Horror-writer Stephen King set out to give the publishing industry its biggest shock ever – by selling a book over the Internet at $1 a chapter. Things didn’t go all King’s way; not everyone paid for their downloads and he suspended the project after a few chapters. But for traditional publishers the relief of a happy ending may well be short-lived. The nightmare is probably only just beginning.

Stephen King, the well-known American horror story author, is a creator of nightmares. His books sell in the tens of millions and are designed to chill the blood of the reader by suggesting things that he or she has hidden away in the deepest recesses of their fantasies. They re-awaken our darkest nightmares, the ones we feared so much as children.

In the year between June 1999 and June 2000 King was the central figure in very real nightmares of his own. In June 1999 he was hit by a passing car while walking in Maine in the northeastern US. He survived the accident – barely – and for a while his publisher and fans feared that his talent would be lost to them for ever.

The second nightmare was of his own making and involved the possible radical rearrangement of the book publishing industry of which King had so long been a part.

Recorded history begins with readable records, first perhaps on tablets and bones, then hand-written manuscripts, followed by wood-block printing and, ultimately, the onset of modern publishing via mechanically reproduced printed books. These have their origins in the moveable type of Pi Sheng (1041 – 1048) in China, the creation of a government printing office in Korea in the early 13th century and the moveable print of the Gutenberg Bible of 1455.

The book itself has also evolved over the centuries into what is now a very neat piece of technology – portable, long-lasting, easy to read and independent of any power source.

Over the years the market has agreed with this assessment and by the end of the 20th century the book-publishing industry had developed into the activities portrayed in the value chain in Exhibit 1. An estimated 50,000 new book titles are published each year in North America alone, generating over $80bn in annual revenues.

A brief description of the various roles in this industry indicates the degree of specialisation that has been achieved.
Author
The author is the creative artist whose work launches the value chain. Although typically envisioned as a lone, often eccentric, individual, several successful popular authors such as the late James Michener and Danielle Steele have employed assistants to help in the search for material and the formation of portions of their story. In many works of non-fiction research assistants and ghostwriters also often support the author.

Authors are typically paid via royalties on the net price to retailers of their books. These usually run from seven per cent (for paperbacks) to 15 per cent (for hardbacks). Advances against royalties are also often used to attract in-demand authors.

Although there is a potentially unlimited population of available authors, the commercial realities of the publishing business are that a relatively few big names, of which King is undoubtedly one, can almost guarantee the success of a new book.

Agents
Agents are advisors and representatives of authors. Typically they receive 10 per cent of the commercial deals they negotiate on behalf of the author. The job of the agent is to promote authors and their work and to identify possible publishing opportunities for them. In addition, agents often represent an author in the contractual negotiations that accompany publishing.

Publishing houses
These are companies that select, produce, market and distribute books. Often they will have a stable of established authors as well as considering new work. They perform many basic quality control functions such as screening promising work from the overwhelming mass of amateur writing, vetting for libel and checking facts, protecting intellectual property, printing and binding books, promoting/advertising/merchandising and distributing the finished work, and monitoring existing inventories for replenishment. For many, the real source of publishers’ power derives from their marketing and publicity clout.

A major role of the publisher is also to absorb the financial burden, and risk, of the publishing venture, providing the working capital needed to fund all of the operations from supporting the author’s creative
efforts to providing sufficient inventory to support a product launch. The book publishing industry, in North America, is increasingly concentrated, particularly when specific market segments are considered. Suffice it to say that there is stiff competition among the players.

Publishers are also normally responsible for the physical production of a book, from printing and binding to cover design. On a typical hardback book that costs $25, printing and binding costs are about $2 to $3 and warehousing another $3. Estimates are that the elimination of printing, binding, warehousing and shipping could result in savings of almost 40 per cent.

**Distribution and retailing**

In most industrialised countries the distribution and retailing of books is done by large chains, with significant market presence, and through book clubs that periodically mail their members selected choices. In the US, book retailing is a highly concentrated business (in 1997, the four largest chains accounted for 45.2 per cent of all retail books sales in the country) led by a few traditional (ie “bricks and mortar”) mass-marketers that dominate the retail book business.

Barnes & Noble is the largest retail book chain in the US on the basis of its 15 per cent market share generated in 551 superstores and 379 small-format book stores (the later are primarily operated under the B Dalton, Doubleday and Scribner’s names). Second among retailers in the US is the Borders Group, which includes 291 Borders superstores and 904 mall-based outlets (the latter mainly using the WaldenBooks name). This concentration does not necessarily diminish the importance of independent book retailers but reflects the realities of power associated with scale.

The advent of Amazon.com, however, showed that traditional forms of distribution were not sacrosanct. In a very short period of time Amazon.com became not only the largest Internet book retailer in the world but also the largest Internet retailer *per se*.

Like any retailing business with a strong fashion content and where significant regional differences prevail, book publishing involves the strategic location and maintenance of significant physical inventory. These stocks form both the internal furnishings and market allure of bookshops as well as representing a substantial deployment of working capital. Impressions of customer service are often made on the basis of the availability of desired books, especially in those brief moments of intense desire when a particular book is the subject of extreme attention (witness the recent frantic demand for each successive volume of the *Harry Potter* series).

**The Stephen King phenomenon**

King had his first novel, *Carrie*, accepted for publication by Doubleday in 1973. Before that he had been a high-school English teacher, writing in his spare time. Among his early successful titles were *Salem’s Lot*, *The Stand* and *Dead Zone*. Writing for four hours a day, every day, King had 36 novels, 10 collections of short stories and two screenplays to his credit by 2000 as well as an estimated personal net worth of $65m.

Like most authors of his stature he has a literary agent (Arthur Greene), a publisher (Simon & Schuster) as well as legions of devoted fans who regularly await his books. Due to his celebrity status, King has an unprecedented profit-sharing partnership with Simon & Schuster rather than the traditional royalty-advance contract.

King is an extremely disciplined writer who begins work daily at 8am and normally writes 2,000 words by midday. He is also very philanthropic, with large donations made to his *alma mater*, the University of Maine. He has also taken over the operations of several public libraries that were in trouble, bought two local radio stations that were facing bankruptcy and built a baseball park for local children.

King is also an innovator. Despite his almost guaranteed success in print, his last short story collection, *Blood and Smoke*, was issued only in audio-book format. And in the spring of 2000 he began his experimentation with e-publishing.

**Riding the Bullet**

On March 14 2000 Simon & Schuster published a 66-page novella by King, *Riding the Bullet*, available only in electronic form, using Glassbook’s e-book software, downloadable off the web. Within the first 48 hours of its being offered, more than 400,000 copies were downloaded, with some 600,000 copies estimated to have been ultimately obtained. Most of the copies were, in fact, bought by Amazon.com (70
per cent of all distribution) and barnesandnoble.com and given away free to readers on their websites.

Downloading does not necessarily mean reading, however, and a survey of 3,000 subscribers conducted by the Book Report Network reported that only one per cent of those who downloaded the book actually read it. This has led the Book Report Network’s CEO Carol Fitzgerald to conclude that “no reader is asking for e-books”. King, however, shared $450,000 in net profits from Riding the Bullet with Simon & Schuster versus the $10,000 that the story would traditionally have earned from a magazine.

The Plant
Following the success of Riding the Bullet (which King admitted had surprised him), the origins of his next venture into e-publishing lie in three chapters that King had written in the early 1980s as the start of a book that was never completed. They appeared on 250 copies of King’s Christmas cards to friends in 1982, 1983 and 1986 and were resurrected in 2000 as a way of moving available material into online form rapidly. It was also probably more than coincidental that the subject matter dealt with a deadly challenge to a publisher.

On July 24 2000 The Plant was offered, initially, for $1 per chapter, with the money paid by credit card to Amazon.com, which was the agent for King in collecting payment for at least the first two instalments. (Amazon had, apparently, been rebuffed in its initial offer to co-publish the book with King). Alternatively, readers could promise to pay the money and were allowed to download the material against that promise. (See Exhibits 2 and 3.)

The use of trust in this arrangement is important. King repeatedly maintained that unless 75 per cent of the downloads were paid for he would not continue the book. Perhaps this reflects his experience with his earlier experiment with Riding the Bullet, which was supposed to sell for $2.50 “but hackers soon cracked its encryption code and got it free anyway”.

King’s website laid out the rules of engagement for the experiment and was quite clear that unless a sufficient number of downloaders paid for their instalments then the experiment would cease. This reliance on trust made it unnecessary to encrypt the files, thus avoiding the downloading nightmares associated with Riding the Bullet. Instead, the first 145kb instalment file of The Plant could be downloaded in 15 seconds to readers with broadband access and in less than two minutes by readers relying on dial-in modem connections.

King’s expenses for Internet fees and advertising The Plant came to $124,150. These included expenses such as Conxion, the Internet infrastructure company handling the download on behalf of Radiant Ideas, King’s Internet advisors and operators of www.stephenking.com, and advertisements in Publishers Weekly and USA Today. In addition, King made a morning television appearance and gave several newspaper interviews to promote The Plant. Conxion estimates that each executed download request cost less than two cents. On his website, King estimated that if he wrote 10 or 11 chapters, at the initial $1 per instalment price, then readers might ultimately download 1,673,452 installments. As pointed out at the time, “the math looked pretty good”.

On receipt of payment, an e-purchaser of The Plant received an acknowledgement by return email along with an observation by King that read: “Thanks for your honesty and thanks for helping us change the face of publishing”. (See Exhibit 4.) Yet, somewhat ironically, King was planning at the same time to eventually publish a print version of the complete The Plant with Simon & Schuster as well.

Initial results
On the first day it was available, approximately 41,000 downloads took place. By the end of the first week of the experiment, 151,132 downloads of the first instalment had been recorded, with 76.4 per cent paying (93,200) or promising to pay (23,000). By early October 2000 King had released three instalments of the book and had posted a message on his website suggesting that the number of sales (ie, downloaded instalments) was down and the percentage paying for them was also down:

“We are seeing two potential problems with Part 2. First, while downloads remain strong, we have little doubt that the total number is down slightly from Part 1. This may be because people don’t like the story; it may be because there has been far less publicity and media interest. As the author of the story, I naturally prefer the second possibility. In terms of continuing, this is not a problem. Based on the ground rules I set
Exhibit 2
Amazon.com Acts as Payment-Collection Agent for *The Plant*

Send Stephen King $1.00 for *The Plant*, Installment One
Stephen King and Amazon.com Payments have teamed up to provide a fast, easy, and secure way to pay for *The Plant*, Installment One. Take a moment to pay $1.00. Then unplug the phone, close the curtains, download the first installment of *The Plant*, and prepare for the terror.

Click "Continue" below to pay for the download of *The Plant*, Installment One. If you're an Amazon.com customer, you can pay with the credit card we already have on file for you. If you're not an Amazon.com customer, we'll ask for your e-mail address and credit card number. For your security, we'll also ask that you choose a password and enter the billing address for your credit card.

We'll charge your credit card $1.00 and forward that amount to Stephen King. With Amazon.com Payments, your credit card security is guaranteed.

Continue »

Or click here to pay by check, money order, or cash.

Please note: To let Stephen King know you've paid for *The Plant*, Installment One, we'll send him your name and e-mail address. But we'll keep all of your other personal information-mailing address, credit card, and password-completely private.


down at the outset, my job is to continue even if only 800 people download every episode – as long, that is, as 75 per cent of those 800 people pay for what they are getting. The real problem is that we at Philtrum [King’s own publishing house for this venture] are beginning to see a widening disparity between downloads and payments. There is undoubtedly some thievery and bootlegging going on…”

“As for the story itself, I have gone back to work and have written another 50,000 words. I am now all set to publish episodes of The Plant in September, October and November. All I am guaranteeing, however, is Part 3 in September. After Part 3 is published, we will make a go/no go decision based on the pay-through.

“I have been asked by a good many people about the fate of The Plant if the online experiment fails. All I can say is that while I love the new stuff, I have a great many other commitments And the chances of its being finished or published in the near future would be slim.

“One thing I almost forgot, and that is the issue of pricing. Instalments one, two and three are going to be available for $1. Further instalments up to eight will be available for $2 each. In other words, your complete financial liability for the first eight instalments of this story will be $13 or about the cost of a trade paperback or a hardcover novel offered at 40 per cent discount in a chain bookstore. Any parts beyond eight – which would be the balance of the story – would be posted free.”

The fate of The Plant

By the end of 2000, despite the initial success of the project, King announced that he was suspending publication of The Plant. Among the reasons that he gave for this decision (along with the pressing needs of other projects and the time delay in translating The Plant into various languages other than English) was that the pay-through rates for downloads of chapters four and five had dropped from the 76 per cent that had prevailed for the first three chapters to below 50 per cent (46 per cent for chapter four).

With typical King bravado, he advised his readers not to despair: “The last time The Plant furled its leaves, the story remained dormant for 19 years. If it could survive that, I’m sure that it can survive a year or two while I work on other projects”. He also noted that he had earned a net profit of $463,832.27 on the project.

The news of King’s suspension of The Plant was greeted with relief and even smugness by many within the industry, though Paul Aiken, the executive director of the Authors Guild, felt that “it’s very early in the e-book game. King was way ahead of the market”. Indeed, The Plant notched up more than 500,000 paid-for downloads of chapters.

There does appear to have been some negative reaction from readers disappointed at King giving up on the project before it was finished. Even though he had promised to bring the work to a “natural” conclusion, reports were that King’s website was “bombarded” by a considerable number of negative e-mails deploring his decision. Whether or not this will carry over to reduced sales of his other works in the future remains to be seen. Certainly, King is reportedly keen on repeating the experiment at some time in the future.

Industry responses

Shortly after King’s initiative with The Plant, Random House, a major US publisher, announced the creation of AtRandom as an e-book publisher. Its plans involved the release of 20 original works by well-known contemporary authors available as downloadable files or print-on-demand paperbacks but which would not be available through bookshops. Another publisher, Farrar, Straus and Giroux, re-released Scott Thurow’s Personal Injuries as a $10 e-book. And iPublish, an e-book venture by Time Warner Books, announced that it would release a specially commissioned work by mystery writer Walter Moseley as well as an Internet-only book about John McCain’s attempt to win the Republican presidential nomination in 2000.

In the UK, well-known authors such as Frederick Forsyth and the late Douglas Adams announced their intention to issue Internet-published works in the future. In Poland, Klub Swia, a publisher and distributor owned by the German media giant Bertelsmann, offered, on an experimental basis, a new novel Dom Dzienny, Dom Nochny (House of Day, House of Night) by Polish author Olga Tokarczuk free of charge on the Internet. Sixteen thousand users accessed the book in the first month at a time when it was estimated Poland had just four million Internet users.
Exhibit 3
Stephen King’s Introduction to How The Plant Installment Series Will Work

What It Is
It’s The Plant, an epistolary novel set in the early 1980s (before e-mail, in other words, and when even the fax was a fringe technology). It’ll be presented in parts ranging from 5000 to 7000 words. The story is sort of funny and at the same time pretty gruesome (think Christine). I’m committed to publishing at least the first two segments. Whether or not I publish more depends.

Depends on What?
In the words of The Turtles, “You, baby, nobody but you.” If you pay, the story rolls. If you don’t, the story folds.

How Much?
Buck an episode.

How Does it Work?
Click on the Download the Plant link. On the next page you will be given the choice to pay either before or after downloading the file.

- People choosing to pay before downloading will proceed to the Amazon.com Payments site. (Don’t worry, they’ll direct you back to this site after they take care of payment issues). You have the option to pay by Credit Card, by Check, or by Money Order. After you’ve taken care of the payment, they will direct you to a page back on this site with information on how to download The Plant as well as information on what you’ll need in order to read The Plant.

- People choosing to pay after downloading The Plant file will be taken to a page with information on how to download The Plant as well as information on what you’ll need in order to read The Plant. Remember, whether or not you pay has a direct impact upon whether or not installments are available after the two installments promised. To pay for the download, come back to this page, and rather than clicking on “Download The Plant,” click on Returning to Pay Page. From there you will go to Amazon.com Payments, they will direct you in how to take care of payment.

My friends, we have a chance to become Big Publishing’s worst nightmare. Not only are we going clueless, look Ma, no e-Book! No tiresome encryption! Want to print it and show it to a friend? Go ahead! There’s only one catch: all this is on the honor system. Has to be. I’m counting on two things. The first is plain old honesty. “Take what you want and pay for it,” as the old saying goes. The second is that you’ll like the story enough to want to read more. If you do want more, you have to pay. Remember: Pay and the story rolls. Steal and the story folds. No stealing from the blind newsboy!

Source: www.stephenking.com
Broader e-book issues

Stephen King’s experiment with both Riding the Bullet and The Plant as well as other developments in the industry raise several broader issues about e-books and e-publishing in general. These include: rights; pricing; payment; sharing; e-book media; customised publishing; and, finally, the integrity of the traditional publishing value chain.

Rights

Who owns what will undoubtedly prove to be a major issue in the emergence of e-publishing. Standard contracts between authors and publishers have for some time specified who owned the digital rights to the work being produced even if there was no thought of eventual digital reproduction, though that is being challenged in the courts. Now, however, given the potential size of the digital market, both sides may in future begin to take a much closer interest in who owns what.

Pricing

There appears to be a vague, general feeling that e-books should be priced lower, or at least differently, from physical books, probably because e-books require no paper, print, inventory and the like. In fact, this appears to be the practice that is emerging in the industry. IPublish, for example, issued David Baldacci’s novel Saving Face for $6.95, slightly less than the mass-market paperback version although Arthur Goden’s Memoirs of a Geisha was priced at $11, about $1 more than the discounted paperback publication.

Many e-books available on barnesandnoble.com are free, particularly those out of copyright. At the time of writing, the top five best-selling titles were all selling at prices between $1 and $5.

While it is too early to be certain about how authors will be compensated for their e-works, Random House plans to pay royalties of about 15 per cent, or roughly what it pays for print works, while print-on-demand authors would receive 7.5 per cent, or the same as is paid for a trade paperback. Time Warner, on the other hand, was planning to offer authors about 25 per cent of the publisher’s net revenue, including income from any licensing or other deals, as an inducement to become involved.

Payment

Like any other e-payment scheme (for example, paying for parking meters using a mobile phone), the small amount involved in these transactions is currently a problem. For example, downloading a page of a book might cost fractions of a penny. It is very difficult to make profits on such small amounts given the costs of processing transactions.

Sharing

Many in the book industry fear a possibly catastrophic loss of control over intellectual property once a book’s content is available on the web in digital form. Of course, the sharing of physical books, both personally and through libraries, has always been a problem for the book industry, though the fact they are physical has limited this. What makes e-books so ominous, however, is that the very nature of digitalisation permits the possibility of unauthorised, impersonal and simultaneous releases of intellectual property on a scale not previously imaginable.

E-book media

Estimates about the potential e-book share of the reading market vary widely. A study by Andersen Consulting [now Accenture] conducted for the US publishing industry predicted that by 2005 e-books would account for $2.3bn in annual sales or about 10 per cent of the book publishing market. International Data Corp, on the other hand, believes that “consumer e-books will make up only a $500m market by 2004 compared with an $8bn consumer market for paper books today” [2000].

By September 2000 it was estimated that there were some 20,000 to 50,000 “e-readers” (the hardware and associated software for downloading and reading e-books) in circulation. While the technical problems currently associated with them are seen as discouraging their spread, these are viewed as temporary frustrations. Prices for e-readers range from $199 to $600.

Gemstart TV Guide has spent $400m to acquire the two leading producers of e-readers – Softbook and Rocket – and has licensed their technologies to RCA, which planned to launch two mass-market products. These devices have larger screens and much better resolution than a Palm Pilot, weigh between one and two pounds and can store from 20 to 40 books. Further big leaps in technology are expected over the next few years.

Inevitably, the future of e-readers is complicated by arguments over format. The two leading contenders
Exhibit 4
Acknowledgement of Payment and Thanks for Helping Us Change the Face of Publishing

Fischer, Bill

From: Amazon.com Payments [payments-messages@amazon.com]
Sent: Monday, July 24, 2000 1:09 PM
To: fischer@imd.ch
Cc: payments-mail@amazon.com
Subject: Payment for Stephen King's The Plant, Installment One Has Been Sent

Dear fischer@imd.ch,

Thanks for reading my story, thanks for your homesty, and thanks for helping us change the face of publishing!
Stephen King

We have charged $1.00 to your credit card, and we'll forward your payment to Stephen King. Thank you for using Amazon.com Payments--the fast, easy, and secure way to send money online.

Your receipt:
---
RECEIPT
Title: Stephen King's The Plant, Installment One
Buyer: fischer@imd.ch
Seller: Stephen King
Amount: $1.00
Pay by: Visa
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are Adobe Acrobat (which owns Glassbook) and its well-known PDF (portable document format) system and Open E-book, supported by Microsoft and RCA, which uses HTML and XML formats.

**Customised publishing**
One of the most interesting aspects of e-publishing is the ability of anyone, not just a Stephen King, to make their works available online. A number of sites have now been created to facilitate would-be authors reaching a broader audience than traditional book publishing would ever allow. Such sites tend to charge a small monthly fee for posting material and offer between 20 per cent and 50 per cent royalties, though without any advances.

**The integrity of the traditional publishing value chain**
What all this means for traditional publishing as an industry remains an open question.

But the likelihood is that e-publishing will bring about major modifications without destroying the industry altogether.

One key development could be “print-on-demand”, where books can be printed at the request of customers, most probably in a bookshop. As well as reducing the industry’s traditional heavy reliance on large inventory, this has the advantage of allowing continuous updating of time-sensitive information. At the same time, no book should ever again be unavailable. With digital repositories of written material, the notion of a book being “out of print” becomes an anachronism.

A second possible way that digitalisation could alter the publishing industry is the practicality of selling “disaggregated content” – ie, part of a book. For travel books, cook books and other “how to” titles, the opportunity of buying only those pages containing the travel destination, recipes or practical advice you need is attractive. For the professional market, digitalisation offers the possibility of continuous updating of material as a field progresses.

**The nightmare goes on**
Book publishing at the end of the 20th century was a tough business to be in, even before Stephen King’s initiative. The emergence of the Internet-based threat of substitution, either along the value-chain (publishing and distribution, as in the case of The Plant) or in the possibility of a new technological form, such as e-books, was not unexpected. But its appearance added considerably to the pressures that publishers faced. What made King’s initiative particularly noteworthy was its capacity to “blow-up” almost the entire existing industry value-chain.

Throughout the duration of King’s experiment, the student of industry analysis is struck by the uncertainty that is, and continues to be, associated with the various technological winds blowing through the industry’s structure – Internet-based customised publishing; in-store publishing; e-books of many different incompatible formats; and the spectre of disaggregated content.

In parallel with these threats of substitutes, however, one is at the same time amazed that the industry is not reacting as aggressively as it might. After all, their jobs, careers and fortunes are at stake, and yet they move as if transfixed by the challenges around them. Recently, in fact, one well-regarded industry figure was quoted as observing: “Perhaps Mr Gutenberg has had the last laugh here?” Yet, in many ways it is hard not to believe that we are witnessing yet another example of the innovator’s dilemma unfolding before our eyes. The issues are about more than the value-chain; they are about the survival of a long-lived industry and what it takes to face up to disruptive technological change.

So, despite the suspension of The Plant, it appears that the “nightmare” launched by Stephen King will remain with this industry for the foreseeable future and that increasingly different parts of the industry’s value-chain will be redefined in the face of new products and processes.