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The iPad, the Kindle, and the future of books

by KEN AULETTA • APRIL 26, 2010

On the morning of January 27th—an aeon ago, in tech time—Steve Jobs was to appear at the Yerba Buena Center for the Arts, in downtown San Francisco, to unveil Apple's new device, the iPad. Although speculation about the device had been intense, few in the audience knew yet what it was called or exactly what it would do, and there was a feeling of expectation in the room worthy of the line outside the grotto at Lourdes. Hundreds of journalists and invited guests, including Al Gore, Yo-Yo Ma, and Robert Iger, the C.E.O. of Disney, milled around the theatre, waiting for Jobs to appear. The sound system had been playing a medley of Bob Dylan songs; it went quiet as the lights came up onstage and Jobs walked out, to the crowd's applause.

In the weeks before, the book industry had been full of unaccustomed optimism; in some publishing circles, the device had been referred to as "the Jesus tablet." The industry was desperate for a savior. Between 2002 and 2008, annual sales had grown just 1.6 per cent, and profit margins were shrinking. Like other struggling businesses, publishers had slashed expenditures, laying off editors and publicists and taking fewer chances on unknown writers.

The industry's great hope was that the iPad would bring electronic books to the masses—and help make them profitable. E-books are booming. Although they account for only an estimated three to five per cent of the market, their sales increased a hundred and seventy-seven per cent in 2009, and it was projected that they would eventually account for between twenty-five and fifty per cent of all books sold. But publishers were concerned that lower prices would decimate their profits. Amazon had been buying many e-books from publishers for about thirteen dollars and selling them for $9.99, taking a loss on each book in order to gain market share and encourage sales of its electronic reading device, the Kindle. By the end of last year, Amazon accounted for an estimated eighty per cent of all electronic-book sales, and $9.99 seemed to be established as the price of an e-book. Publishers were panicked. David Young, the chairman and C.E.O. of Hachette Book Group USA, said, "The big concern—and it's a massive concern—is the $9.99 pricing point. If it's allowed to take hold in the consumer's mind that a book is worth ten bucks, to my mind it's game over for this business."

At the Yerba Buena Center, it took a while for Jobs to mention books, and when he did he said that "Amazon has done a great job" with its Kindle. "We're going to stand on their shoulders and go a little bit farther." It would probably have been more accurate to say that Jobs planned to stand on Amazon's neck and press down hard, with publishers applauding. The decision to enter publishing was a reversal for Jobs, who two years ago said that the book business was unsalvageable. "It doesn't matter how good or bad the product is, the fact is that people don't read anymore," he said. "Forty per cent of the people in the U.S. read one book or less last year." But if reading books was low on the list of things that the iPad could do, it was nonetheless on the list, which meant that Amazon had become a competitor. "There's a lot of heat between Apple and Amazon and Google," an adviser to Jobs said. "Steve expresses contempt for everyone—unless he's controlling them." An Apple insider said, "He thinks Amazon is stupid, and made a terrible mistake insisting that books should be priced at $9.99."

Onstage, Jobs made it clear that he would present Amazon and its C.E.O., Jeff Bezos, with a serious challenge. He told the crowd that five of the "big six" publishers had agreed to sell their e-books through Apple's iBooks store, which would open in April. And he said that Apple, through its iTunes and Apple stores, had access to a hundred and twenty-five million credit cards, which would make it easy for consumers to buy books on impulse. The iPad was clearly a more versatile device: it would provide color and full audio and video, while the Kindle could display only black-and-white text.

After Jobs's presentation, guests were ushered into an adjoining building to test the iPad. Among them was Carolyn Reidy, the president and C.E.O. of Simon & Schuster. Smiling broadly, Reidy said, "It's fabulous! I want one!" The new device, she hoped, would "put digital books in front of one hundred and twenty-five million people." It would also "create a competitor" for Amazon, she said—and provide publishers with leverage as they tried to raise the price of books above ten dollars.

Jobs, circling the room, stopped at one of several tables piled with iPads to talk with Walt Mossberg, the *Wall Street Journal's* personal-technology columnist. Onstage, Jobs, demonstrating how Apple would sell books, had selected Edward Kennedy's "True Compass" and clicked on a "buy" icon with the price $14.99 next to it. Why, Mossberg asked, should consumers "pay Apple $14.99 when they can buy the same book from Amazon for $9.99?"

"That won't be the case," Jobs said, seeming implacably confident. "The price will be the same." Mossberg asked him to explain. Why would Amazon increase prices, when consumers were buying so many books? "Publishers may withhold their books from Amazon," Jobs said. "They're unhappy."

The next day, a Friday, John Sargent, the C.E.O. of Macmillan, a publishing conglomerate that includes Farrar, Straus & Giroux and St. Martin's Press, flew from New York to Seattle to meet with Amazon. Macmillan is the smallest of the big-six publishers, which produce sixty per cent of all books sold in the U.S. Like its peers, Macmillan relies heavily on Amazon, which sells about fourteen per cent of its trade books and the vast majority of its e-books. But Sargent was determined to force Amazon to change the way it does business.

Traditionally, publishers have sold books to stores, with the wholesale price for hardcovers set at fifty per cent of the cover price. Authors are paid royalties at a rate of about fifteen per cent of the cover price. A simplified version of a publisher's costs might run as follows. On a new, twenty-six-dollar hardcover, the publisher typically receives thirteen dollars. Authors are paid royalties at a rate of about fifteen per cent of the cover price; this accounts for $3.90. Perhaps $1.80 goes to the costs of paper, printing, and binding, a dollar to marketing, and $1.70 to distribution. The remaining $4.60 must pay for rent, editors, a sales force, and any write-offs of unearned author advances. Bookstores return about thirty-five per cent of the hardcovers they buy, and publishers write off the cost of producing those books. Profit margins are slim .*

Though this situation is less than ideal, it has persisted, more or less unchanged, for decades. E-books called the whole system into question. If there was no physical book, what would determine the price? Most publishers agreed, with some uncertainty, to give authors a royalty of twenty-five per cent, and began a long series of negotiations with Amazon over pricing. For months before Sargent's visit, the publishers had talked about imposing an "agency model" for e-books. Under such a model, the publisher would be considered the seller, and an online vender like Amazon would act as an "agent," in exchange for a thirty-per-cent fee. Yet none of the publishers seemed to think that they could act alone, and if they presented a unified demand to Amazon they risked being charged with price-fixing and collusion.

In Seattle, Sargent met with Russ Grandinetti, the vice-president in charge of Kindle Content, and told him that if Amazon would not accept the agency model Macmillan would restrict the publication of its e-books. Sargent was giving an ultimatum: Amazon had built its business on comprehensiveness, and if Macmillan withdrew its books it could no longer claim to be the world's best-stocked bookstore.

Amazon did not react as Sargent had hoped. Before he stepped off the plane, back in New York, that Friday evening, it had stopped selling all of Macmillan's titles. But, as Jobs hinted, four other major publishers—Simon & Schuster, HarperCollins, Penguin, and Hachette—were quietly planning to follow Sargent's lead. On Sunday afternoon, Amazon reversed course and announced on its Web site, "We will have to capitulate and accept Macmillan's terms because Macmillan has a monopoly over their own titles, and we will want to offer them to you even at prices we believe are needlessly high for e-books."

This was a somewhat cryptic statement—doesn't every company have a monopoly over its own products?—and publishers interpreted it in various ways. One executive said that Amazon capitulated in order to show that "pricing is out of its control"—that is, to blame publishers for higher prices. The head of another house said, "Amazon was incandescent with rage. They switched because they figured out that if all publishers withdrew their books Amazon's business was dead." Whatever the explanation, Amazon's announcement was good news for publishers. John Sargent had called negotiations with Amazon a "chess game," and he seemed to have won the opening gambit.

Even though Sargent's tactics had worked, publishers seemed uncertain that they were sustainable. "I'm not sure the 'agency model' is best," the head of one major publishing house told me. Publishers would collect less money this way, about nine dollars a book, rather than thirteen; the unattractive tradeoff was to cede some profit in order to set a minimum price. “Amazon forced us,” one publisher said. “They chose to do something irrational—lose money—in order to gain a monopoly. That was destructive to publishers and retailers and authors. They brought this on themselves.”

Publishing exists in a continual state of forecasting its own demise; at one major house, there is a running joke that the second book published on the Gutenberg press was about the death of the publishing business. And publishers’ concerns about Amazon are reminiscent of their worries about Barnes & Noble, which in the eighties began producing its own books, causing publishers a great deal of anxiety without much affecting their business. Unlike Barnes & Noble, though, Amazon generates more than half of its revenues—which total about twenty-five billion dollars a year—from products other than books. Many publishers believe that Amazon looks upon books as just another commodity to sell as cheaply as possible, and that it sees publishers as dispensable. “Don’t forget,” the chief of a publishing house said, “Bezos has declared that the physical book and bookstores are dead.”

Amazon.com opened for business in Seattle in July, 1995. Although sales were brisk, it took seven years to generate a profit, and analysts made a sport of predicting its collapse. Bezos was unmoved by criticism. When Charlie Rose, in 2009, asked him to describe his outstanding talent, he said it was his focus on the long term and a “willingness to be misunderstood.” Like other successful Internet companies, Amazon emphasized winning the trust of consumers. “Our vision,” Bezos has said many times, is to be “the world’s most customer-centric company.” Part of the appeal to consumers was low prices; Amazon sold many books, particularly best-sellers, for little more than the wholesale price, or even at a loss. In the long term, Bezos believed, lower prices would expand Amazon’s market share, its stock price, and its profits.

Amazon had a profound effect on publishers’ business, creating a place where customers could reliably find books that were no longer being promoted in stores. Backlist books—those which sell reliably over time—are vital to publishing houses. At Random House, more than fifty per cent of revenue is generated from books like “The Prophet” and “Mastering the Art of French Cooking,” which provide steady profits that allow editors to make more adventurous gambles on new books. With Amazon, “people could find backlists,” David Young, of Hachette, said. “You were no longer hoping and praying that you would find that spine on a shelf.” Carolyn Reidy said that in a three-month period online venders typically sell copies of twenty-five hundred Simon & Schuster titles that bookstores don’t stock.

Bezos had devised a more efficient way to buy books. And, with the arrival of electronic books, he began to think of ways to replace paper entirely. E-books had undeniable advantages for publishers. There would be no more returns, warehouse fees, printing expenses, or shipping costs. The obstacle was that no one knew how e-books should be read. Computer screens weren’t portable enough, and for many readers cell phones were too small. E-books remained a niche market, mostly neglected by large trade publishers.

Late in 2007, Amazon released the Kindle, which presented a decent simulacrum of printed pages and could wirelessly download a book in sixty seconds. Arthur Klebanoff, the co-founder and C.E.O. of the e-books publisher RosettaBooks, said that, once the Kindle became available, "it took Amazon ninety days from launch to generate more revenue from my hundred-book backlist than I was getting from all my other distribution platforms combined." There are now an estimated three million Kindles in use, and Amazon lists more than four hundred and fifty thousand e-books. If the same book is available in paper and paperless form, Amazon says, forty per cent of its customers order the electronic version. Russ Grandinetti, the Amazon vice-president, says the Kindle has boosted book sales over all. "On average," he says, Kindle users "buy 3.1 times as many books as they did twelve months ago."

But publishers also recognize the similarity between Amazon's strategy and that of iTunes. One publisher said, "Get market share, and when you get far ahead it is hard to catch up. Bezos's game, like Jobs's before him, is to get the device and get eighty-to-ninety-per-cent distribution on the device, and you own the game."

The analogy of the music business goes only so far. What iTunes did was to replace the CD as the basic unit of commerce; rather than being forced to buy an entire album to get the song you really wanted, you could buy just the single track. But no one, with the possible exception of students, will want to buy a single chapter of most books. Publishers' real concern is that the low price of digital books will destroy bookstores, which are their primary customers. Burdened with rent and electricity and other costs, bricks-and-mortar stores are unlikely to offer prices that can compete with those of online venders. Roxanne Coady, who owns R. J. Julia Booksellers, an independent bookstore in Madison, Connecticut, said, "Bookselling is an eight-inch pie that keeps getting more forks coming into it. For us, the first fork was the chains. The second fork was people reading less. The third fork was Amazon. Now it's digital downloads."

According to the American Booksellers Association, the number of independent booksellers has declined from 3,250 to 1,400 since 1999; independents now represent just ten per cent of store sales. Chains like Barnes & Noble and Borders account for about thirty per cent of the market, and superstores like Target and Wal-Mart, along with clubs like Costco, account for forty-five per cent, though they typically carry far fewer titles. As a result, publishers, like the Hollywood studios, are under enormous pressure to create more hits—more books like "Twilight"—and fewer quiet domestic novels or worthy books about poverty or trade policy.

Bookstores, particularly independent bookstores, help resist this trend by championing authors the employees believe in. "In a bookstore, there's a serendipitous element involved in browsing," Jonathan Burnham, the senior vice-president and publisher of HarperCollins, says. "Independent bookstores are like a community center. We walk in and know the people who work there and like to hear their reading recommendations."

But the cost of maintaining knowledgeable staff and browsable store space contributes to higher prices, which many consumers are unwilling to pay. A best-selling hardcover that is seventeen dollars at Amazon.com commonly sells for as much as twenty-eight dollars at a bookstore. The Apple adviser said, "The Internet makes everything available and cheaper. I compare bookstores to video stores ten years ago. Now I use Netflix or I download movies." Book buyers understandably want both the convenience of the Web site and the intimacy of the store. But this obliges publishers to essentially run two businesses at once: a traditional publisher that sells bound books to stores and an electronic business that sells e-books online. "I think consumers, like publishers, are living in parallel universes," Burnham says. "Consumers are educated to have a multiplicity of choices. They still like to go to a bookstore, while they also want everything available online."

Tim O'Reilly, the founder and C.E.O. of O'Reilly Media, which publishes about two hundred e-books per year, thinks that the old publishers' model is fundamentally flawed. "They think their customer is the bookstore," he says. "Publishers never built the infrastructure to respond to customers." Without bookstores, it would take years for publishers to learn how to sell books directly to consumers. They do no market research, have little data on their customers, and have no experience in direct retailing. With the possible exception of Harlequin Romance and Penguin paperbacks, readers have no particular association with any given publisher; in books, the author is the brand name. To attract consumers, publishers would have to build a single, collaborative Web site to sell e-books, an idea that Jason Epstein, the former editorial director of Random House, pushed for years without success. But, even setting aside the difficulties of learning how to run a retail business, such a site would face problems of protocol worthy of the U.N. Security Council—if Amazon didn't accuse publishers of price-fixing first.

The iBooks store seemed to provide a solution, which helps explain why five of the big-six publishers signed up without much apparent hesitation. The only holdout was Random House, the largest of the big six. Markus Dohle, the chairman and C.E.O., said that he shared the concern about the price of e-books but believed that publishers are being hasty in making agency-model deals with Apple or Amazon. "The digital transition will take five to seven years," he said. "For me it's not a question of a week, or a hundred days."

Dohle, who is forty-one years old, rose as an executive on the printing side of Bertelsmann A.G., the parent company of Random House, and moved to the U.S. in 2008. He believes that as an outsider he sees the challenges to the industry more clearly. "If you want to make the right decision for the future, fear is not a very good consultant," he said. Before accepting "a significant change in the business model," he wants to take time "to talk to all our stakeholders," including authors, agents, and booksellers. "For us in the publishing industry," he said, "Amazon has been the fastest-growing customer. I think it's a great company." He welcomes Apple's entrance into e-publishing, but says, "If you do a deal with Apple on the agency model, then it means that you have to do agency deals with all other e-booksellers."

Michael Shatzkin, the C.E.O. of Idea Logical, a media-consulting firm, believes that Random House is holding out for a better deal. So do many of Dohle's peers. But Shatzkin, who writes a publishing blog, also noted on the blog that by maintaining the status quo—selling e-books to Amazon at hardcover prices and letting Amazon take a loss—Random House will be making the most of its short-term sales and profits. “Random House will collect more money for each e-book sold than their competitors do while the public will pay less for each Random House e-book,” he wrote.

Dohle has also resisted “windowing,” the practice of delaying the release of e-books, which has become common among other publishers. Windowing isn’t a new idea; publishers have long withheld paperbacks to encourage hardcover sales, and in the movie business DVDs often appear a year after theatrical releases. But with e-books windowing can act against the best interests of publishers and authors. On January 11th, HarperCollins released the hardcover edition of “Game Change,” by John Heilemann and Mark Halperin; the e-book didn’t go on sale until February 23rd. The hardcover’s first print run, seventy thousand copies, sold out soon after it was released, and for nearly three weeks bookstores around the country had no copies in stock. The authors and the publisher were deprived of income, as potential readers found other books to buy.

Amazon’s Russ Grandinetti thinks that windowing is a mistake. “It won’t work,” he says. “Over time, people will read what they want. When a book comes out, authors need all the publicity they can get. To put up an arbitrary barrier and keep it out of the hands of someone who might evangelize that work is a bad business decision for the author. Not to mention frustrating for the customer.”

According to Grandinetti, publishers are asking the wrong questions. “The real competition here is not, in our view, between the hardcover book and the e-book,” he says. “TV, movies, Web browsing, video games are all competing for people’s valuable time. And if the book doesn’t compete we think that over time the industry will suffer. Look at the price points of digital goods in other media. I read a newspaper this morning online, and it didn’t cost me anything. Look at the price of rental movies. Look at the price of music. In a lot of respects, teaching a customer to pay ten dollars for a digital book is a great accomplishment.”

In Grandinetti’s view, book publishers—like executives in other media—are making the same mistake the railroad companies made more than a century ago: thinking they were in the train business rather than the transportation business. To thrive, he believes, publishers have to reimagine the book as multimedia entertainment. David Rosenthal, the publisher of Simon & Schuster, says that his company is racing “to embed audio and video and other value-added features in e-books. It could be an author discussing his book, or a clip from a movie that touches on the book’s topic.” The other major publishers are working on similar projects, experimenting with music, video from news clips, and animation. Publishers hope that consumers will be willing to pay more for the added features. The iPad, Rosenthal says, “has opened up the possibility that we are no longer dealing with a static book. You have tremendous possibilities.”

It remains an open question whether consumers accustomed to paying $9.99 for an e-book will be willing to pay $13.99, or more, regardless of extras. Tim O’Reilly, the e-books publisher, has found that the lower the price the more books he sells. O’Reilly’s company sells e-books as apps for the iPhone for $4.95, and he says that they generate “a lot more volume” and profit than his company loses in hardcover sales.

Jason Epstein believes that publishers have been handed a golden opportunity. The agency model, he says, is really another form of the consortium he proposed a decade ago: “Publishers will be selling digital books directly to the iPad. They are using the iPad as a kind of universal warehouse.” By doing so, they create opportunities to cut payroll and overhead costs. Epstein said that e-books could also restore editorial autonomy. “When I went to work for Random House, ten editors ran it,” he said. “We had a sales manager and sales reps. We had a bookkeeper and a publicist and a president. It was hugely successful. We didn’t need eighteen layers of executives. Digitization makes that possible again, and inevitable.”

Amazon seems to believe that in the digital world it might not need publishers at all. In December, the Simon & Schuster author Stephen Covey sold Amazon the exclusive digital rights to two of his best-sellers, “The 7 Habits of Highly Effective People” and “Principle-Centered Leadership.” The books were sold on Amazon by RosettaBooks, and Covey got more than half the net proceeds. One publisher said, “What it did for us was confirm that Amazon sees itself as much as a competitor as a retailer. They have aspirations to be a publisher.”

A close associate of Bezos puts it more starkly: “What Amazon really wanted to do was make the price of e-books so low that people would no longer buy hardcover books. Then the next shoe to drop would be to cut publishers out and go right to authors.” Last year, according to several literary agents, a senior Amazon executive asked for suggestions about whom Amazon might hire as an acquisitions editor. Its Encore program has begun to publish books by self-published authors whose work attracts good reviews on Amazon.com. And in January it offered authors who sold electronic rights directly to Amazon a royalty of seventy per cent, provided they agreed to prices of between $2.99 and $9.99. The offer, one irate publisher said, was meant “to pit authors against publishers.”

Grandinetti concedes that Amazon has tried to make more direct deals with authors: “We’re constantly looking for ways we can do something more efficiently.” He suggested that this was nothing new. “There’s a long history of booksellers in the publishing business,” he said, mentioning Barnes & Noble. Major publishers, he points out, all sell books directly to consumers on their Web sites. “It seems like they’re in our business, so it’s a strange argument to worry about this in the other direction,” he said. But publishers’ sales through their own Web sites are negligible, and though Barnes & Noble’s publishing program antagonized publishers, it did not threaten a wholesale devaluation of their products. O’Reilly believes that publishers have good reason to be anxious. “Amazon is a particularly farsighted, powerful, and ruthless competitor,” he says. “I don’t think we’ve seen a business this competitive in the tech space since Microsoft.”

For the time being, Apple’s entrance into the book market has given publishers a reprieve. A close associate of Bezos said, “Amazon was thinking of direct publishing—until the Apple thing happened. For now, it was enough of a threat that Amazon was forced to negotiate with publishers.”

Asked to describe her foremost concern, Carolyn Reidy, of Simon & Schuster, said, "In the digital world, it is possible for authors to publish without publishers. It is therefore incumbent on us to prove our worth to authors every day." But publishers have been slow to take up new technologies that might help authors. Andrew Savikas, O'Reilly Media's vice-president for digital initiatives, is shocked that publishers have done so little to create digital applications for their books. "Nothing is stopping publishers from putting apps for books on iPhones," he said. "There are fifty million iPhones in the world. That's a great customer base." Budget-conscious publishers have also reduced the editing and marketing and other services they provide to authors, which has left a vacuum for others to fill. Author Solutions, a self-publishing company in Bloomington, Indiana, has ninety thousand client-authors. For books that attract commercial interest, the company has partnered with publishers like Harlequin to release them through traditional channels, but with more generous royalties.

Jane Friedman, who served as president and C.E.O. of HarperCollins, left in 2008 and established Open Road Integrated Media, an e-book venture. She plans to acquire electronic rights to backlists, sign up new authors (with fifty-per-cent profit-sharing), and form a self-publishing division. "The publishers are afraid of a retailer that can replace them," Friedman said. "An author needs a publisher for nurturing, editing, distributing, and marketing. If the publishers are cutting back on marketing, which is the biggest complaint authors have, and Amazon stays at eighty per cent of the e-book market, why do you need the publisher?"

Publishers maintain that digital companies don't understand the creative process of books. A major publisher said of Amazon, "They don't know how authors think. It's not in their DNA." Neither Amazon, Apple, nor Google has experience in recruiting, nurturing, editing, and marketing writers. The acknowledgments pages of books are an efficiency expert's nightmare; authors routinely thank editors and publishers for granting an extra year to complete a manuscript, for taking late-night phone calls, for the loan of a summer house. These kinds of gestures are unlikely to be welcomed in cultures built around engineering efficiencies.

Good publishers find and cultivate writers, some of whom do not initially have much commercial promise. They also give advances on royalties, without which most writers of nonfiction could not afford to research new books. The industry produces more than a hundred thousand books a year, seventy per cent of which will not earn back the money that their authors have been advanced; aside from returns, royalty advances are by far publishers' biggest expense. Although critics argue that traditional book publishing takes too much money from authors, in reality the profits earned by the relatively small percentage of authors whose books make money essentially go to subsidizing less commercially successful writers. The system is inefficient, but it supports a class of professional writers, which might not otherwise exist.

Madeline McIntosh, who is Random House's president for sales, operations, and digital, has worked for both Amazon and book publishers, and finds the two strikingly different. "I think we, as an industry, do a lot of talking," she said of publishers. "We expect to have open dialogue. It's a culture of lunches. Amazon doesn't play in that culture." It has "an incredible discipline of answering questions by looking at the math, looking at the numbers, looking at the data. . . . That's a pretty big culture clash with the word-and-persuasion-driven lunch culture, the author-oriented culture."

Most publishers mistrust Amazon and think it is unnecessarily secretive. It won't tell them details about customer habits, or the number of Kindles sold, or what it costs to make a Kindle. It won't even disclose the percentage of revenues its book sales represent, saying only that "media"—movies, music, and books—accounted for fifty-two per cent of sales in 2009.

Publishers say that the negotiations with Apple were less contentious. There were arguments over the price of e-books, with publishers wanting the top price set at seventeen dollars and Apple insisting on fifteen. "Once Apple had determined that they were going to accept the agency model," a publisher said, "they were very tough: Take it or leave it." But the Apple people "had a much more agreeable feel than Amazon did. They said they would share some consumer data about buying e-books. We have no such data from Amazon."

Publishers have another recently converted ally: Google, which not long ago they saw as a mortal threat. In October, 2004, without the permission of publishers and authors, Google announced that, through its Google Books program, it would scan every book ever published, and make portions of the scans available through its search engine. The publishing community was outraged, claiming that Google was stealing authors' work. A consortium of publishers, along with the Authors Guild, filed a lawsuit, which was resolved only in the fall of 2008, when Google agreed to pay a hundred and twenty-five million dollars to authors and publishers for the use of their copyrighted material. John Sargent, who was part of the publishers' negotiating team, said the agreement is a huge accomplishment. "The largest player in the Internet game agreed that in order to have content you have to have a license for it and pay for it, and that the rights holder shall control the content," he said. Whether or not the settlement is ultimately approved by the U.S. courts, Google will open an online e-books store, called Google Editions, by the middle of the year, Dan Clancy, the engineer who directs Google Books, and who will also be in charge of Google Editions, said.

Clancy said that the store's e-books, unlike those from Amazon or Apple, will be accessible to users on any device. Google Editions will let publishers set the price of their books, he said, and will accept the agency model. Having already digitized twelve million books, including out-of-print titles, Google will have a far greater selection than Amazon or Apple. It will also make e-books available for bookstores to sell, giving "the vast majority" of revenues to the store, Clancy said. He suggested that in trying to dominate the market Amazon and Apple were taking the wrong approach to business online. "It's much more of an open ecosystem, where you find a way for bricks-and-mortar stores to participate in the future digital world of books," he said. "We're quite comfortable having a diverse range of physical retailers, whereas most of the other players would like to have a less competitive space, because they'd like to dominate."

For now, many publishers believe that they have won the chess match that Sargent started. "We have three behemoths now competing," the C.E.O. of one house said. "So one of them can't force us to do anything unless the others go along." Early sales of the iPad are promising: Apple said that more than three hundred thousand sold the first day, and analysts have guessed that between five and seven million will be sold this year. And a dozen other digital reading devices were on display at the Consumer Electronics Show, in Las Vegas, in January, providing more competition for the Kindle.

Publishers have another reason to hope. The recession has changed the thinking of Silicon Valley companies, shaking their faith in advertising as their only source of revenue. YouTube has begun charging for some independent movies, in an effort to compete with Netflix, and its managers know that to succeed it must have professionally produced content that advertisers—and consumers—will pay for. As digital companies begin charging for content, they are met in the middle by old-media companies looking for ways to charge for what they produce. The incentives for old and new media to form partnerships seem to converge.

"Ultimately, Apple is in the device—not the content—business," the Apple insider said. "Steve Jobs wants to make sure content people are his partner. Steve is in the I win/you win school. Jeff Bezos is in the I win/you lose school." Jobs recently met separately with New York *Times, Wall Street Journal,* and Time Inc. executives to demonstrate the iPad's potential to make money for newspapers and magazines. Jobs, who had a liver transplant last year and has battled pancreatic cancer, has begun to think about his legacy, the insider said. "He's in a hurry to create in the next two years what he may have been thinking about in the next ten years. What keeps him going is his vision. Nothing is going to stop him, except death." The insider said that Jobs was pleased with his advocacy of publishers: "He feels like he's their champion."

For the moment, Jobs is the publishers' best ally. "Steve is very proud that Macmillan put a gun to Amazon's head," the insider said. But in the long term Apple and Google will not necessarily be better partners than Amazon. One day, they, too, will complain about the cumbersome publishing process, or excessive prices. Just days before the iPad went on sale, on April 3rd, there were rumors that Apple might list best-sellers for as little as $9.99. Apple agreed to the agency model for just one year, and, as publishers are acutely aware, Jobs has a history, with music and television companies, of fighting to reduce prices. One publisher said, "Maybe Apple will want to come back in a year and bite our heads off." The iPad may even make it possible for Amazon to reach new consumers. Apple now offers about sixty thousand e-books, far fewer than Kindle does, and Amazon has launched an app that allows it to sell e-books on the iPad. No matter where consumers buy books, their belief that electronic media should cost less—that something you can't hold simply isn't worth as much money—will exert a powerful force. Asked about publishers' efforts to raise prices, a skeptical literary agent said, "You can try to put on wings and defy gravity, but eventually you will be pulled down." ♦

*The original piece described publishers' costs incorrectly.

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