

Subject: Penguin, Harper update
Date: Tue, 12 Jan 2010 13:10:33 -0800
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Eddy--

I've met with Penguin and Harper so far. Still have Hachette to go today, then Carolyn at Simon & Schuster tomorrow. No word from John at Macmillan over the past 24 hours.

Penguin:

* Met with CEO David Shanks and Pearson/Penguin's head of digital worldwide Genevieve Shore (she represents both consumer and education divisions. Latter is 4x the size of consumer business.)

* Shanks said that they've "agonized" over our current proposal but can't see a way to make it work for them, citing two reasons:

1) At \$12.99 in agency model, Penguin trades current average wholesale of \$14 for new release hardcovers for \$9 from us. Shanks says that he, and more importantly his biggest authors, won't accept this.

I argued that digital wholesales and retails both needed to be lower than physical to build a sustainable business together. He agreed, but said that \$5 lower for digital was too much to accept.

2) The vast majority of Penguin's hardcover new releases never make the NYT bestseller chart, and are priced higher than \$9.99 in ebook form and higher than \$12-\$15 in physical form. (Penguin says average for most hardcover releases is closer to \$15 for ebooks on Kindle and \$18-\$20 for physical titles). They are unwilling to trade lower wholesale and lower retail tiers for these titles. Said he'd provide a list of some current titles if we wanted.

* Shanks would like more (higher) tiers. In exchange, he's willing to consider automatic lowering of price/tier once a book charts on NYT bestsellers list to be competitive with deeply discounted physical titles.

* Current business is split between 50% of revenue from hardcover and 50% from paperback (with trade and mass market businesses about the same size). Says he's willing try and make up some of the lower



wholesale revenue for hardcover with higher digital prices for mass market titles but hasn't found a way to make the overall math work.

* He asked if we're willing to accept lower margins than 30% on NYT bestsellers. I told him no and why. At 30% gross margins, we make single digit net margins. Told him we're trying to grow a sustainable business with them, but need their help.

* Pushed him hard, saying we need him to agree to this proposal and soon. He said that he won't agree in its current form and that our proposal is pushing him more in the direction of holdbacks for HC new releases, not away from them.

HarperCollins

* Brian wasn't available today: I'm meeting with him to discuss proposal in detail at 11am tomorrow. Met instead with Ana Maria Alessi, his #2.

* At Brian's direction, Ana Maria has been tasked with making sure that all hardcover releases between late March and end of June are enhanced: color, with extra text, audio, video, photos, etc. Starting then and continuing for three month test, HC wants to only make the enhanced version of these titles available as ebooks, with a 3-4 month holdback for vanilla version.

* I said that iTunes customers have responded poorly when forced to pay higher for a deluxe version when no standard version is also available. Also said that doing enhanced versions for all ebooks is driven by publisher's need (higher priced alternative to current low prices and holdbacks) rather than meeting true ebook consumer wants or desires --not a formula for success.

* We did talk pricing some. I told AM that we couldn't accept 5% commission on NYT bestsellers because that's a losing business for us. AM says NYT bestsellers are 5% of titles and 40%. Will check to confirm.

* The more substantive conversation is still to come, when I meet Brian at 11am tomorrow.

Will send my notes from Hachette tonight.

Keith

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