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The Case of Authors, Publishers and Printers

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Introduction

The book publishing industry connects parties that differ significantly in their nature. Looking at the business that surrounds and supports the making and production of a book, a handful of very different players are involved. In this article, we have chosen to focus on the three main conventional players: authors, publishers and printers. These three all play essential roles in producing a book and getting it to the hands of the reader. Put another way, they all create value in the process of making a book. However, the way they create value is very different one from the other and this has consequences for the dynamics in the industry and especially for the manner in which companies are managed. This is the issue that we intend to discuss in this paper.

Our approach to the problem of value creation is that of intellectual capital, defined as 'any intangible resources or transformation of those resources, which are under some level of control of the company that adds to the company's value creation'. Intellectual capital is the science and art dealing with how to extract maximum value from the resources of a company and the way the company chooses to use them (Roos in Chatzkel, 2002).

When examining the value creation logics of the three players in focus, we will describe them in terms of resources necessary for their different ways of operating. We argue that three different value-creating logics are applicable to the way authors, publishers and printers work. Those are the *value chain* (Porter, 1985), the *value shop* and the *value network* (Stabell and Fjeldstad, 1998).

Intellectual Capital Perspective

The starting point of the Intellectual Capital reasoning is the resource-based view of the firm stating that any given firm or organization is a system made up of a set of resources that are deployed in a given structure (e.g. Penrose, 1959; Wernerfelt, 1984; Rumelt in Teece, 1987; Peteraf, 1993; Barney, 1991 and 2001). Five resource categories can be used as a framework facilitating the identification of all the different resources. These categories are human, organisational and relational resources on the intangible side, and monetary and physical resources on the tangible side (Roos and Roos, 1997).

Human resources include e.g. the knowledge, competence, intellectual agility, relationship ability and attitude of the employees. These resources are by definition not owned by the firm. By contrast, *organisational resources* are owned by the

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firm and comprise e.g. all the structures, systems and processes that the company uses to support their operations, but also items such as brands, image, culture, prototypes, documented information and intellectual property. Then there are the *relational resources*, which embrace e.g. all external relationships, such as customers, suppliers, media, strategic partners and other types of alliances. These resources are not owned by the company and are, by definition controlled (at least partly) by the other party. As for the tangible resources we make a distinction between *monetary* and *physical* resources, which are the assets owned by the firm, shown in the traditional accounting. Table 1 below sets out the different intangible resource categories and what they may be composed of in the book publishing industry.

Table 1
Examples of important intangible resources in the book publishing industry

Resource Category	**Resource Examples**
Human	*Authors*: cognitive competence (e.g. knowledge, fantasy), research skills, language and writing skills, sales skills etc. *Publishers*: Relationship management skills, negotiation skills, marketing and sales skills etc. *Printers*: Functional competence (e.g. profession specific), negotiation skills
Organisational	*Authors*: personal image/brand and reputation, previous work and templates, sources of information and/or inspiration *Publishers*: brand, strategic position, processes, systems and databases *Printers*: /cost-reducing/ processes
Relational	*Authors*: Relationships with publishers, other authors and sources of information *Publishers*: Relationships with authors, printers, distributors and media *Printers*: Relationships with large number of publishers and suppliers

Value Creation Logics

Giving a short overview of the value creation logics, the first model is Porter's conventional value chain (1985), in which the output, and the output alone, brings value to the customer (see figure 1). Whatever happens during the process of producing the output is insignificant to the customer who purchases the output. A traditional business such as a factory is the typical example of a value chain. The primary resource of the firm cannot be human as this type of value creation relies on standardised processes and repetition – economies of learning, and mass production – economies of scale. The basis for competitive advantage is more likely to be comprised of physical, monetary, organisational or relational resources.

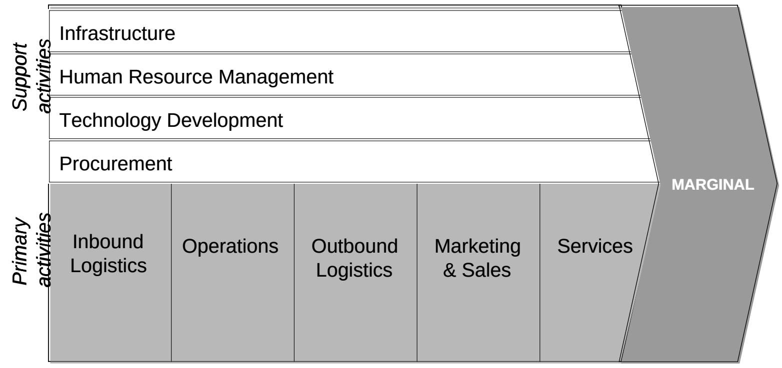

Figure 1
The Value Chain. *Porter, 1985.*

The second value creation logic is the value shop, in which the main focus is solving a problem for a client. In contrast to the value chain, the value in a value shop resides not only in the solution itself – the output – but also in the individuals who came up with the solution and the way they reached it. The primary resource and source of competitive advantage is hence most likely to be human, but can also be organisational or relational. In any case, the most important resource in a value shop can never be physical or monetary.

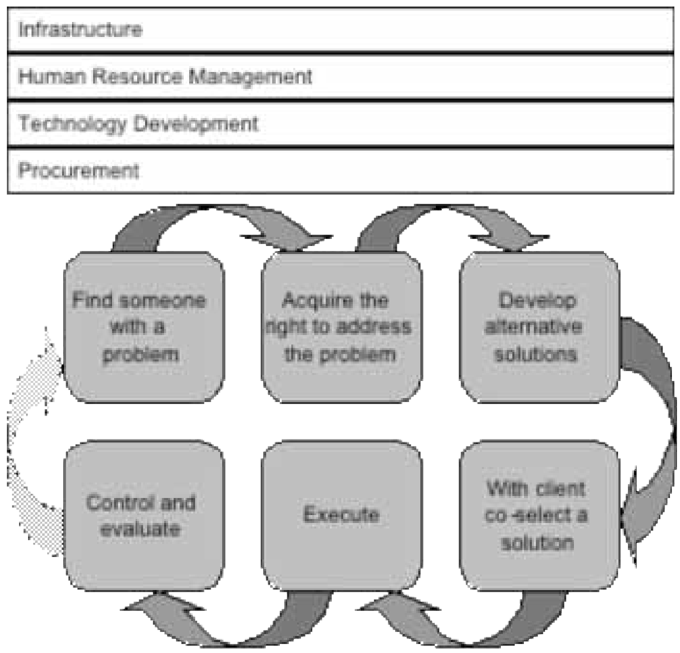

Figure 2
The Value Shop. Stabell and Fjeldstad, 1998 adapted by Roos in Chatzkel, 2002.

The third value creation logic in our approach is the value network. The basis for value creation in this logic lies in connecting people who wish to be inter-dependent. Examples of organisations using the value network logic are banks and telecommunications operators. In this logic, the value is created in the actual enabling when connecting customers to each other. The primary resource of a company operating as a value network is therefore most probably its relational and/or its organisational resources. The more subscribers that a telecom operator has, the better the value for the individual subscriber, up until a certain point where the operator cannot provide its subscribers with satisfactory service. In any case, the primary resource in a value network cannot be monetary, physical or human.

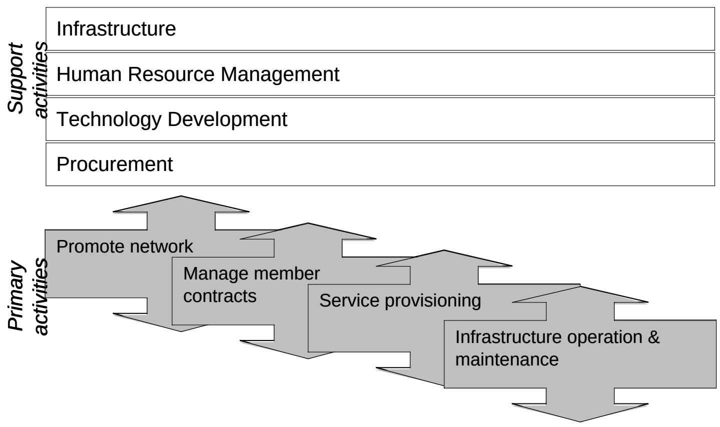

Figure 3
The Value Network. Stabell and Fjeldstad, 1998 adapted by Roos in Chatzkel, 2002.

Turning to value creation in the book publishing business, we recognize the overall value chain that applies to the process in the industry of realising a book (see figure 4). Greatly simplified, the value creation starts with the ideas, creativity and writing work of the author preparing the content. The next phase, content acquisition, is the process by which the content for a publisher's product is acquired from its creator/s. This includes sourcing and selecting content, assessing the value of the content, and negotiating the rights to use it. This is normally done by the publisher or outsourced to external experts such as academic reviewers. The following phase involves activities controlled by the publisher in interaction with the author, such as editing and consulting for further development of the content. The content formatting phase is the final phase of preparation of content before it is sent off for printing, including layout, design, language correction and proofing. These activities can be performed either by the publisher or the printer (or some third party). The final stage in the value chain is the distribution to readers, in which storing, distributing and selling are the key activities, usually performed by a the publisher (through direct selling) or a book retailer.

Due to technology development and convergence in the industry, the activities do no longer have to be performed as outlined above. Alternative models co-exist, see e.g. BPIF, 2001.

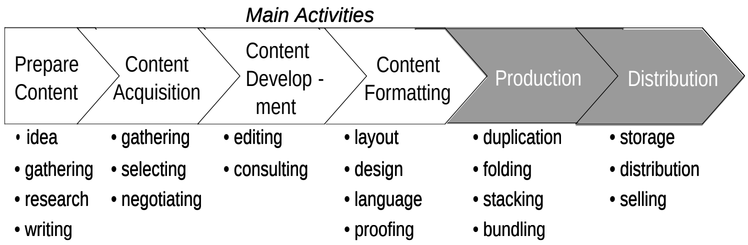

Figure 4
The Book Publishing Value Chain. *Comprint International, 1998.*

Having established the overall value chain of the industry, we now turn to the players involved, looking at their particular value creation logics.

The Author

Starting with the author in the above overall value chain, we first of all want to determine the role and the activities of this player in more detail. To this end, we make a distinction between fiction authors and technical or specialist authors.

The *technical writer* needs to have a certain knowledge level within the subject area for the content of the book. This type of author aims to satisfy a functional information need among readers in the market. This author type has to be highly skilled in researching, collecting and synthesizing relevant information and presenting it in a descriptive and attractive form.

Fiction writers seek to satisfy an emotional need in the marketplace. They do not necessarily need to be as knowledgeable as the technical writer but they will be good observers. Even though the underpinning research is not as important for fiction as for technical books, some research is needed for credibility of a story. Thus, this author type needs developed research skills, however the most important ingredient in the creation process of a fiction book is fantasy. Hence, the prime resource of a fiction writer is fantasy on the one hand, and research skills and language mastering on the other.

In value creating terms, both the technical and the fiction author operate as value shops. In this case, the information need is the problem and by filling this need, be it functional or emotional, the book is the solution. There might be differences in terms of the type of competence needed depending on whether the outcome is a technical or a fiction book, but the prime resource still remains human. The individual’s intellectual capacity, cognitive competence, research and writing skills constitute the basis for competitive advantage for an author. In addition, organisational resources such as the author’s individual ‘brand’ and reputation play a vital role for the recognition and sales of the book.

If illustrating the value creation graphically, the deployment of resources can be shown in a navigator (see figure 5). Figure 5 shows an example of what an author’s navigator is likely to look like. The size of the bubbles represents the importance of the resource in the process of creating value. The human resource bubble is hence the biggest, since it embraces the cognitive competence and writing skills of the author. The organisational resource includes the brand and reputation of the author. The most important relational resource of the author is the publisher. In the navigator, the arrows represent transformations between resources and once again the size reflects the importance of these transformations. The most significant transformation takes place between the human and the organisational resources when the author transforms knowledge or fantasy into written content in a book. As the book sells, it transforms into money for the author, thus the arrow between organisational and monetary resources. There are also transformations between the organisational and the relational resources. The one from the relational resources represents the publisher's input to the book and the transformation from organisational to relational resources shows the importance of the author's reputation for getting the publisher to publish the book and the readers to buy it. Moreover, the use and re-use of existing material, templates and processes that speeds up the authoring progression are represented by the arrow from organisational to human resources. Finally, relational resources transform into human as the author make use of specialists and experts contributing to the book.

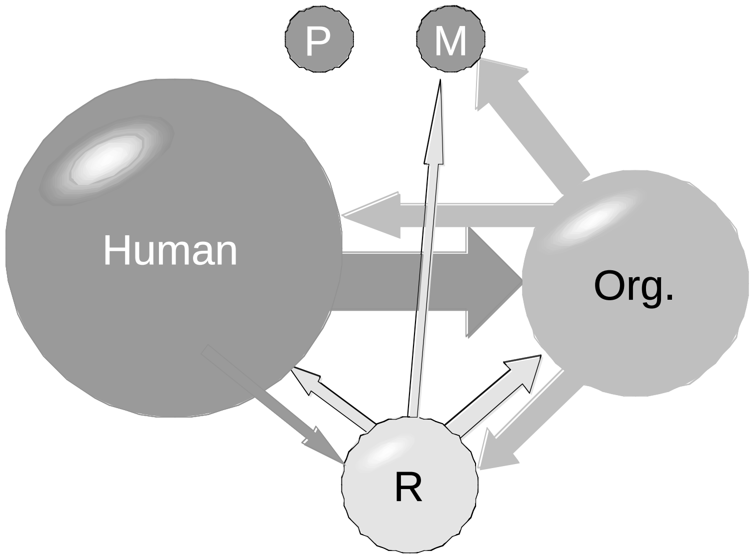

Figure 5
A Typical Navigator of an Author (P= Physical; M= Monetary; Org.= Organisational; R= Relational Resources).

The Publisher

A publisher is one of the intermediaries in the overall value chain of the making of a book. There are a number of ways in which a publisher can choose to operate, ranging from content broker to publisher and printer to fully integrated publisher performing all the activities in the value chain except from the actual writing.

Looking at the way a publisher creates value, there is no definitive generic model. However, we argue that the value network is the value creation logic closest to a generic publisher model, as it works for all the different strategies mentioned above. Consequently, the publisher's main and most important function is to be a conveying intermediary between authors and distributors and/or readers, depending on whether a direct or indirect distribution model is being applied.

So what distinguishes one publisher from another? The answer is most probably found among the relational resources, since this is where three essential relationships are categorised: the author – the content supplier, the book retailer – the outlet, and the reader – the final customer. It is crucial for the long-term survival of the publisher to build strong relationships with these three external parties. Another key resource is the brand (organisational resource), for which the number and the quality of authors tied to the publisher are main contributors. These relational and organisational resources are plausible determinants of the publisher's competitive advantage.

The publisher navigator in figure 6 shows how a publisher is likely to use its resources. As established above, relational resources are crucial to the publisher and are therefore represented by the biggest bubble. The organisational resources contain the publisher's brand in addition to the actual merchandise, which are the books. Human resources such as relationship-, negotiation- and marketing skills are important and transform into new valuable relationships. In turn, the relational resources convert into money when making a deal with a book retailer and into organisational resources by strengthening the brand. This also works the other way around in that the brand contributes in the creation of new relationships with authors, retailers, and readers.

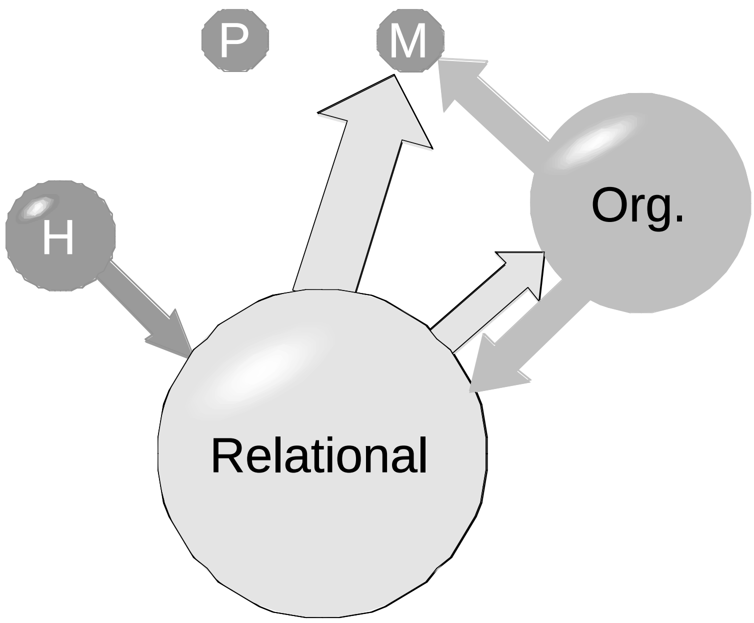

Figure 6
The Typical Navigator of a Publisher (H= Human; P= Physical; M= Monetary; Org.= Organisational).

The Printer

As the last link before distribution in our overall value chain, the printer is responsible for the actual physical production of a book: the printing and the binding. The typical printer operates as a conventional value chain, providing a broad range of products to a broad range of customers. The customer relationships are often weak and fragile, as the customer tends to frequently switch between different printers. The printer can be profitable only if it obtains enough volume to make economies of scale, and therefore be able to deliver at low cost.

For the printer, the prime resource is most likely to be physical as the printing and binding machines are the main value contributors. Monetary resources also play an important role since machinery and processes need maintenance and upgrading. As shown in figure 7, the typical printer navigator is likely to have six principal value creating transformations: from physical to monetary representing the sales of printing jobs, from monetary to physical, representing maintenance and upgrading of the printing machinery and from monetary to organisational, representing investments in processes and systems needed in the production. In turn, these organisational resources contribute to value creation in the production process, which explains the arrow from organisational to physical resources. Finally, the transformations to and from the relational resources symbolize relationship-building activities with publishers on the one hand, and publishers' requirements on the work carried out by the printer on the other.

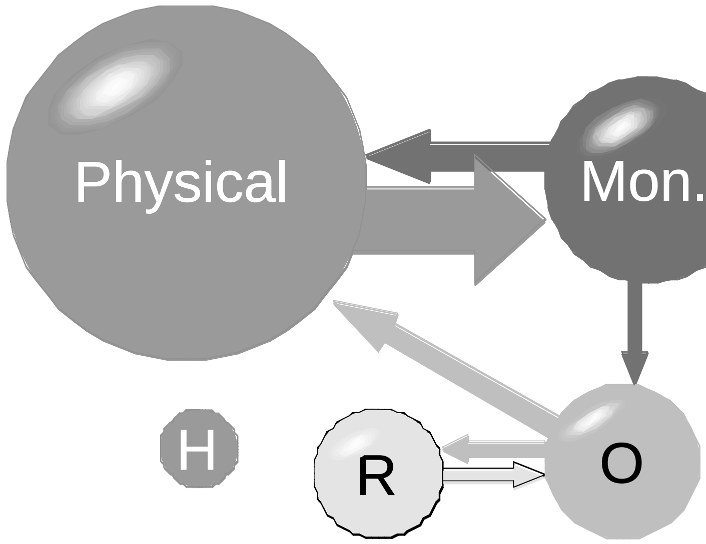

Figure 7
A Typical Navigator of a Printer (Mon.= Monetary; O= Organisational; R= Relational; H= Human).

For the sake of completeness, we would also like to include different types of distributors in the value creation logic discussion. Starting out with a traditional bookstore with the single objective of distributing books to the public, it can easily be described as a value chain, with goods coming in and goods getting out in the form of sales. However, many modern bookstores offer additional services and events connected to the bookstore, such as reading circles, seminars with authors, panel discussions etc. In this case, we argue that the bookstore operates more like a value shop providing services for which there is a demand among readers. Finally, looking at an online bookstore such as Amazon, it will fall in the value network category, since it acts as an intermediary between publishers and consumers and between consumers.

Taking the above discussion about the different value creation logics as a starting point, we will now turn to the consequences that these differences have for managing the entities in focus.

Managerial Consequences

As we have demonstrated above, authors, publishers and printers operate according to very different value creating logics. The resources that are crucial in the three entities' value creation are not at all the same.

Reviewing the case of the author, the most significant resource is human. Human resources have a specific economic behaviour not shared with for instance physical or monetary resources. The latter follow the conventional law of diminishing returns in contrast to human resources to which increasing returns may apply. That is, when writing a book, the author uses human resources such as knowledge and writing skills. When the book is finished, the author will not have consumed any human resource, but is rather likely to have more knowledge and maybe enhanced writing skills.

As for the publisher, the primary resource is relational, which applies to the law of network economics. The more authors the publisher ties to its business, the higher the value for the readers, since the chance of satisfying their information need increases. There is also a clear synergy effect for both the authors tied to the publisher and the readers buying its books, as the publisher may facilitate mutual learning.

Finally, the printer primarily depends on tangible resources (physical and monetary) for its value creation. These resources are additive by nature and are, as mentioned above, subject to the conventional law of diminishing returns.

Taking the above into account, we can clearly see that the ability to appropriate profits is going to be a function of on the one hand minimising internal costs (this is widely accepted and covered in many studies so we will not discuss it further here), and on the other hand maximising value enhancement from the viewpoint of the customer – the next step in the chain. If no other way exists to increase value to the next link in the chain then the default becomes lower price. Now given the discussion above we can see that the greatest value lies in the preceding link assisting the following link in enhancing the most important resource for value creation and/or in helping the following link in more efficient extraction (the term transformation is frequently used here) of value from this resource. What would this mean? In Table 2 we have identified the resources and transformations of primary importance, where primary importance refers to a resource that is both important and can form the basis for a competitive advantage.[1]

[1] According to the resource-based view of the firm, *competitive advantage* is explained by the resources that, in interaction with the environment, create above-normal economic rents for the firm. In order for these resources to be sustainable, they need to be valuable, inimitable, rare and difficult to substitute (Barney, 1991).

Table 2
Resources and transformations of primary importance

Players	Resources of Primary Importance	Transformations of primary importance
Author	Human and/or Organisational and/or Relational	Human to Organisational and/or Organisational/Relational and/or Human to Relational and/or Organisational to Monetary Relational to Monetary
Publisher	Relational and/or Organisational	Relational to Monetary and/or Relational to Organisational And/or Organisational to Monetary And/or Organisational to Relational
Printer	Physical and/or Monetary	Physical to Monetary
No frills Bookseller	Physical	Organisational to Monetary or Physical to Monetary
Full Service Bookseller	Human Relational Organisational	Human to Relational and/or Relational to Organisational and/or Organisational to Monetary
Internet based Bookseller	Organisational Relational	Organisational to Relational and/or Organisational to Monetary and/or Relational to Organisational

Given the above, we now turn to what opportunity the interrelated participants in the activity chain have to create value for each other. This is summarised in table 3.

Table 3
Value creation opportunities among interrelated players in the activity chain.

Can the below easily create value above and beyond price reduction to the ones to the right?	**Printer**	**Publisher**	**Author**	**No frills Book-seller**	**Full Service Book-seller**	**Internet based Book-seller**
Printer		Low	Low	Low	Low	Low
Publisher	High		High	Low	High	High
Author	Low	High		High	High	High
No frills Bookseller	Low	Limited	Low		Low	Low
Full Service Bookseller	Low	High	Limited	High		High
Internet based Bookseller	Low	High	High	High	High	

Looking at table 3, we can deduct some views on who will be able to appropriate the profit, given that everything else remains equal. The first conclusion is that the printer will have big difficulties to appropriate any profit based on value generation above and beyond price reduction. An indication of this would be e.g. a worsening profitability of the printer, as indicated in figure 8. This will drive consolidation in this industry down to a few major producers. The second conclusion is that authors, publishers and internet based booksellers can add value to each other and can therefore appropriate value from each other on the expense of the parties that cannot add value. That is, a publisher may give a well-known author a better deal and/or a large internet based bookseller a better deal and might finance this by giving a worse deal to a printer and/or a no-frills bookseller and/or an unknown author. Likewise a full service bookseller may be able to charge higher prices in return for the extra service they provide.

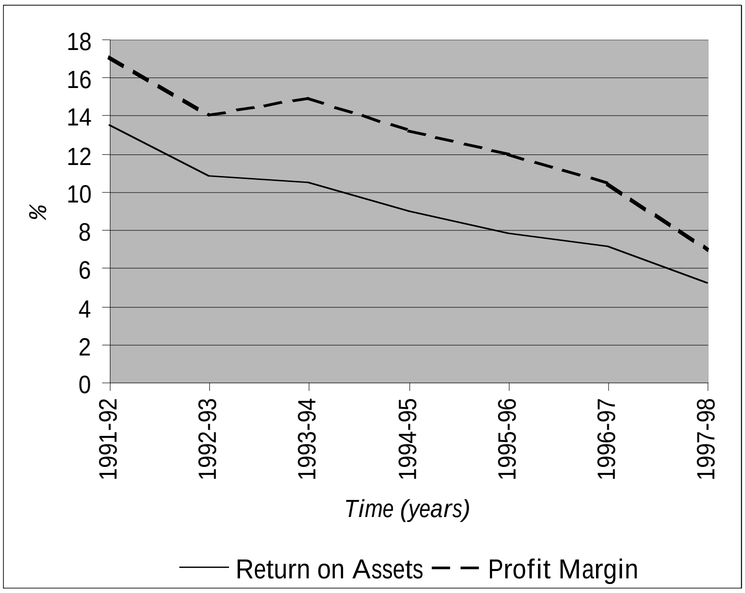

Figure 8
Profitability in printing related industries. *Australian Printing Industries, 2001*

Conclusion

It is important to understand both the strategic logic of the business as well as the primarily important resources and their value creating deployment in the business. This understanding allows for increasing the effectiveness of the chosen deployment given the business logic. As described above, these resources have fundamentally different economic behaviours, meaning that the ways to increase the effectiveness of value extraction from these resources are equally different.

Once the business logic and the resource deployment are clear the issue of efficiency increase can be addressed from a measurement viewpoint, i.e. the transformation representation tells us what transformations really matter in the business and these can then be measured in order to increase their efficiency.

Once the business logic of the firm is understood as well as the resource deployment structure of the firm, it can be compared with the logic and structure of the customer. This will allow a further insight into the ability to deliver value to the customer. Given that there are only two principal ways in which value can be provided to a customer - on the one hand through a reduction in the customers cost base and on the other hand through an increase in the value perception of the customers offering to its customers in turn – we can see which of these routes are available to us. The first route (cost decrease) is always available and becomes the only feasible route if the second route (value increase) is not available. In the case of book printers the discussion indicates that there is very little scope for the value increase route unless printers fundamentally change the way that they do things. This means that the book printers run the risk of financing the profit appropriation by others in the chain. A similar risk is run by no-frills booksellers and unknown authors. Table 4 summarises the principle resource dependencies of the different players treated in this paper.

Table 4
Resource dependencies in different value creation logics

Resource Categories / **Player/Value creation logic**	**Monetary**	**Physical**	**Human**	**Organisa-tional**	**Relational**
Authors/ value shops	X	X	1	2	2
Publishers/ value networks	2	2	X	1	1
Printers/ value chains	1	1	X	2	2

Some actionable issues for the players described in this paper arise from the above discussion. The first and foremost would be to identify and understand what it means to add value to the customer. Then there is a need of finding a way of excelling in adding this value through maximum effectiveness in resource use, maximum efficiency in extracting value from the deployment of the resources, constantly monitoring what matters, and through being realistic about what is possible and what is perceived by the customers to be valuable to do. Furthermore, the players need to accept that some businesses will have decreasing abilities to generate value and that the consequence of this is a business value well beyond the asset value and that other will have increasing abilities with the opposite outcome.

These findings have significant consequences for the management and the shareholder value creation and thereby the valuation of the different firms discussed. It is also possible to hypothesise about possible ways to operate as a book printer under these boundary conditions.

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