
BUSINESS

The Simple Reason Why Goodreads Is So Valuable to Amazon

A small fraction of Americans buy the vast majority of books in this country. Goodreads gives Jeff Bezos & Co. a direct line into their thoughts and habits.

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(Reuters)

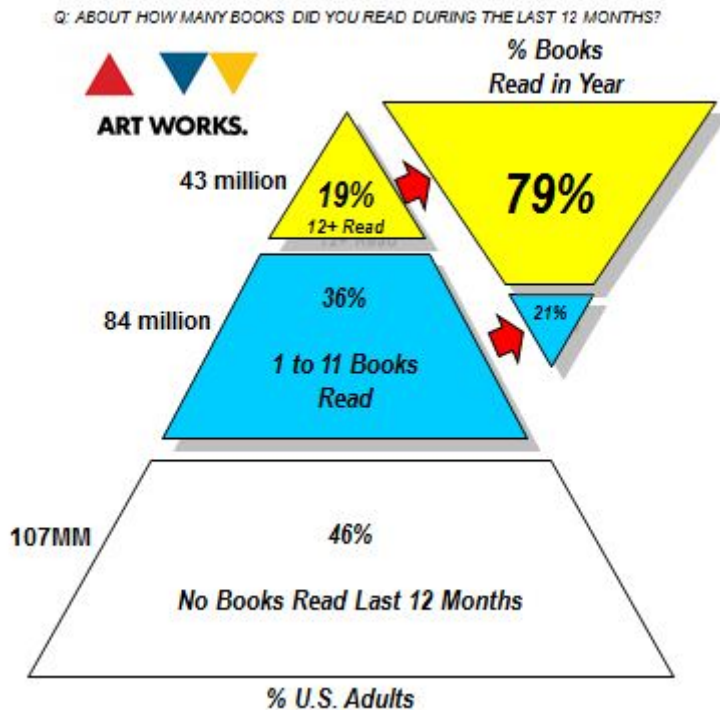
Amazon is the king of online booksellers and, by most accounts, the most feared player in publishing. Yet last week it shelled out a reported \$150 million to buy up Goodreads, a social network for book nerds with a devoted but far from enormous 16 million members. So why is most of the media convinced this is a brilliant deal?

You've probably heard a few of the answers already. Namely, Amazon gets to keep a potential competitor out of the hands of rivals like Apple or Barnes and Noble, while snapping up a vast trove of data on Goodreads members.

But there's a more fundamental issue at play here, too. Today, the publishing industry survives on super fans—bookworms who read far more than most Americans, and who tell their friends what to read as well. By picking up Goodreads, Amazon gets to tap into those super fans. Simple.

The United States is not, sadly, a country of lit buffs. In 2008, a little more than half of all American adults reported reading a book that was not required for work or school during the past year, according to the National Endowment for the Arts. And as shown in the graph below, which like the other charts in this piece come courtesy of the industry researchers at Codex Group and updates the sample data to match the 2010 Census, just 19 percent read a dozen or more titles.

Or, to put it another way, according to Codex just 19 percent of Americans do 79 percent of all our (non-required) book readin'.



And the way those avid readers find their books is changing. According to Codex's quarterly survey (in 2012, the company interviewed some 30,000 readers total), far fewer people are finding their reading material at brick-and-mortar bookstores than two years ago. Instead, they're relying more on online media (including social networks and author websites) and personal recommendations from people they know (which tend to happen in person, but can also include some social network chatting). What they're *not* relying on much more heavily are recommendation engines from online booksellers, like Amazon.

In short, Barnes and Noble's in-store displays don't rule the book business like they used to, but they haven't been usurped by Amazon's algorithms either. Instead, the business model is moving further towards word of mouth. And, much as a very small portion of Americans do most of the book reading in this country, so too are they responsible for a vast majority of book recommending. Codex estimates that 11 percent of book buyers make about 46 percent of recommendations.

The sorts of lit lovers who like to evangelize their favorite new novel are the same sorts of folks who tend to show up on Goodreads. And so, perhaps unsurprisingly, the site is a great platform for convincing people to buy books. Roughly 29 percent of Goodreads users told Codex they'd learned about the last book they bought either on the site, or at another book-focused social network.* At traditional social networks, the number is 2.4 percent. When all is said and done, in the world of books, Goodreads is just about as influential as Facebook.

So Amazon has just bought the ecosystem where many of America's most influential readers choose their books. How exactly they'll use it isn't entirely clear yet. Some have suggested they'll integrate Goodreads into the Kindle experience. Others think that, given the problems Amazon has had with writers buying friendly reviews, they might use the site as an a big cache of trustworthy opinions. As David Vinjamuri put it at Forbes, "Goodreads offers Amazon the ability to transmit the recommendations of prolific readers to the average reader." In any event, there's plenty of value for Amazon to unlock. Assuming, of course, they don't do anything to muck up their new purchase.

*Goodreads is by far the largest site in this field.

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