

Winter Institute 13 – Memphis, TN. January 2018

The American Booksellers Association Winter Institute has become the premier conference for independent booksellers across the USA and across the globe. This year was the largest gathering to date, 680 booksellers were joined by over 130 authors and numerous members of the publishing industry.

The State of Bookselling in America

Indies Rebound

The overarching mood at this years Winter Institute was one of optimism, and with good reason.

Across the independent sector in 2017 sales were up 3% and over the past 5 years the indies have experience a compound growth rate of 5.4%. This increase, while modest, has been coupled with a decrease in the cost of goods sold, leading to increased profitability in the sector.

eBooks are no longer seen as a significant threat to sales. Since 2013, eBook sales have decreased every year, particularly fiction titles, dropping a further 5% in 2016-17. While this can be attributed to digital fatigue it is also notable that eBook prices have been increasing and it has become clear that Amazon was selling their eBooks at a loss in order to capture market share.

As a result, print books are up 2% in unit sales, spearheaded by board books (+11%). Romance, detective and fantasy books have all seen print sales increase markedly as customers have returned from eBooks. Conversely, physical audio books are down significantly (-13%) but digital sales have taken off (+20%).

Non-fiction has had a small drop but this is mostly attributed to the end of the colouring book phenomenon. In fact booksellers have officially declared 2017 as “the year the crayons quit.” Despite the downturn of the category as a whole, personal development and biography have seen some gains.

In addition to the turnaround of growth in the sector, there has been surge in younger bookshop owners either opening stores or taking over existing businesses. Until recently, older bookshop owners and those looking to exit the industry had been finding it increasingly difficult to sell their businesses, leading to stores closing rather than changing hands. The past few years have seen new owners come into the industry, usually with high levels of education about both business and the book industry. These stores have been thriving.

Independent bookshops in America – similar to Australia – are seen as being community leaders and indies have been going out of their way to promote their shops as community hubs via events and bookclubs.

The ability to adapt and be open to change has also lead to success for US indies and appropriate sidelines in non-book items have been selling well. Socks, cards, candles, book related plush toys and science kits are all strong sellers alongside traditional stationery items. Similarly, shops have also found great success by operating effective social media channels that embrace the global nature of books but emphasise the local nature of bookshops.

The Decline of Barnes & Noble

Another important factor in the health of independent bookselling in the USA has been the decline of Barnes and Noble.

It is hard to look at the numbers without some delight:

B&N were down an overall 6.4% in sales over the xmas period, including -4.5% online and -6% in retail book sales. The B&N bespoke e-reader, the Nook, has largely been viewed as a failure and it is estimated that the company has lost around \$1bn via that enterprise. As a result, B&N stock is now at its lowest point since 1994 and the company is valued at less than \$400m.

Barnes & Noble has recently appointed a new CEO, from office giant Staples, who has (true to new CEO form) sworn to turn the company's fortunes around. However, the prevailing mood is that B&N are looking at lot like Borders at the end of its tenure. The shops are simply too big and most have not been updated since the 90s.

To combat this Barnes & Noble have opened four new concept stores. These combine a smaller book offering with a full service restaurant, licensed bar and a new, more contemporary look. The new stores have been well received but, in typical ham-fisted corporate style, the concept is not one that can be opened inside the footprint of any existing store, leading to the exercise being largely moot.

Whilst the seemingly immanent demise of Barnes & Noble could be seen as a great victory for the indies, it is not without an important caveat.

Some of the profitability increase seen by the independents has been as a result of the US system of rapid replenishment, whereby over $\frac{2}{3}$ of ABA members are able to order and receive stock from their distributors overnight and the rest usually within 48 hours. This has lead to stores being able hold less stock, freeing up both space and capital. If Barnes & Noble were to collapse, it is likely that much of this system will be dismantled and independents would return to long lead times for orders and would require larger stockholdings.

Further to this, the loss of B&N would likely push more customers away from bookshops altogether and into the wide open arms of Amazon. Therefore, whilst no independent would like to see Barnes & Noble return to its position of market dominance, it is preferable that they find a way to survive and exist within a healthy brick and mortar symbiosis of chain and indie book-sales.

Amazon – By Volume, the World's Largest River

Unsurprisingly, the largest threat to booksellers and retailers as a whole continues to be Amazon.

Despite the hugely publicised yet largely whimpering launch of Amazon Australia (news received with much glee by American booksellers), Amazon's share of the US market is mind-boggling. Amazon is responsible for 70-80% of all ebooks and a startling 40% of total book sales. In fact, estimates show that 50% of sales for the major publishers are through Amazon (the remaining 25% go to libraries, wholesalers and specialty accounts, 17-19% to B&N and 6-8% indies).

Not being content with complete dominance of the online market, however, Amazon has now opened a number of bricks and mortar stores. More worryingly, these stores (currently standing at 13 with 3 more confirmed) are being operated as a Trojan horse.

Amazon is hyper-aware of the importance of vendor lock-in and its subscription services include Kindle Unlimited for eBooks, Audible for audio books and for general retail, the jewel in its crown Prime. Amazon Prime, a \$99 per year subscription service, offers online customers free expedited (usually two-day) shipping, as well as access to their TV and film streaming networks.

Amazon bricks and mortar locations are medium sized bookstores, around 5,000 sq ft (464 m²). However they only stock around 5000 titles, all face out and ringed by various electronic gadgets from Amazon's catalogue. The prices are not marked on these books; instead they are accessible via scanning the book on the Amazon smartphone app. This is where the lock in occurs. For regular customers there are no discounts at all on these titles, they are sold at RRP. If, however, you are a member or sign up to be a member of Amazon Prime, the in store prices are heavily discounted. It appears Amazon is using their bricks and mortar stores as a gateway to their subscription service.

This approach, while devious, may actually be slightly self-defeating for Amazon. Prime has wide adoption – it is currently estimated that there are around 65m US Prime accounts. However, as the Amazon shops are geared so heavily towards these subscribers, the limited range of titles and products available offer little benefit above the online service. To customers seeking a more comprehensive bookshop experience or those who are unwilling to subscribe to Amazon, the reduced range and high prices make the bricks and mortar Amazon shops unappealing. In fact, of the indie booksellers who have had an Amazon store open nearby, none of them have reported a drop in sales.

Regardless, Amazon will continue to be a formidable competitor and if left unfettered by the US government it will continue to work tirelessly towards total domination of the retail sector. In fact, many governments of US cities have been actively courting Amazon as they look to open a second headquarters in the country. 238 cities and towns made proposals to Amazon offering incentives to open in their location, one town even promising to change its name. In return Amazon is offering up to 20,000 jobs at their new location.

However, as noted in a keynote address by futurist Amy Webb, the likelihood of Amazon continuing to employ many of these workers in 20 years time is small. Amazon is spending huge amounts to research and develop artificial intelligence, robotics and retail automation. In the fight against labour laws and the minimum wage, Amazon's ultimate answer appears to be to not employ at all. This is exemplified in the opening of the first cashier free Amazon Go store in Seattle – a convenience store that uses tracking technology to charge customers for goods as they leave the store, requiring no interaction with a checkout.

Amazon is also looking at replacing their last mile delivery services via heavy investment in drone technology and is constantly improving its machine learning recommendation algorithms.

Finding the Future of Retail

These technologies should not be overlooked by booksellers. Whilst it is impossible for individual stores to compete with Amazon's research budget, booksellers should still endeavour to monitor these developments to predict retail trends. By staying abreast of changes in consumer behaviour and expectation and collaboratively embracing new platforms, independents may remain competitive.

Customer data and purchasing habits are a huge commodity and much of this data is locked in the databases of store POS systems and customer service staff. Finding a method of collating and quantifying this information would be invaluable to the retailer of the future.

In Australia, one method of unlocking and sharing some of this data would be via the deployment of Treeline Analytics on the Edelweiss platform.

Technology also begets efficiency, evidenced by the UK based payments system Batch. This system promises to speed up and simplify the reconciliation of invoices and credit claims, freeing up valuable time for staff and preventing the halting of supply due to mistakenly unpaid accounts.

Booksellers should also consider broadening their community offerings. While bookstores are seen by many as a welcome relief from the screen-heavy tyranny of modern life, the online world is also re-shaping the way people interact as communities.

Amy Webb points to the success of HQ Trivia and on demand group exercise platform Peloton as indicators of how people are now demanding a community experience on their own terms, in their own time and own space. By taking advantage of online streaming audio and video platforms and continuing to cultivate their social media followers, bookshops may expand their communal offerings beyond their walls and opening hours.

Hacking the Monoculture

By far the greatest differentiator between Amazon and independent booksellers are staff. Amazon, by actively pursuing machine learning and artificial intelligence would prefer that all sales are made automatically and all recommendations are made by algorithm. However, despite the vast and immediate catalogue available to an algorithm, it will always be flawed without human guidance. Moreover, algorithms tend to push towards the mean, preferring common answers and options and ignoring outliers. Humans, while often comfortable trending towards the middle, are also capricious, unpredictable and diverse. A human recommendation, while limited, is more likely to be interesting and appropriate to another human. Empathy and cultural awareness, coupled with booksellers experience and skill, remains an important point of difference between bricks and mortar and the machine. To expand upon these innately human qualities, fostering diversity amongst the bookselling community has been a huge focus of the ABA in the past twelve months.

At last years Winter Institute (Wi12), Roxanne Gay delivered a searing rebuke of the large and overwhelmingly white make-up of the room. This year Junot Diaz told of his lonely experience growing up as an immigrant in New Jersey, of taking refuge in books from the daily racism he encountered as an outsider, and of his realisation that none of the characters in these books represented him either.

The ABA has taken great strides in reconciling the lack of diversity and representation in its membership by forming a diversity task force. This group, created after last years conference and presented to the ABA membership en-masse at Winter Institute 13, aims not to insist that booksellers increase the diversity of their staff and stock, but rather to exist as a resource and sounding board for shop staff and owners who would like to increase their offerings and better represent their communities.

More information about the ABA Diversity Task Force may be found here:

<http://www.bookweb.org/news/aba's-diversity-task-force-what-we-talk-about-when-we-talk-about-bookselling-and-diversity>

Sadly, whilst the ABA is actively embracing immigrant and minority communities, recent acts by the current US Government are weighing heavily on the minds of some booksellers. A member of the

diversity task force told of the genuine fear of deportation her family now holds and how many shops may have staff whose families are similarly threatened.

Optimism

There are inevitably many takeaways from a conference as vast and as rich as the Winter Institute, probably even more for a visitor from overseas. In fact, the opportunity to speak to other overseas guests was just as important as the conference itself, as it led to insight into their industries too. Both UK and Canadian booksellers were similarly bullish on their future as the Americans, in Canada's case this is despite their not having an independent booksellers association like the ABA.

The annual informal gathering of ELBA (the English Language Booksellers Association) brought forward the idea of creating an international network for travelling booksellers who may wish to drop in on overseas bookshops, either in a formal working capacity or in an informal fashion, to learn about the way shops operate in other markets. ELBA also proved enlightening regarding shop operations in different countries. New Zealand booksellers found their supply chain very disappointing over the Christmas period as much of their stock comes from Australia and yet was held up at the docks by customs at that critical time. UK booksellers on the other hand, were very vocal about the benefits they had found by working with Batch and how the third party platform had greatly sped up and simplified their payments systems.

Primarily, the Winter Institute provided a wonderful insight into independent bookselling in the USA and was a great reminder that it remains a healthy, happy and supportive community. After many concerning years, it seems that booksellers have seen off the threat of Borders (and relegated Barnes & Noble to a necessary, rather than intimidating, entity). They have endured the rise and fall of eBooks and have weathered the continuous onslaught of Amazon.

With growth in sales, new and enthusiastic bookshop owners entering the sector and the progressive and inclusive community of the ABA, Winter Institute 13 (co-incidentally held just as the record setting cold snap in the USA thawed), showcased an industry heading confidently into a promising spring.