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Publishers are wary of Borders's revival plan

Jaclyn Trop / The Detroit News

Book publishers, once Borders Group Inc.'s ally, are becoming an obstacle as the bookseller tries to emerge from bankruptcy. Publishers big and small are taking steps to secure their business in the wake of the superstore chain's failure, while casting a wary eye at its tentative plan for revival.

Since Borders filed for Chapter 11 bankruptcy protection on Feb. 16, the country's top six publishers — which are also Borders' six largest creditors — have reached out to independent bookstores to brainstorm ways to market their books. To protect their digital offerings, the publishers have converted to a model where they, not Amazon, control prices.



The biggest hurdle for Borders to emerge from bankruptcy is not only a viable turnaround plan, but those unpaid publishers. The powerful bloc's unwillingness to turn unpaid bills into loans helped force Borders to declare bankruptcy. Borders' creditors don't need to cut a deal with the bookseller since they're unlikely regardless to get the full amount owed them, said Birmingham-based turnaround expert Van Conway.

"(They're thinking) 'Why do I need to play ball with Borders?'" he said. "'If I want to sell the book, I'll just sell it at Barnes & Noble.'"

But with few major distribution channels for books, publishers care deeply about Borders' fate, said Matt Norcross, owner of McLean & Eakin Booksellers in Petoskey. "None of these folks wants to lose a channel," he said. "That's a lot of display space that won't be there."

So the publishers are turning to independent proprietors like Norcross, who said several major publishers have shown interest in working with him to find new ways to market their books in his store and on the Web.

Led by McMillan, the six biggest publishers recently demanded Amazon allow them to set their own e-book pricing; previously the online retailer had controlled those prices. Publishers feel ambivalent about Borders' financial prospects, said Al Greco, a marketing professor at Fordham University's Graduate School of Business in New York who follows the book industry. On the one hand, losing Borders would mean the loss of a major distribution channel.

"They want three main national chains," said Greco, referring to Borders, No. 1 traditional bookseller Barnes & Noble and No. 3 Books-A-Million.

But publishers also think their own businesses should not suffer because Borders made poor business decisions, he said.

"Both views have merit," Greco said.

Two publishers are demanding that their bills get paid as soon as possible; they don't want to wait to see whether the Ann Arbor bookseller emerges from bankruptcy in August or September as it hopes and resumes paying vendors on a timely basis.

Many publishers and other vendors don't think Borders has a turnaround plan that is much different from what it has done before, and they don't see it surviving in an industry that is quickly turning to e-books and electronic readers, Greco said.

Three of Borders' 10 largest creditors — Random House, HarperCollins and F+W Media — declined to comment; several others did not respond to inquiries.

John Wiley & Sons said it stopped shipping to Borders in December and announced the bad debt charge to investors in February. The publisher also revised its Borders projections to account for less than 5 percent of revenue this year, compared with more than 10 percent a few years ago.

"Customer purchasing patterns continue to shift, as reflected in the sales of Ebooks, the success of online retailers, and the performance of some brick and mortar booksellers," the company said. "Wiley is well-positioned to capitalize on this shift."

Borders acknowledges it is dependent on publishers due to the nature of its business.

"It is critical that new inventory hit our shelves," Borders CEO Mike Edwards told publishers during a March 11 conference call. The 20 top publishers accounted for 63 percent of 2010 sales, he said. Edwards said the bookseller has had individual discussions with publishers about return policies and that Borders has been "moving swiftly and precisely through its restructuring plan."

Borders Chief Financial Officer Scott Henry said paying vendors and landlords on time is a priority.

Bigger rival Barnes & Noble Inc. isn't thriving, but enjoys an edge over Borders because it was quicker to develop its own e-commerce arm and digital strategy.

The New York-based bookseller routinely edges out Borders in the American Consumer Satisfaction Index by the University of Michigan, but Borders' score hasn't slipped much over the years, which is unusual for a company in trouble, said Claes Fornell, a U-M professor who oversees the survey.

Still, consumers say Barnes & Noble has better service and makes books easier to find, "whereas Borders has tried to stay pretty broad, and that costs money," Fornell said.

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