

Buying is a hard thing for bookstores to do effectively, and that becomes an increasingly important reality for publishers

Posted by Admin on January 23, 2013 at 8:12 am · Under General Trade Publishing, New Models, Publishing History, Supply-Chain

One of the most underappreciated realities of the book business is how hard it is for a retailer to manage an inventory of trade books.

This is an existential problem for a bookstore. A bookstore's inventory is its biggest investment. The performance of inventory - how many times it "turns" in a year and how successfully the store manages to buy what it needs without wasting investment (tying up cash) and incurring margin-destroying revenue-less costs (return freight, probably added to inbound freight, plus wasted labour shelving, removing, packing, and shipping) - is, by far, the single biggest determinant of whether a store succeeds commercially or fails.

The fact is that a single store, almost regardless of the quality of its systems and its management, has to guess at what will be the right books to order most of the time. All advance order purchases (placed by a store long before the book is published) are based on speculation and guesswork. The publisher through a rep or a catalogue, states expectations, sometimes based on "comparable" titles (which were, of course, published previously at what might not have been a comparable time!) and sometimes based on the publisher's hopes, all of which are connected to the publisher's promotional promises. Usually stores - independents and chains - will be guided by those expectations because any other evidence is non-existent.

After a book is published, of course, there is real sales data to guide stocking decisions. But except for the small percentage of the published books that are widespread bestsellers, stores depend primarily on their own sales data to decide what to reorder or keep as backlist. And the cold, hard fact is that, for most stores, for most books, there is not sufficient data to tell anybody anything. A single store will have sales for a week or a month across its titles that show multiple copy sales for a small percentage of the titles they have in stock. The majority of the books they carry will sell zero in a week or a month. And, of those that do sell, the vast majority of those will sell one copy.

In the past decade or two, there have been a few tools developed to help the independent. The inventory management system, Above the Treeline, shares information among its stores so each one can get a picture of what is doing well in the aggregate. Stores can see what Ingram, in many cases the supplier from which they buy more than from any single publisher, is stocking and selling, which also provides clues for them.

But the best tool for more nuanced inventory management, for a long time, has been to have a bookstore chain. If you use it right.

This first became evident when the B. Dalton chain of mall stores hooked up computers to their cash registers in the 1970s. Although there were holes in the system, Dalton was then able - for the most part - to tally what they were selling across what was then about 300 stores (a number plucked from memory here, and this is in the neighbourhood of 40 years ago, but I think this is right...) When I first started selling to Dalton in 1974, they had two lists of titles they considered worth tracking: a "hot" list and a "warm" list. On the "hot" list was every title that sold more than *six copies in the chain in a week*. The "warm" list was every title that sold more than *six copies in the chain in a month*. That's one copy for every 50 stores to make these lists. And, of course, most titles didn't make them. Learning those numbers did more to help me visualise how slowly books move than any other single piece of my education to that point.

In addition to those lists, Dalton introduced an automated backlist replenishment system based on "models", or an ideal maximum inventory level and a reorder point. So, the model for a title might be one copy in some stores, with a reorder when it sold, or it might be three copies with a reorder when sales took it down to one. Automating the reordering of "Romeo and Juliet" and "The Grapes of Wrath" enabled valuable buyer time to be freed to figure out what to reorder (or model) from the hot or warm list.

We had a very useful controlled experiment taking place in the 1970s because Dalton had a competitor chain called Waldenbooks, which had more stores and had been around longer but which, for several years, had no comparable computer-assistance for their inventory management. Reordering at Walden was primarily the responsibility of the store managers, and it will be no surprise to learn that some were a lot better at it than others. In the 1970s, it was clear to all publishers that Dalton bought more efficiently (fewer returns) and sold more books, particularly of the backlist.

In the 1990s, Dalton was absorbed by Barnes & Noble (B&N) and Walden by Borders, the two superstore chains that effectively replaced the mall store presence of the previous decades. And, once again, the chains diverged in their inventory management capabilities. B&N invested heavily in what we were, by then, calling their “supply chain”. They built warehouses to serve as the resupply hubs for their stores and instituted systems by which stores got resupply from the distribution centre(s) on a daily basis. They set up rigorous systems to manage models and to review each store’s performance annually. Whereas Borders had A, B, C, and D stores to denote a range of sizes and title counts, B&N had those gradings by *store sections*, enabling them to configure the stores much more granularly to their local demand pattern.

By the time the 21st century arrived, B&N had built a substantial advantage over Borders in its inventory management practices. Close observers of B&N’s financial reports would have seen that inventory efficiency - how much they could get in sales from their inventory investment - improved every year as they added more stores able to feed off the same central supply capability. Their inventory management cost - buyers to talk to all the publishers and the systems and physical plant to administer all the stocking decisions and, if one were fair, the cost of returns - was consistently declining as a percentage of sales while Borders’s was not. Borders didn’t make comparable investments in plant and systems and their stores became less and less competitive.

This, even more than any failures in digital, is why Barnes & Noble thrived while Borders collapsed in the latter part of the last decade as sales shifted from stores to online.

The inventory management challenge is one that some publishers have tried to help bookstores with for years. My father, Leonard Shatzkin, instituted the Doubleday Merchandising Plan in 1957, by which the reps walked out of stores with physical inventory counts (there were no computerised inventory tracking systems back then) instead of purchase orders. Those were converted at headquarters into orders which the participating stores had agreed to accept. In the past decade, Random House has developed their own VMI (vendor-managed inventory) system (though my knowledge of details is sparse - this is proprietary information which has never been shared in any detail with me) which it has employed to help manage its books at B&N and is now, apparently, also using at Books-A-Million.

Even if a store knew, title by title, exactly what the right inventory level is (and they don't, and it changes day to day, anyway), keeping the right books in stock is a challenge. The most sensible way for most stores is probably to order from Ingram (and/or other wholesalers) on a daily basis. Buying from publishers not only requires splitting up orders that will then arrive at different times in different packages, it also requires following ordering rules that are different for every supplier. A wholesaler can't offer as much margin as a publisher, but the consolidation of the business, both makes management cheaper and promotes faster stock turn, which almost always will more than compensate for slightly higher purchase prices.

Independent bookstores generically resist vendor-managed inventory. Indeed, picking the books (also called curation) is both one of the great pleasures and great services that a bookstore offers its customers. It is understandably loath to delegate any aspect of that very important work to anybody else.

But the cost of buying is a real hurdle to running a successful bookstore or book department. Buying through what my father called "distribution by negotiation" is expensive for the store, expensive for the publisher, and, unfortunately, doesn't result in the most productive possible decisions. Things can work much better if it is eliminated.

One example of this that I've been involved with is West Broadway Book Distribution (WBBD). WBBD puts books into national chains that aren't bookstores (JoAnn Stores and Hancock Fabrics have been their customers for years). WBBD makes all the stocking decisions, based on daily sales reporting it gets from the stores. The stocking decisions are highly automation-assisted, so that a couple thousand titles from over 100 publishers are managed in over 1000 stores with an extremely small staff at WBBD and virtually no buyer time required from the stores. And using a systematic approach means rules can be constantly improved.

In fact, WBBD has improved the stock turn on the inventory it places virtually every year.

The cost of buying and maintaining the supply chain is going up steadily (as a percentage of sales) at B&N because they're reducing their book inventory and closing stores. Soon what has been their competitive edge will turn into a competitive drain. Different supply strategies, such as having publishers ship more books directly to the stores, are already being employed and that will continue. But this a de-leveraging of the B&N core advantage.

That's one reason 2013 could be a difficult year for our last remaining truly national bookstore chain even if the sales of books in stores erodes more slowly than it has recently. A sales decline is very painful to an entity with high fixed costs and B&N's supply chain is a big part of theirs. And if they were to suddenly close a substantial number of stores, climbing down from that infrastructure cost base might suddenly become much more urgent and very difficult.

As the shelf space for books being managed by retailers that accept the high cost of managing book inventory and commit to doing it effectively continues to decline, publishers need to understand that it will be really hard for non-book retailers to replace them.