Will Amazon Kindle Vertical Integration?

I wrote a controversial Forbes column, How Amazon Could Change Publishing [1], in the spring. In this column, I submitted that Amazon could disintermediate traditional publishers and agents, and free up money that they could share with authors. My hypothesis was based on the fact that since Amazon has a technology-based merchandising system capable of figuring out which of its customers might like what other books, it could target those customers to bring to market other books within a particular genre.

Typically, in the book business, marketing is the bottleneck. Very few books get serious marketing support from publishers, and thus the onus of marketing always falls on authors. Most authors are not equipped to shoulder this burden.

As I researched my column, I spoke with a lot of industry people – authors, agents, publishers, publicists, print-on-demand services [2] – and I could not help but learn a lot about the book business. I ended up writing a subsequent column, Web-savvy Authors Reap Fame, Fortune [3], showcasing author Elle Newmark’s success in using the web to recruit first an agent, then a publisher.

Amidst all this, my entrepreneurial instincts kept gnawing at me, and in June, I ended up striking a deal with Amazon’s BookSurge subsidiary to take a shot at disrupting the book publishing business.

I happen to be an author “with a platform”, the kind that agents and publishers salivate over. I have a popular blog, as well as various columns and syndicates, which means I have a readership already. Additionally, I also am an entrepreneur, a thoroughly web-savvy one, and my genre is technology.

So, in June, when Amazon’s BookSurge offered me a “special” deal to work with them to publish my book series, Entrepreneur Journeys [4], and in the process, help them customize an offering for other like-minded technology entrepreneurs and writers, I paused, rearranged my summer schedule, and cranked out volume one of the series [5].

The royalty rate that Amazon’s BookSurge offered me is nearly three times the normal 10-15% that authors make in traditional publishing arrangements. Instead of four parties splitting the pie, we are two. No agent. No publisher. [6]

I wanted to get the books out quickly, with maximum control over the production process, and with the most attractive financial deal. My decision to go with BookSurge was influenced by the fact that my target audience of technology entrepreneurs are all online and are quite likely Amazon customers. I am also attracted by the technology- and algorithm-driven merchandising and co-branding capabilities that Amazon offers. I’m not sure if I would have focused my efforts on selling the book on Amazon if I were doing a book of short stories. I would probably follow Elle Newmark’s example, and use the web to recruit an agent, then a publisher.

But for technology, Amazon may well be the perfect channel to bring Entrepreneur Journeys to market.

At any rate, BookSurge also gives me the option to switch to a traditional publisher at any time, and meanwhile, is contributing a whole host of services. I am only funding my own publicist, Maureen Kelly, who has worked with many best-selling business authors, from Jim Collins to Scott Adams.

What does this mean for the book publishing business? Are we about to see a degree of vertical integration, at least in certain non-fiction genres that have a large web presence? How big a role will Amazon play, as it morphs its various on-demand offerings to recruit authors who are also entrepreneurs, and web-savvy marketeers?

And what about Kindle? While there are no publicly announced numbers about how many Kindle readers have been sold, I know that many early-adopter techies have already standardized on Kindle. TechCrunch estimated the number of Kindles sold so far to be 240,000. Citigroup analyst Mark Mahaney is amongst the most bullish, calling Kindle Amazon’s iPod. In
an August report, Mahaney estimated that Amazon will sell 378,000 units this year, and Kindle will be a $1.1 billion business that accounts for 4% of Amazon’s revenue in 2009. Pacific Crest’s Steven Weinstein believes Amazon can sell more than $2.5 billion in e-books for the Kindle by 2012.

All these are highly extravagant numbers, speculative, and possibly wildly off. Nonetheless, it is indicative of a wave of change that is washing over the shores of the book publishing business. What I have learned in my years as a technology entrepreneur is that opportunities abound when such change passes through an industry.

This particular one offers Amazon an opportunity to also [tackle its margin expansion challenges, which I have discussed before](http://www.sramanamitra.com/2008/07/24/amazon/). Every retailer knows that a standard tactic to increase margins is to include “house-brands” in their portfolio. For Amazon, this means bringing in “house-brand” authors with whom they launch successful higher margin titles in specific genres. If my hypothesis that Amazon is in a strong position to market books checks out, the implications of my experiment with BookSurge may turn out to be of monumental significance for the company.

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