

Part 2 The e-business strategy framework

‘milk existing resources’. This means, for instance, that if the book retailer Barnes & Noble had come to the conclusion that Internet-based book retailing would overtake physical book retailing, it would have stopped investing in its network of physical bookstores.

- *Defending.* This entails an active response to the new threatening business model. When defending their existing markets, incumbents need to improve their business model in such a way that they are able either to lower their prices or disproportionately to increase the benefits they provide to their customers. However, this option is usually difficult to implement successfully because the new business model or technology tends to have faster improvement dynamics than those created through a defensive strategy.
- *Straddling.* This means to rely on the old business model while simultaneously introducing the new model. This can either be done as a transitional hedge to determine the potential of the new technology or be set up right from the start as a long-term strategy where both models will co-exist. This strategy attempts to combine the best of both worlds, i.e. to continue profiting from the old business model while simultaneously gaining traction in the new business model. An illustrative example, in this regard, could be found in the book industry (see the FT article: ‘Light reading’).

Light reading

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In the departure lounge at Heathrow Airport, people are reading. There’s nothing particularly unusual about the scene – we read all the time, on buses, trains and planes. What stands out here is that many of these readers are glued not to tatty paperbacks or glossy hardbacks or even those large format airport specials but to e-books.

It’s all part of what is being dubbed the “Kindle Summer” – the first summer when e-books have sold strongly, marking a turning point for publishing. And if you’ve recently packed for a beach holiday, as I did last week, you’ll understand the benefits. Why take a stack of heavy hardbacks that eat into your precious luggage allowance when you can take an e-reader stocked with thousands of books? Gone is that mad rush at the airport bookshop as you try to find something you might want to read; and gone is the suitcase crammed with hardbacks packed “just in case”.

In April, the Association of American Publishers announced that for the first time e-books had outsold all other traditional formats; and since the beginning of April, Amazon.co.uk customers have been purchasing Kindle books over hardcover books at a rate of more than two to one. “E-book sales are rising, and rising faster than previously predicted, led in the most part by the Kindle,” says Philip Jones, deputy editor of the *Bookseller*. “Penguin reported in July that its global e-book

sales in the first half were up at 14 per cent, while in the UK it agreed with the general consensus that e-books now make up about 6 per cent of their trade/consumer business. We expect e-books to be at about 10 per cent by the end of the year.”

So what does this all mean? Are we reading more? Are e-books taking over from physical books? Are hardbacks about to go the way of vinyl? And where does it leave readers, writers and publishers?

There are now several major platforms for e-books. Amazon’s Kindle is the market leader, but Apple’s iBooks, Barnes and Noble’s Nook, Waterstones and retailers such as Kobo have all expanded the horizons of e-books in the past couple of years. Although each platform has its own unique feel, what are selling particularly well across all devices are thrillers, misery memoirs and blockbusting popular fiction.

Yet, while readers are embracing the digital book more than ever, this shift hasn’t been easy for publishers. The music industry struggled through the impact of Napster and the rise of the MP3 player, but publishing – one of the most traditional of all the creative industries – has until now remained relatively resistant to change.

“Culturally there was resistance pretty much at every publishing house,” says Michael Bhaskar, digital publishing director at Profile Books. “People



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thought that e-books and digital publishing were out there to kill books and the book industry." That attitude has slowly been replaced with one of acceptance that digital is here to stay and that publishers (and writers) must adapt to survive. "Digital isn't a way of killing print books, but supporting them. It's the content that matters most."

From the readers' point of view, it's not hard to see why. Joe Dunthorne, author of *Submarine*, says: "When reading all 1,200 pages of *Infinite Jest* last year, I cut my copy into three chunks (re-binding each bit with masking tape) to make it easier to carry. But then, each night, I had to come home and catch up on the footnotes. Needless to say, it was annoying. Now my girlfriend's reading it on Kindle, and it's ideal. David Foster Wallace's *Infinite Jest* seems like a good enough reason, on its own, to buy an e-reader."

Earlier this year, e-books had a prominent breakthrough when the judges of the 2011 Man Booker Prize were given a choice of how to read the 138 contenders. "We could choose to use Kindles or not – as I recall two did and three didn't," says the novelist Susan Hill, a judge on this year's panel. Hill's book *Howards End is on the Landing* (2009) explored her experience of rediscovering old books during a year of reading – something that couldn't happen in a purely digital world. Did she embrace the Kindle for her Booker reading? "I didn't read on a Kindle and have never even seen one," she says. "I am a real book person – and always will be. I am a great laptop person and an internet/Twitter/Facebook one too so I am no Luddite; but the real printed book is a joy – it ain't broke so. . ."

However, many book-lovers are embracing the e-book. The thriller writer and former literary agent Emlyn Rees is now an e-book fan: "I got a Kindle for Christmas and now read more books on it than not. It's particularly great for holidays, in that you can load it up with beach reading, without having to pay airlines for the privilege of carrying all that extra weight."

"All writers have to embrace e-books," says Rees. "Any writer with a mainstream publisher is going to have to get used to promoting their e-books online as the market is growing so quickly it can't be ignored. The main arguments concerning the pros and cons of e-books come down to royalties and piracy. What slice will the writer get of the electronic pie and how can they protect themselves from having their work distributed for free?"

One of Constable and Robinson's literary bestsellers is Jennifer Egan's Pulitzer Prize-winning *A Visit from the Goon Squad*. The novel, also available as an e-book (£5.99), has become an iPhone and iPad app. For just £2.99, readers get not only the full text of the book but the audiobook, video and illustrations. It's hard to see how the £7.99 paperback can compete.

But publishers have to be cautious about how they embrace the digital possibilities. The question hanging over these complex and often expensive apps is: are they commercially viable? They require investment and can ultimately compete with other products such as the hardback or paperback, cutting publishers' margins. Henry Volans, Head of Faber Digital, is more positive. "If publishers don't stretch what you can do then start-ups will. I think there's an imperative to innovate."

Yet, digital books are not simply running amok. Physical books, far from obsolete, are competing with their digital counterparts. For mainstream hardback books we could also see a push to greater quality and exclusivity. "As digital culture becomes more prevalent the value of speciality culture becomes greater," says Bhaskar. "I'm convinced that we'll start to see more limited, boxed and numbered editions produced on incredible paper with extra design features. We'll see the resurgence of the book as a sort of collector's item." Paperbacks and more disposable types of books, however, may not fare so well.

We can also expect new financing models for authors. In the US, Amazon has "dropped a brick in the publishing pond" with its digital self-publishing element (in June, John Locke became the first self-published author to sell a million e-books through Amazon). In the UK, the Unbound project is publishing books by pitching ideas direct to readers who then stump up the funding for the ones they want to read. When an idea has received 100 per cent of the financing needed, the writer starts work and "investors" receive a copy of the finished product.

Literary agents, too, are getting in on the act. Last year, Andrew Wylie launched Odyssey Editions to publish modern classics by the likes of Saul Bellow and William Burroughs as e-books through Amazon. Part of the move was to cut publishers out of the loop. Next month, the agent Ed Victor will follow Wylie, setting up his own e-books imprint Bedford Square Books. "I started Bedford Square Books for three reasons," Victor explains. "One was to please my authors, to have books that they thought were



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dormant living and breathing again. The second reason was to have fun. I was a publisher, but the last book I actually published was in 1972. I'm learning about how you publish and market books in the 21st century and it's fascinating. And the third thing is not to lose money."

But while digital publishing has opened up the means of publishing to anyone with a computer, pity the poor reader. Sitting on a beach with my Kindle, I didn't start trawling through all the books by authors I'd never heard of. Instead, I downloaded Julian Barnes' *The Sense of an Ending*, which was published while I was abroad, but could be downloaded. When faced with vast choice, we gravitate to what we know. The brand (be it author or publisher) is all important. One of the biggest – JK Rowling – will begin selling Harry Potter e-books exclusively through her Pottermore website in the autumn. It is a canny move for the author, allowing her to maintain complete control (and reap the benefits).

Below the horizon, there is also mushrooming creativity from new start-ups keen to break the mould. This summer, 24symbols.com, a "Spotify for books", has launched. Readers can download e-books either ad-supported without charge or for €9.99 per month ad-free. Meanwhile, small digital

non-fiction publishers such as atavist.net and byliner.com are finding niches for new forms of writing. Byliner made a splash in April publishing *Three Cups of Deceit* by award-winning author Jon Krakauer, about allegations that Nobel Peace Prize nominee Greg Mortenson fabricated parts of his bestselling books. Known as "Singles", these e-books are intended to be read in a single two-hour sitting. Fiction writers, too, could benefit. "There are so many possibilities for interactive fiction, which is where I see the e-readers really coming in to their own," says Dunthorne.

"Writing always changes and evolves," agrees Bhaskar. "Tweeting, blogging, the way people interact on social media – all of those things are new forms of writing and what we will see is new great writers master these forms. It's a new commercial and creative challenge for writers. Publishers have to be there to help make it a success."

There are, of course, hurdles to this brave new digital world. Sitting on the plane, waiting to fly home, I heard a voice: "I'm sorry sir, could you turn that off for take-off?" I've never been asked to switch off a book before.

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Source: Adapted from Wilkinson, C. (2011) Light reading, *Financial Times*, 13 August.
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Nevertheless, while this option might seem to be the more promising at first sight, it also entails major risks in certain scenarios. First, continuing to invest in something that may no longer work might mask a company's unwillingness to make tough choices. As we pointed out in Section 1.1, the willingness of top management to make tough trade-off decisions is one of the cornerstones of strategy formulation. Second, when companies try to integrate the disruptive innovation into their own existing business model, this frequently leads to 'cramming'. Cramming means that the new technology is primarily used to improve the existing business model. For instance, the newspaper industry provides an interesting example of how publishers initially attempted to cram Internet-based news publishing into their existing business model. In the late 1990s, the *LA Times*, like many other newspapers around the world, recognised the importance of the Internet and decided to enter this market with an online version of its print edition. In essence, it opted for a straddling strategy. Yet, as in most cases, it was primarily the journalists and editors of the traditional print version who became involved with the creation of the online format. This has resulted in an online edition that mirrored largely the print edition with the same content and similar layout. Such newspapers did not leverage the distinct advantages of electronic publishing such as discussion boards, site-searching tools and breaking news from third-party sources.