

THE FUTURE HAS FINALLY ARRIVED, SO NOW WHAT ARE YOU GOING TO DO ABOUT IT?

(Delivered by Carolyn Reidy, CEO & President of Simon & Schuster, May 20, 2010, Sydney Writers Festival)

Good morning, and thank you for being here today.

Although I have been reading about and following the Australian book market for years, this is my first time in Australia and I'm very excited to be here, both because it gives me the opportunity to see much of this absolutely beautiful city, and because this Festival is such a good occasion for me to get an up-close view of the Australian publishing and bookselling community. Already this week I've had meetings with Maree McCaskill, Jose Borghino and Bruce Powell from the APA, and a number of fabulous booksellers, all of which have been very informative and productive.

And now to the 300 events and 80,000 attendees at this Festival: I'm very grateful to Chip Rolley for asking me to participate and to Lou Johnson of Simon & Schuster Australia for encouraging me to attend, because it's clear from the extremely high caliber of both local and international authors who are taking part that the literary culture of Australia has great vibrancy, durability, and range.

And that is at the heart of what we are here to talk about today: what can we as publishers, in the face of all the enormous change going on around us - especially in the technological realm - do to preserve the culture of reading, the habit of book buying, the marketplace of ideas, and the act of publishing itself? How do we preserve the art and the business of publishing?

This is Topic A wherever I go these days, and I know it is for you, too. Having just come through last year's Productivity Commission review, and the decision to let stand the Parallel Import restrictions, having seen the government's commendable decision to empanel the Book Industry Strategy Group, it's obvious that you are proactively working to ensure a bright future for a strong local culture of writing, publishing and bookselling.

That said I believe there are challenges facing you that need urgent attention. From our point of view, 2010 is the tipping point year in digital publishing. At Simon & Schuster in the U.S., we currently have over 7500 ebooks available and digital media now represent about 8% of our revenues. If the digital business keeps growing as it has in the last year or two, I believe ebooks could represent as much as 25% of our revenue within 5 years. Locally, Simon & Schuster Australia will soon have close to 2000 U.S, UK and Australian originated titles available. So if "The Future Has Finally Arrived," then we no longer have the luxury of time to figure out what to do about it.

We have been talking about this future for at least fifteen years. I date the discussion from 1995 and the introduction by Amazon.com of online bookselling, because that was the first time that consumers were able to purchase books via this new thing called the Internet. Looked at another way, it was the very beginning of a powerful sea change in both buying (and social) behaviors, the repercussions of which are still playing out. And, of course, online bookselling was notably transformative for the Australian marketplace, which I'll talk about later.

You could also pick 1998 as the beginning of "today's future", because that was when Rocket eBook and the Softbook, the first digital reading devices for the consumer marketplace, were introduced.

So what took so long - twelve or fifteen years being an eternity in digital era terms - to get to where we are today? The primary factors were that the devices were primitive, they weren't widely available in

mainstream outlets, there was no well established or user friendly channel of distribution, and neither consumers nor publishers were actually ready for digital consumption to take place on a large scale.

Too, for publishers, the potential rewards for making many books available digitally simply didn't justify the associated costs. At the time it cost about 400 American dollars to convert a paper-and-ink title into an ebook. So publishers were selective about which and how many titles to make available. Since the potential audience of device owners at the time numbered only in the few thousands, most publishers were understandably reluctant to commit large amounts of capital to digital publishing. How many titles could sell enough ebooks to ever earn back their conversion costs?

For UK and Australian publishers, where the markets are smaller than in the U.S, it was even harder to make the business case for big capital investments to create ebooks.

And I do mean big capital investments. In 2007, looking seriously into the future, Simon & Schuster undertook to digitize 12,000 of our backlist titles, and to create a digital infrastructure that would both house our files and serve as a central source of distribution for all our content, for both transactional and marketing purposes. Other publishers were similarly engaged at that time. Our investment in that digitization and infrastructure has already been close to eight figures.

Lou recently shared with me a Bookseller and Publishers "Quote of the Week", from Henry Rosenbloom of Scribe Publishers, which I thought was both hilarious and exactly on point. He said: "While there's no clear way forward, we've come to the conclusion that we know as little about it as anyone else does, so we might as well learn by doing." That perfectly describes how we entered the digitization and infrastructure process, because we knew it would be some time before we could get a substantial return on our investment. But it was a leap of faith we felt we had to take. Many of you are making the same leap of faith right now, and for Australian publishers not a moment too soon, with Red Retail launching their eBook platform through Kobo later this month, and of course Dymock's has been selling ebooks on their website for some time. Not to mention all your other booksellers, especially your vibrant independent bookselling community, poised to take the leap.

At the same time that American publishers were digitizing their lists, Amazon introduced the first Kindle in November 2007. This device was, for the first time, user- friendly, portable, wireless, and sold from a site where consumers were already accustomed to buying books. Sales did not immediately take off, but by early 2009 when the Kindle 2 hit the market, publishers had many more titles available and sales just exploded, reaching a level that was significant enough for us to draw some conclusions about where things were headed and what were the implications for our business.

That brings us to early April of this year and the introduction in the U.S. of Apple's iPad, the first multipurpose, multimedia device with state of the art reading software. It also brought into the marketplace another major player with, as they like to tell us, 125 million credit card numbers on file and an established track record of selling content to consumers. Some reports put their content business at \$3 billion per year. And, of course, I know there is tremendous excitement here for the launch of the iPad in Australia on May 28th.

So the market for digital books is really opening up. Previously dominated completely by one player, Amazon – who should get full credit for helping us to make eBooks into a business that is significant – we will now have a market that includes not only Apple, but also Barnes & Noble, Sony, Kobo, and Google, who have announced they will launch Google Editions in late June or July, and which, among other features, will offer a white label ebook retail option for independent booksellers.

And there are many other retailers and device makers who will enter the field in the near future.

All this activity should help create and sustain a healthy competition, and as publishers we need, as we always have, to do everything possible to assure that our books receive the widest possible (authorized) distribution in this digital world. And we will need, as we always have, to understand the different customer at each of these sites, and how best to market to them, both on and off the site.

I understand that there is a great deal of frustration that the market for eBooks has developed more slowly in Australia than in the U.S., with the Kindle just recently going on sale, and the iPad only coming next week. Consumers, not just the early adopters -- and I understand that you have quite a rabid culture of early adopters here-- want the latest in technology, and are not happy when too many of the books that they want are not available.

And of course that is equally frustrating for you, too. But I'm going to posit that ultimately the delay in ebook development in Australia could be helpful to you. In the same way that U.S. publishers have watched and learned from earlier struggles of the music and motion picture businesses as they adapted to the digital world, Australian publishers will actually be the beneficiaries of everything that US and UK publishers have learned and experienced before them.

From the beginning you will have a more mature marketplace that is more competitive and has more players and more choices for the consumer. In the U.S., the market has until now basically been entirely dominated by one retailer, and that created a skewed marketplace. With no substantive competition, Amazon was able through its advertising, to set what became in the mind of many consumers the standard price-- \$9.99; to drive customers to the Kindle through pricing and promotion; and (naturally) to capitalize on proprietary information about purchasing history and browsing behavior. All of this caused consumers to perceive of ebooks in ways they otherwise might not have, and it certainly created plenty of concern in the industry that a market so dominated by one player would not be good for the long-term health of the entire publishing ecosystem.

Australian publishers will also have the benefit of the information that we've been able to glean about sales trends in eBooks. For example, it's clear that to date fiction has been the big winner among the categories, and category fiction has grown most quickly of all. I think this correlates to the prevalence until now of devices that are basically built for reading text in a linear fashion: whether this will continue as strongly with the new generation of eReaders remains to be seen.

Too, I think the U.S. publishers were largely unprepared for the breadth and diversity of the market. We've seen that backlist sells, and across a huge percentage of our available titles: from January through April we sold at least one copy of 95% of our eBook titles. And we've also seen that ebooks really do sell at a wide variety of price points.

Some terrific news is that when we release a new book from a frontlist author, we regularly experience a very significant rise in that author's backlist sales, a much greater spike than we are accustomed to seeing with the paper-and-ink editions. It seems that when consumers like a book, the ease with which digital books can be purchased encourages them to buy that author's entire oeuvre. This makes for a tremendous sales opportunity, and I would urge you to pay close attention to making certain that backlist titles are available in digital form, and aggressively promoted by retailers at the time of a frontlist release.

Finally, you will be entering the ebook market at a moment when the technology is capable of so much more than when we began, meaning that children's and illustrated books and enhanced eBooks with multimedia capabilities can be part of your digital publishing program. It will be interesting to see if these newer eReader devices, with more sophisticated navigation and multimedia, will lend themselves to nonfiction in ways that were not previously possible. For Australian Publishers, the good news is not

only will you be able to generate revenues from these titles, but they will be able to amortize the startup costs of being a digital publisher across a bigger percentage of your publishing inventory.

What I've discussed so far covers our ebook sales: but what about how digital publishing affects our companies and our business? Based on what we have learned, there are a number of actions you need to take and questions you should be asking yourself in the face of the changes digital publishing brings.

First and foremost, from a practical perspective -- integrate. A primary focus of mine has been to make sure that the ideas and actions required to publish digitally are shared by our entire organization, because one thing we have learned is that things digital must be integrated, not separate, from what we do on a day-to-day basis. In order to succeed in the digital world, you really must transform your company.

When we began publishing electronically, we had a separate digital department that handled our website, online retailers, and ebooks: they operated independently of the rest of our units, from publishing to production and sales, with separate processes and separate thinking. This led to duplicate efforts and parallel organizations.

Eventually it became clear that we shouldn't continue with a digital publishing group on one floor, and traditional publishers on another, each operating on their own. We had to think of the ebook as just another format of the book—like a hardcover or paperback, to remember that digital is just a delivery system – the basic content remains constant.

Of course we still need experts in digital matters who know more than the rest of us, who can help us explore the many opportunities that come our way, evaluate which are the best to pursue, and keep us on the cutting edge. But for the good of our company, its future, as well as that of our individual staff members, everyone in our organization must think digitally, from the beginning to the end of the publishing process -- editors, sales people, marketing and publicity, production, manufacturing, and supply chain. Everyone!

Secondly, I believe Australian publishers need to imagine how digital behavior will change their industry. How will electronic delivery impact your business in 5 or 10 years? Because if you look at consumer behavior online, you can see you are in for big change.

For many years, Australian and international publishers had the advantage (or disadvantage, depending on your perspective) of many thousands of miles of ocean between you and the rest of the English speaking world. This physical barrier created and encouraged a closed market, one in which either publishing locally for the size of your potential audience, or importing books, is quite costly.

But when Amazon opened for business, price and availability were brought to the forefront, and many Australian consumers decided they didn't want to or have to wait for the locally published or imported edition to arrive. They wanted what they wanted when they wanted it, and they were willing to pay the high costs of overseas shipping to have it on their schedule, even when you were publishing within the 30 day period prescribed by the P.I.R. And, of course, those sales through Amazon were exempt from the GST, which made it even harder for Australian publishers and booksellers to compete.

Amazon, seeing the degree to which your consumers embraced buying from them, never bothered to set up an Amazon Australia because they didn't have to: the Australian consumer was not willing to wait for the local online market to develop in order to purchase what they wanted, and had found a way to get it, regardless of who had the rights to publish here.

With ebooks we are going to see more and more of this kind of behavior, whether we like it or not, or whether consumers are technically supposed to be able to buy the electronic edition or not, per

territorial restrictions. Pricing is going to become even more of an issue than it is today, and you will need to take a close look at what the market will bear in the digital age.

Let's take, as an example, Jodi Picoult, who is published by Judith Curr and our Atria imprint in the U.S., and locally by Allen & Unwin. In the U.S. her newest hardcover HOUSE RULES, available last March 2, sells for a list price of \$28 American dollars (discounted to \$16.38 at Amazon for the physical edition, and \$12.99 for the digital edition). Here the first available edition is the paperback with a list price is \$32.99 Australian dollars, equivalent to \$29.50 in American dollars (and to make my point clear I'm going to now refer to all prices as their US dollar equivalent). So the Australian paperback is \$29.50 American, discounted to \$20.53 at Dymocks, and on sale at the end of March (and thus meeting the 30-day requirement). And just for the sake of being complete, the Hodder & Stoughton hardcover is £16.99 sterling (equivalent to \$25.30 U.S. dollars) discounted to \$12.42 American at Amazon and on sale April 27th.

I think you see where this is going: in a different era those thousands of miles of ocean made it possible to protect the market for physical books, but online bookselling and digital editions are changing the game. \$20.53 for the discounted paper and ink edition is going to struggle to compete with \$16.38 at Amazon US, \$12.42 at Amazon UK, or \$12.99 U.S. for the electronic edition. Even at the exchange rate, that ebook is just \$14.50 Australian dollars.

And now you are entering a price war, similar to what we experienced last Fall in the U.S., since Borders Australia has vowed to beat Amazon on pricing. While I understand the motivation, and can applaud the desire to protect local business, I'm not sure that in the long term anyone emerges a winner from a price war. Furthermore, this speaks precisely to the problem we saw with the \$9.99 ebook price in the U.S.: if you have the same price for all titles, and it is so much lower than the physical edition you will ultimately drive all prices down and create questions about the value of your product.

So the pressure to open up your market is going to get even greater, and I believe prices cannot hold where they are today. If you use the agency model or local equivalent, (in England it's called the commissionaire model), I suggest you begin now to plan how to price your digital content, working through the various models and scenarios and making a deep analysis of their potential impact. Here's the reality: we are surely entering a world where we will be sacrificing revenues, but should achieve better margins. And of course we can hope for greater sales to create greater overall volume.

Thirdly, as part of these changes we are going to have to do a better job of explaining to our customers what ebook prices should be, and why. In the U.S. publishers (and, indeed, all the content businesses) have generally not been effective at this: we have let the conversation get hijacked by ideologues who truly have no idea what costs are involved in making a book-- both in terms of manpower, materials, and more-- and we have not done enough to counter the perception that digital books are inherently less valuable. Yes, there are some savings in paper, printing, binding, and warehousing, but as the publishers here today are well aware, the great majority of cost in a book comes from payments to the author, sales and marketing, with some overhead for editorial and design.

I know that in a room full of publishers I'm preaching to the choir, but as you begin to develop your digital publishing programs I'd encourage you to do everything in your power to raise awareness about the value of the books that you create, in any format, and the importance of the ideas generated by authors. By sustaining a world where authors are incentivized to create, publishers can then be valued for their contribution to creating a marketplace of ideas. We are in a world where our customers are talking to us in unprecedented number and with incredible immediacy, so we have the opportunity to both proactively engage and respond on these and other subjects.

Fourth, I urge you to take advantage of what digital publishing has to offer in publishing and marketing. One big win for the Australian publisher and bookseller will be the ways in which the size and variety of your lists can grow tremendously as the book goes digital, because instead of shipping books you can simply transfer files. For booksellers, there will be choices to make about whom to partner with as an eBook provider, be it Kobo, or ebooks.com or Google or someone else, but the good news is that there will be choices. What was once impractical because of the size and distance of your market – taking a chance on an author either by importing small quantities of books at great cost, or publishing and bearing the high costs associated with small printings, now becomes possible for so many more books and authors, and with relative ease.

So the selection and distribution of books will improve greatly, books will be on the market much more quickly than before, and when all the transitional issues are settled the overall economics of the business should be more attractive than they are today.

In order to succeed in the digital era there are three interrelated components that publishers will need to understand or master. These are

- Technology
- Digital Selling and Marketing, and
- Community

Often, the lines between these components are blurred, as we see in companies like Amazon, with its user generated content, ratings and recommendation mechanisms, and now ties to Facebook, Twitter and other social media. It has already mastered how to combine technology with retail sales and the creation of communities. Or Google, where sophisticated search technology is more and more combining with content offerings. It is my expectation that this blurring is only going to become more common in the years ahead.

But it all begins with the technology: we must insure that we can deliver our product via digital means. Since we are publishers, not technology companies, this can be a difficult part of the transition to digital publishing, because the high cost associated with building a digital infrastructure that can serve our transactional, distribution and marketing needs makes this one of the biggest decisions a publisher faces in the digital world.

At S&S we have always hired out the physical parts of book production – the printing and manufacture of our books --but in the digital world some of the processes must be brought in house, and many of the decisions involved in that are quite complex. It's daunting – you need to train all your staff in new ways of doing things. You need to take into account possible obsolescence, and stay abreast of new technologies. So in building the infrastructure, you need to take care that it is both flexible and scalable and will operate with the unforeseeable and unknown future in mind.

Then you have to have a system that feeds the content in your data warehouse– the text of your books, their covers, descriptions, marketing copy and more –to online retailers and other sites. At S&S we chose an outside vendor, although some of our competitors have built this capability in-house. You need to make sure that all your digitized titles, whether they are available as an ebook or are still just files, can be used in a variety of ways both on your site and elsewhere: can a consumer search inside the book? Can you distribute book-related content such as covers and excerpts? Are your files appropriately tagged to optimize search returns?

New technology is only the first part of the story in digital publishing. There are huge opportunities in the areas of selling and marketing, where we already see dramatic changes in our ability to reach out

and target customers. For the first time we can take our books to where our consumers live; they don't need to come to us. We can go where they are; we don't need them to go to a retail location.

Whether at a desk, commuting with a laptop or netbook, standing on line with an iPhone or other mobile device, consumers are now connected virtually every waking moment. Their interests and affinities have never been more apparent.

This puts a premium on ubiquity: at Simon & Schuster, our philosophy is that we want the digital consumer --and really, isn't that almost every consumer nowadays -- to encounter our content at any and every location they might visit.

We used to routinely send authors all around the country on publicity tours. For some authors, they might be seen by several hundred readers, and for more popular authors, thousands. But we came to realize that the internet made it possible for authors to reach many more readers without the travel and the expense. So we built a small, fairly inexpensive in-house studio, where our authors can come in and be interviewed.

Because we create the videos, we don't have to rely on other media to endorse our authors, and we save a lot of expense. To date we have a library of more than 1000 separate video clips of our authors talking about their books and their lives. And all our video is exportable: we want those 1000 pieces to live not just on our site, but all over the internet, including at the sites of our retail partners. So we have made it easy for consumers to share them with friends and colleagues on their blogs and personal websites, on Facebook and other social networks, and through Twitter. We can also send an author on a virtual tour, such as S&S Australia will do with Philippa Gregory when they publish THE RED QUEEN in September.

And if you are a fan of Philippa Gregory, on another author, with just one click you can tell all your online friends about that video or her upcoming appearance at your local bookstore. Or you can download her App to get the latest Philippa news and extra content about her books. This is the digital world equivalent of word-of-mouth, which publishers have relied upon for years to sell books, only now it is easier and faster and can travel more widely than ever.

And because we have the ability to facilitate this as never before, this breakdown of geographical barriers and the low cost of creating viable, intriguing content should help you in bringing more Australian authors to the attention of the rest of the world.

At S&S, we have also made syndication agreements with some of the web's largest sites, including YouTube, My Space and MSN, to whom we regularly release author and book related content to entice readers to buy our books. And working with the mobile division of our parent company, CBS Corporation, we are supplying video for iPhone app that automatically feeds and updates 3-5 new author videos a week.

Simply put: our strategy is that wherever there are consumers looking, we want people to find our content. And we want to create ever-new ways for them to discover the books they want.

It's all converging: affinities of interest become communities, communities become retail partners, and retail outlets become communities – and this is only going to increase in the future.

Selling individual chapters from select nonfiction books, which we have tried, is just one model that will be made possible in the digital world. I expect publishers to try other models, such as subscriptions, advertising based revenues, or new kinds of licensing. And at Simon & Schuster we have experimented with some shorter length, eBook-only publications, usually related to current affairs, where we can exploit the speed with which we can bring a digital-only publication to the marketplace.

Publishers also now have the means to develop and cultivate their own communities. We created Pulselt, our own social network for teenagers. It's a place where they can read digital editions of our forthcoming titles, and engage in all the social networking functions they expect from sites like Facebook. They can read entire books from our growing teen publishing program, about which they can write reviews, create rankings, discuss the books with other network friends, watch and share video trailers, and more.

As digital publishing grows, these teens and young adults are going to play an increasingly important role. They are the generation that has grown up reading on the screen. So it is especially important for publishers to listen to our younger employees, who are up to date on the newest technologies, the cutting edge sites, the newest methods for staying connected, and the current tastes and trends. I may not personally use Twitter, but as a publisher I need to make sure that Simon & Schuster does, and it is the younger generation that will point the way to these new forms of communication.

I fully believe that it is the young, too, who will invent new forms of the book that we can only imagine, forms that grow out of these new technologies. We've participated in some early attempts at hybrid text and video books, such as the Vook. The technology was well executed, and it was a good user experience. But it was a familiar experience. And keep in mind that these early prototypes are in large part developed by people who have grown up reading on paper, watching television, and using computers as separate experiences: while these acts are now being combined, they are not yet forcing us to change how we read.

As successive generations mature, accustomed to multi-tasking, and receiving information on a screen 24/7, whether connected at home or wirelessly, I think new forms of writing and authorship will emerge that will reflect both how our technology has advanced, and how the human mind has changed in the way it learns to process information, create, and communicate.

This is, for me, tremendously exciting, and I hope that I am able to witness these changes. So while every day we face the challenges of being a publisher in the digital era, my belief is that in the long term the digital revolution will enable us to thrive, that it will provide us an unprecedented opportunity to reach both established and new audiences, help us find new ways to market to our customers, that we'll have more and better control over the means of distribution of our works, and that we will be able to create new and profitable economic models.

Yes, just getting down the basics of digital publishing, the practical "build your infrastructure" part of the business, is certainly a challenge when you still must keep your eye on the traditional part of your business that generates the majority of your revenues.

But at this stage you can also have fun: with the market for digital books still in its early stages, and still a small percentage of our business, the risks and consequences of experimentation— on a new format, a new business model, a new way to do something— aren't that great. And hopefully you will have enough time, energy and capital for the innovative aspects of digital publishing, which is using cutting edge technologies to create new forms of the book, new types of marketing that generate buzz for your authors and sizzle for your publishing house.

This is a time of great opportunity for author, publisher and bookseller alike, so there is everything to gain by giving it as much of your time, energy and attention as you possibly can. It is truly a wide-open field and as publishers we can be leaders within it.

As I said earlier, I think it's highly encouraging that your government has recognized the importance of this to the Australian economy and created the Book Industry Strategy Group to help you devise strategies for thriving in the new world of publishing. It is not often you can say you know the world will

be significantly different five years from now, and that your decisions today will help define and create the place of your company and industry in that world. We truly are creating the future, and that makes this an especially exciting time to be in publishing.

I hope you've found my views of our experiences at Simon & Schuster in the U.S. helpful, and I look forward to hearing from you now.

Questions were then taken from the floor.