubs, subscription kind of services. I can't



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begin to tell you how many ideas we alone have in this pipeline. So look for more innovation from Barnes & Noble on this front.

So, conclusion – we’re sitting on an iceberg full of content availability, on the tip of an iceberg, and at the same time, readers are at the point where locating content is like finding a small needle in a huge haystack. So, taken together, I think these two propositions virtually guarantee the existence of booksellers and publishers. We’ve got a lot of work to do, lot of work to do together, to capture this exciting moment. So let’s get it on. Thank you.

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