Publisher’s Dilemma

From Penguin Books to E-Books

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DOI: 10.1163/095796511X559936

July 30, 2010 was the 75th birthday of Penguin Books. In the same month, the book publishing industry reached another milestone: sales of Amazon Kindle e-books surpassed hardcover sales on Amazon.com. Jeff Bezos, CEO of Amazon, predicts that the company’s sales of e-books would “surpass paperback sales in the next nine to 12 months. Sometime after that, we’ll surpass the combination of paperback and hardcover.” This is a stunning development for Amazon, considering that the Kindle is only 33 months old. But the publishing industry is in no mood to celebrate this e-book milestone as they did the Penguin birthday. People in traditional publishing can’t help but wonder what will happen to publishing as we know it when e-books’ market share becomes larger than that of print books. Both Penguin Books and e-books are revolutions in book publishing, but the Penguin revolution might be different from the e-book revolution in that the former actually made the industry stronger, while the latter appears to be threatening the existing business model of trade publishing.

Penguin Books

In the 1930s, hardcover books in Britain were luxury goods for the educated upper class. They were expensive and available only in bookstores, and most people couldn’t afford to buy and read a hardcover book. Cheaper paperbacks did exist, but they were mostly for genre fictions such as romances and mysteries, which were not considered serious literature, and reprints of older literature.

In 1935, Allen Lane, a director of book publisher The Bodley Head, was desperately trying to save his company from bankruptcy. Legend has it that one weekend, after visiting Agatha Christie, Lane was browsing a newsstand at a train station to buy a book to read on the train back to London. The newsstand only had paperbacks of reprinted Victorian novels, pulp fictions and magazines. Suddenly,
Lane realized that there was an unmet market for contemporary literature, and it might save his company if he could fill the need by publishing contemporary literature in an inexpensive paperback format, distributing it through newsstands, train stations and chain stores, rather than just through bookstores.2

Lane named his new business Penguin Books, and made it an imprint of The Bodley Head. He planned to use the chain store Woolworths as his main distribution channel. Since most items sold at Woolworths were priced at sixpence or lower,3 Allen priced his Penguin paperbacks at sixpence a copy as well.

The first ten Penguin books were published in August 1935; they were all reprints of contemporary literature, including A Farewell to Arms by Ernest Hemingway, The Mysterious Affair at Styles by Agatha Christie and The Unpleasantness at the Bellona Club by Dorothy L. Sayers.4 At sixpence, one Penguin paperback was only one sixteenth of the price of a typical hardcover book.5

The price was so low that no other publishers would want to compete with Penguin Books. Publishers, authors and bookstores were resentful, fearing Allen’s innovation would harm the hardcover business and disrupt the publishing industry. George Orwell, the author of 1984, warned at that time: “The Penguin Books are splendid value for sixpence, so splendid that if other publishers had any sense they would combine against them and suppress them.”6 But readers embraced these inexpensive paperbacks. In the first four days on sale, the initial list of ten Penguin titles sold some 150,000 copies. In the first year, three million copies were sold. By April 1938, 140 Penguin Books titles were published.7 Thanks to the inexpensive Penguin paperbacks, buying recent titles was no longer a luxury reserved for the upper and educated class.

Penguin Books revolutionized the publishing industry through the combination of pricing (at only one sixteenth of a typical hardcover), distribution (chain store) and design (inexpensive paperback with serious content). It turned out that this “paperback revolution” didn’t disrupt the book industry at all; instead, Penguin Books opened up a new market for all publishers without cannibalizing the existing hardcover business. In the end, the book publishing industry became stronger and more prosperous because of Allen Lane’s innovation (and other paperback pioneers such as Albatross Books in Germany, and Pocket Books in the U.S.). Today, paperback is a profitable format for all publishers; more than 600 million paperbacks are sold annually worldwide.8

**The E-books**

The trade publishing industry is currently experiencing another revolution, especially in the U.S.: e-books. The Association of American Publishers (AAP) reported that adult hardcover sales were down 40.4% for the month of September this year, with sales of $180.3 million, and sales for the year-to-date down by 8.1%; adult paperback sales decreased 15.8% for September ($111.5 million) but increased slightly by 1.5% year to date; adult mass market sales decreased 23.6% for September with sales totaling $67.8 million, and down by 15.7% year to date. E-book sales, however, are exploding, with a 158.1% increase over September 2009 ($39.9 million); year-to-date e-book sales are up 188.4%.9

The question now is whether trade publishers can adopt the e-book innovation and come out stronger as they accomplished by adopting the innovation of Penguin Books. Will e-books strengthen or disrupt traditional book publishing? It all depends on whether e-books represent a disruptive or sustaining technology.

**Disruptive Technology and the Innovator’s Dilemma Theory**

In his book The Innovator’s Dilemma, Harvard Business School professor Clayton Christensen classifies technologies into two types: “sustaining technologies” and “disruptive technologies.”

A technology is a way “by which an organization transforms labor, capital, materials, and information into products and services of greater value.”10 Every company – from Amazon to Penguin – employs technology to deliver value to its customers. A brick-and-mortar bookseller like Barnes & Noble employs a particular technology to procure, present, sell, and deliver books to its customers, while an online bookseller like Amazon employs a different technology. “The concept of technol-