ANALYSIS OF THE PUBLISHING INDUSTRY IN THE E-COMMERCE ENVIRONMENT IN ASIA

David S. Kung[1], Mabel T. Kung[2], Parviz Partow-Navid[3]

[1]University of La Verne, School of Business & Global Studies(kungd@ulv.edu)

[2]California State University, Fullerton, Dept of Management Science/Information Systems(mkung@fullerton.edu)

[3]California State University, Los Angeles, Dept. of Computer Information Systems (ppartow@calstatela.edu)

ABSTRACT

The intent of this paper is to set the groundwork for the analysis of the impact of E-commerce on the publishing industry in Asia based on recent developments in USA. On-line retailing has been developing in the USA for the past four years. As in any other new Information Technology, there were lessons to be learned the hard way during the journey through the development. Based on Nolan & Gibsons' Stages of Growth Framework, E-commerce in the USA is entering the Control Stage. This implies that a certain amount of weeding out is in progress and only the strong and well-positioned will survive. With the acceptance of the use of the Internet on the rise in Asia, it is important to understand these lessons so as to avoid repeating mistakes learned in the USA and to transition quickly into the Control and Mature Stages. Also, due to geographical, cultural, economical, legal, and political differences, the impact E-commerce will have in various industries will be different in Asia then in the USA. The variations of the impact due to these factors will be examined. An analytical framework will be introduced to assist in the comparison of the potential for success/failure in current issues regarding E-commerce between the USA and Asia. This framework will be applied to the Publishing industry for illustration purpose. With the up-rising of Amazon.com, the eventual counter-attack of the Barnes & Nobles, and the Supply Chain integration of publishers such as Bertelsmann and retailers such as Barnes & Nobles, there have been many strategic positioning among various competitors up and down the Supply Chain due to the arrival of E-commerce. The strategic rationales of these activities will be presented together with analysis regarding the applicability of such in Asia. This research will be beneficial for organizations operating or planning to operate in Asia for establishing their E-commerce strategies.

1. Introduction

In the past five years, the advancement of electronic commerce had generated havoc in the publishing industry as much as in other industries. The emergence of new brand name such as Amazon.com was leading a total re-vamp of successful business models in all types of industries. As was described in Nolan and Gibson's Stages of Growth Framework, the dusts have not settled yet. As the publishing industry moves into the Control stage, this is the critical time in determining the winners and losers through out the Supply Chain of the industry. The experience with this industry in the USA will no doubt help the inevitable change taking place in Asia to settle down more quickly and efficiently, without having to pay the price of the learning curve. Even though there are differences in the two continents in terms of cultural, economic, and legal factors, the foundation of the transformation will remain the same. This paper will review the crucial events during the change in the USA and conjecture on similar happenings in Asia.

2. The Supply Chain

The conventional Supply Chain members of the Publishing industry consist of authors, publishers, distributors, retailers, and consumers. In addition, there exist a few other supporting/peripheral businesses that will not be discussed in this paper. The authors are the content providers whereby at times the rights to their materials for publishing may be controlled by the publishers. Distributors and retailer are part of the process of delivering the books to the consumers.

3. The Traditional Publishing Industry

The traditional Book Retailing industry is separated into mega-store chains and independent bookstores. Mega-stores, such as Barnes & Noble (the biggest brand name) and Borders, mostly carry large volume of popular books and rely on fast turnover in their traditional brick and mortar stores. Most of these chains has been profitable in recent years. On the other hand, independent bookstores rely on niche and/or local market for survival. Often time consumers prefer the independence due to their selections in specific fields. And the independence also served as testing ground for new authors or concepts that the chain stores will not touch.

Established authors normally will have significant contracts with large publishers. Unknown or new authors usually have minimal chance of getting their works published. And even when given a chance, the authors will have no bargaining power. In the USA, a limited few large publishers control most of the publishing volume. Random House is the largest publisher in the USA.

In this industry, distributors are the middlemen where size is critical due to the volume discount and economy of scale in terms of logistics costs. Often times, the distributors are the ones that guarantee the publishers a certain amount of purchases for each new publication in the form of advanced orders. Ingram Book Company is the largest in the USA.

Traditionally consumers purchase books under two scenarios. One scenario is when the consumer is interested in acquiring a specific title. The consumer is then focused on how to purchase the book in the most expedient way at the lowest cost. Convenience and price are the key factors here. Another scenario is when a consumer does not have a specific title in mind and just want to spend some leisure time in browsing for new found interest or tile. It is typical for consumers in the USA to venture down to the bookstores to spend an enjoyable Saturday morning. In this scenario, the ambiance of the bookstore, the comprehensive selection/display, and suggestions/help from the bookstore employees are all important factors.

For the past years, retailers of book had discovered that consumers will entertain the idea of purchasing music CDs, movies, computer/video games from a bookstore. But this did not work the other way around.

4. Amazon.com's Strategy and Performance

In July of 1995, Amazon.com became the first on-line bookstore. Its business model was to sell on-line only with distribution center and arrangements with independent bookstores to handle with the logistics. Amazon has three distribution centers in Seattle, Delaware, and Nevada. The delivery of products to consumers was outsourced to delivery companies such as UPS and FedEx. It has a customer base of approximately 10 millions. It has over US$1 billion in revenue and US$6 billion in capitalization. On the other hand, the largest competitor, Barnes & Noble, has US$3 billion in revenue and US$2 billion in capitalization. But for Amazon, profit margin continues to fall as revenue grows. Investors are treating loss as investment in establishing brand identity and customer base. Amazon's successful strategy is in acquiring customers and pursuing long term relationships with customers. It keeps track of customers' taste and interest by using mass-customization technology to personalize service. According to Bezos, the founder of Amazon, the goal is to use technology to capture information about consumers and their interests and match individuals with other products they might like, including items they don't even know exist. Amazon technically is more advanced than its competition with about two years lead time. It turned down Bertelsmann's merger offer with no significant European presence. The corporation was nervous about giving up control. Recently it bought Bookpages(small British electronic bookstore), ABC Telebuch(German Net bookseller), and IMDb(movie database) to help speed up shipment for European customers.

It opened the on-line music store, offering DVD movies, sheet music, computer and video games, and audiobooks on-line. It's Business Model is to offer great prices, nurture loyal customers, grow revenue(market share), and eventually make profit.

5. Barnes & Noble's Strategy and performance

Barnes & Noble operates 520 B&N stores abd 470 B.Dalton stores with 1999 revenue of $3 billions and $93 millions in net earnings. It launched B&N.com in 1997 with the German company Bertelsmann as equal partners. Bertelsmann is the world's third largest media and entertainment company. It owns Arista Records, RCA Records, Random House, Doubleday, and significant other European and American labels. In other words, it is one of the largest content provider in the world.

Barnes & Noble had also sought partnership with Ingram Book Company. Ingram Book Company is the largest book distributor in the USA. It normally accounts for up to 40% of advance orders for most of the publishers. Ingram is also the leader in the up-and-coming Print-on-demand technology with its Lightning Print software. Up until recently, Amazon.com gets 58% of its books through distribution from Ingram. This could post a significant disadvantage for Amazon.com in the long run.

6. E-commerce Strategies

The prevailing strategy in the Publishing industry is to engage in vertical integration among members in the Supply Chain. The intention is to gain efficiency in the operational/logistical sides of the business. This is in line with the strategies of most of the other industries in the USA. Obviously with the competitive environment, in particular, in terms of raising revenue, companies have to find new approaches in cutting cost in order to generate higher profit levels. With the advancement in electronic commerce, companies can sense the possibility in cost savings through B2B(Business-to-Business) type of technology. In the traditional business concepts, the integration of content provider(publisher) with retailer normally will generate a significant amount of synergism regarding collaborative marketing, customer support, product design, and overall internal operational process through out the supply chain. Besides, there is always room for more questionable but natural strategies involving preferential treatments, whether it is price, availability, or others.

Barnes & Noble's strategic alliance with Bertelsmann would accomplish all of the above. Also, Bertelsmann provides presence in the European market for Barnes & Noble and Barnes & Noble provides the brand name in America.

Barnes & Noble's proposed partnering with Ingram Book Company has similar intents. By utilizing Ingram's 11 distribution centers all over the USA, Barnes & Noble can provide direct shipping to 80% of its electronic commerce customers overnight with no extra facility cost to Barnes & Noble. This is particularly important when the two companies merge their ordering systems. A longer term strategy for Barnes & Noble is the Print-on-demand technology of Ingram called Lightning Print that it can utilize. One of the future trend in the publishing industry is the electronic delivery of materials that can be printed when needed. Additionally, all out-of-print materials from the past can be made available to customers and with this technology materials will never be out of print again.

Unfortunately for Barnes & Noble, the US Government had objected to its proposed partnering with Ingram base on anti-trust issues. But no doubt the strategy will be tried again in the near future in another form.

7. USA versus Asia

Through out history of Asian countries, before there was technology for mass printing, authors typically would consider it an honor if somebody would like to read their materials. Copying was encouraged and promoted oftentimes without financial considerations. This cultural difference made the enforcement of copyright a more difficult issue in Asia. Also, the massive distribution networks in the USA will be difficult to duplicate through out Asia, especially with similar level of efficiency. This is true in terms of both physical and electronic deliveries. Within the USA, any logistics company can move materials through all the states without dealing with procedures associated with crossing country borders. It is possible to deliver to over 90% of the households/organizations within two days, whereby electronically, even though the percentage is not as high but is increasing dramatically. If an American household has no access to the Internet directly it is usually not due to lack of financial resources but more about lack of perceived needs/usefulness and technological savvy. This is not yet true within Asian countries. The differences in physical distribution between the USA and Asia will be more difficult to 'close the gap'. Electronically, it is a different matter, especially with the Internet. The issue in Asia is to be able to dramatically increase the access to the Internet by the public. Of course, legal, taxation, and other issues related to cross of borders of electronic materials will still need to be worked out, as is the case in the USA and around the world.

8. The Future of The Publishing Industry

It is the authors' opinion that Amazon.com's turning down the offer by Bertelsmann to form a strategic alliance for on-line ventures is the biggest error committed by the company. In the publishing industry of the future, vertical integration/partnering is a must for survival, as stated above. As evident by the electronic publishing of "Riding the Bullet" by Stephen King, where over 400,000 copies were "sold" within one week, a future direction of the publishing industry is in electronic publishing(e-books). This will alter the whole cost structure of the Supply Chain and the roles of its members. Marketing and logistics channels will have to adjust for the electronic commerce world. New business models will be formed.

On the other hand, a important point here is based on an observation made by Michael Eisner in his book, "Work In Progress": in the past fifteen or more years, even though the entertainment industry had put in billions of dollars in improving technology in home entertainment for the consumers, consumers collectively have not increased the time they spent at home. In other words, the entertainment industry spent tremendous of resources in improving its services/products and basically was chasing after the same amount of revenue potentials. In the publishing industry, it is prudent to recognize that by providing on-line stores to customers, it does not increase the number of books(sales quantity volume) that customers read each year. It basically validates one of the rules of Business-to-Consumer(B2C) Electronic Commerce, the true beneficiaries of it are the customers, not necessary the businesses.

References

1. David P. Hamilton, "The Profit Puzzle in Electronic Retail," The Wall Street Journal, May22, 2000.

2. David Gates and Ray Sawhill, "A Thriller on the Net," *Newsweek*, March 27, 2000.

3. Schneider and Perry, *Electronic Commerce*, , Course Technology, 2000.

4. Greenstein and Feinman, *Electronic Commerce: Security, Risk Management and Control*, Irwin/McGraw-Hill, 2000.

5. James Canton, *Technofutures*, Hay House, Inc., 1999.

6. Kevin Werbach, "Syndication: The Emerging Model for Business in the Internet Era," Harvard Business Review, pp 85-93, May-June, 2000.

7. Michael Eisner, Work In Progress: Risking Failure, Surviving Success, Hyperion, Sept, 1999.