The Book-of-the-Month Club: A Reconsideration

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For presentation at the EBHA meetings in Bergen on August 23, 2008. This text has not yet exploited sufficiently comments from audiences and discussants at Johns Hopkins, Göttingen, the Newberry Library, the Hagley Museum and Archives, and the Business History Conference and American Historical Association meetings. It is also still extending in the chronological scope of its coverage and the archival resources offering detail. A list of the many individuals to whom I have accumulated debts, and doubtless others still to come, will appear in this space in the final draft. I gratefully acknowledge financial support from the Wharton School's Mack Center and the Dean's Office. The usual disclaimer applies.

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1. Introduction

Analytical business history has a problem. Writers of company histories may need to decide upon themes but they know from the start what their subject is. Those who hope to discern patterns across the histories of firms and industries have it harder, since the question arises of whose histories exactly ought to count. This problem is familiar to historians under the name of the Whig Interpretation of History.[1] Whig History is history written from the viewpoint that what the past was doing was leading up to the present. The survivors are ipso facto the ones who matter; and the fact of their survival is, in essence, far more important than the details of what it was they survived. Over long periods, this approach can import fairly serious distortions into one's sense of what was actually happening.

A distinction may be helpful. A given course of events can be described in a forward-looking or a backward-looking way. In the backward-looking approach, the finish line is set and then the race discovered. The important actors in the race are those who win or place. The forward-looking approach, in contrast, attends to those who do not finish the course or end up far back in the pack. It focuses on the reasons these starters' races came out the way they did. This way of proceeding undermines the natural temptation of the backward-looker to prize universal explanations over differentiated ones and ones that attribute long-term survival to persistent conditions—more precisely,

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[1] The phrase originates in the lectures subsequently published as Herbert Butterfield, *The Whig Interpretation of History* (London: Cambridge University Press, 1931).

to conditions hypothesized to be permanent—rather than to transitory ones. The reasons survivors look strong now are not necessarily the reasons they survived the crisis then.

There is a statistical counterpart to the Whig History (i.e. backward-looking) problem. The statistical problem arises when the analyst tries to estimate relationships on a sample in which the observations do not represent a randomly selected subset of the underlying population but in fact systematically under-represent—or miss out entirely—data points with certain specific traits. The classic economic example concerns the determinants of wages and working hours. Wages and working hours can only be observed for individuals who have looked for and found jobs. For the simple statistical procedures to work properly, the sample would need to report what wages and working hours the labor force non-participants drop-outs would have obtained had they participated. In one business history example, the question concerns how the firms of an industry respond to cyclical downturns. There is a set of observations before the downturn and another after. The selection problem is that some firms go out of business in the interim: the survivors are not, in general, a random sample from the initial population.[2]

A reasonably practicable solution to the statistical problem has been developed; and it holds a clue for what the present-day business historian can do about the business history version.[3] The essence of the statistical solution turns out to be to model (and estimate) the selection process and to incorporate this into the estimation of the

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[2] For an example in which the source of non-randomness derives from differences in the production technology and induced cost structures, see Timothy F. Bresnahan and Daniel M.G. Raff, “Plant Shutdown Behavior during the Great Depression and the Structure of the American Motor Vehicle Industry," forthcoming, *Journal of Economic History*.

[3] On the statistical approach, see James Heckman, “The Common Structure of Statistical Models of Truncation, Sample Selection, and Limited Dependent Variables and a Simple Estimator for Such Models,” *Annals of Economic and Social Measurement* 5 (1976): 475-492, and “Sample Selection Bias as Specification Error,” *Econometrica* 47 (1979): 153-161.

relationships of primary interest. The business history counterpart involves following all the serious contenders from the start. Its focus is in effect on their survival conditions—how these evolve over time and how that affects the relationship between the decisions made inside the firms and how the firms make out. In proceeding in this way, it makes no commitments whatever as to "overall" closure. Short of the discovery of new facts about old events, it cannot be wrong-footed by subsequent developments. There is efficiency logic; but contingency remains.

Writing an industry history in this fashion requires identifying the different types of firms (or firm attributes or strategies—the most illuminating sort of variety is open to debate). Sometimes this may seem obvious, sometimes not. In my current project—a history of book distribution in the United States over the long twentieth century—it was at least initially not. Some distinctions and categories were on theoretical grounds perfectly clear, however. This led me inter alia to explore the history of a seemingly somewhat unusual firm that started in the 1920s and whose fortunes waxed and waned thereafter. The text that follows gives an account of its early years and, in less detail, its middle ones. The focus in the first of these is on what the opportunity leading to the initial success was and on the character of the company's initiative. Thereafter, I begin to discuss how changing environments affected the firm's opportunities and outcomes. That larger picture will be a part of my book's discussion of the industry's development to date—a discussion I expect will be oriented around the distinctions and categories.

One other prefatory remark may be in order. In a paper such as this, some emphasis on chronology and narrative seems to be inevitable. In the spirit of my anti-Whig approach, however, I want to stay very close to the knowledge base and perspective on decisions and information of the decision-makers. This motivates me to cite evidence from sources I know would have been available to them (even when there are more convenient and probably more accurate later sources for the same basic facts) and to quote their own descriptions of events rather than simply summarizing these (not least because their own words often convey more than the basic facts). None of this is entirely conventional in business or economic history today. That the voices are distinctive and vivid I think will be accepted without demur. Whether the approach overall has value sufficient to be worth the extra length the reader will have to judge for him- or herself.

2. The Book-of-the-Month Club as a subject

The immediate subject of this paper is a company that started in 1926, went public in 1947, was purchased by another corporation in 1977, and still trades (albeit as a division in an industry roll-up).[4] Its customer base now is relatively small. But it was once very likely the largest single retail distributor of trade books in the country; and the company's name was for many years well enough known that this very fact was key to the humor of cartoons in the *New Yorker*.[5] (See Figure 1.)

The company is the Book-of-the-Month Club. It was in its heyday the largest company of its type in the American economy. Companies of its type represented a significant channel of distribution for the American book trade, a small piece of the economy overall but one of considerable absolute size as well as of obvious cultural significance.

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[4] For the most recent news on the roll-up, see "Major Restructuring at Bookspan," *Publishers Weekly* May 28, 2007 (254:22), p. 4. (The bottom line on how the Book-of-the-Month Club fared is that it lives to fight another day.)

[5] The first claim is implied by figures in "Mail-Order House," *Time*, March 15, 1943.

The cultural significance this particular company came to have makes investigating it harder than this might be. Many of the people who know about the company think condescendingly of it for reasons that have little to with its business- or broader economic significance (beyond the fact that it was successful enough to attract their notice in the first place). The company stands, in their minds, for little more than the merchandise it offered for sale and through that for something called 'middle-brow taste' in literature.[6] The adjective is only meant by some to be complimentary: the company, in this view, is both an American icon and an embarrassment.[7] Whatever else this view may represent, it surely represents a confusion of product with economic function.

The basic commercial idea behind the company was to sell books by something like a subscription plan, delivered by the mailman, rather than via salesmen or bricks-and-mortar retailing.[8] This is a channel that was novel once, but quite a long time ago. It certainly isn't any more. The beginnings and adaptations of an enterprise starting in the days when Model T Fords could still be purchased new, Calvin Coolidge—who took his

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[6] The locus classicus of this view must remain Dwight MacDonald, "MassCult and Midcult II," The Partisan Review Fall 1960, pp. 589-631. More recently, see Joan Shelley Rubin, *The Making of Middlebrow Culture* (Chapel Hill: University of North Carolina Press, 1992) and Janice Radway, *A Feeling for Books: The Book-of-the-Month Club, Literary Taste, and Middle-Class Desire* (Chapel Hill: University of North Carolina Press, 1997).

[7] The company's Vice-President for Advertising in the mid-1950s gave in an oral history the way this appeared from inside the firm: "Dr. [George] Gallup asked some educators and professors of English [in one of many surveys the company commissioned privately] if they liked the Book-of-the-Month Club and the books it sent out. Many of them said, in effect, that the books were beneath their dignity. Yet when he asked them what contemporary books they had been reading in the past year, he discovered that many of the books … were our selections." Warren Lynch Oral History, Columbia History Oral History Collection, p. 6. (For more on the oral histories of company officials, an unusual and valuable source, see Footnote 9 below.)

[8] The most well-known book salesman in American history is the figure sometimes known as Parson Weems, who traveled for the Philadelphia printer Mathew Carey for many years starting in the 1790s. For much vivid and illuminating correspondence, see Emily Ellsworth Ford Skeel, ed., *Mason Locke Weems: His Works and Ways* 3v (NY privately printed, 1929). For an interesting recent account of salesmen and the professionalization of salesmanship from the mid-nineteenth century forward, see Walter Friedman, *The Birth of a Salesman: The Transformation of Selling in America* (Cambridge: Harvard University Press, 2004).

oath of office from a notary public by the light of a kerosene lamp—was still President, and when only the comfortably off had home telephones might seem of mainly antiquarian interest. I take the issues raised by the development of this company, however, to be of broad and enduring interest. I lay out my reasons in due course below.

3. The basic narrative through 1947

At the present stage of the project's development, I can only discuss the company's history though the mid-1950s in anything like the way I want to. A first pass at that period follows.[9] A much less detailed account of the following two decades appears in Section 5.

Pre-history

This history concerns a business with a character but also an entrepreneur with a character. (See Figures 2 and 3.) Reading through the primary source documents, it seems one cannot understand the one without some sense of the other. I therefore begin with Harry Scherman.

Scherman was born in Montreal in 1887 to a Jewish family, the father an immigrant general store proprietor and the mother's career, if she had one then, unrecorded. The marriage did not last. The mother moved herself and the children to Philadelphia, which then as now had a large Jewish community with a number of Jewish-

[9] The ultimate source of almost all of the material in this section is either the collection of oral histories taken from Harry Scherman and a set of his colleagues in the mid-1950s and housed, bound together in six volumes as the Book-of-the-Month Club Project, in the Oral History Collection in the Columbia University Library Rare Book and Manuscript Archives or the Harry Scherman Papers also in those Archives. I also make reference to a separate (and later) Columbia Oral History taken from George Gallup.

affiliated institutions. They were at least initially, in Scherman's words, in "fairly straitened" circumstances. Mrs. Scherman found work at the Jewish Publications Society, a publisher of religious and secular books in English on Jewish subjects. It was a membership organization and had, or aspired to have, members across the United States. Mrs. Scherman's job was to travel around the country building up the membership list. The family lived in a sort of boarding house with an apparently warm and inclusive atmosphere. The Scherman children at least seem to have had a more settled and stable life there than previously.

Harry Scherman read voraciously and was, without working particularly hard at it, very good at school. He appears to have gotten a classical education at Central High School (the second public high school in the United States and then apparently an even more demanding place than it is now), graduated first in his class in 1905, and won a scholarship to the University of Pennsylvania.[10] He enrolled at Wharton, a business school intentionally planted within a liberal arts university.[11] Part of the logic of this decision surely was that he knew he would have to support himself going forward. But it is hard to doubt, when reading the reminiscences of colleagues of his from twenty years and more on in life, that part of the point of this choice was recognition of characteristics of his temperament.

Whatever Wharton offered in those days, it didn't take. Scherman dropped out, worked a little, returned to study law, felt no more compelled, dropped out decisively,

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[10] It would not have been easy for him to enroll in most Ivy League institutions in those days even if his family had had the money; and that situation was about to get worse. For a vivid contemporary vignette, see Edwin E. Slosson, *Great American Universities* (New York: Macmillan, 1910), p. 105 (in the chapter on Princeton). The most recent work on this subject is Jerome Karabel, *The Chosen: The Hidden History of Admission and Exclusion at Harvard, Yale, and Princeton* (New York: Houghton Mifflin, 2005).

[11] Steven A. Sass, *The Pragmatic Imagination: A History of the Wharton School 1881-1981* (Philadelphia: University of Pennsylvania Press, 1982).

and drifted to New York and into advertising. For this he had serious gifts. It was a booming time in that line of business; he easily found work; and one gets the sense that he moved from one job to another in search of more challenge or more money but in any case without any great difficulties of transition. He began to specialize in writing copy for mail order firms. The J. Walter Thompson firm eventually hired him to specialize in this.

If his places of employment changed, Greenwich Village and the weekend haunts of some its well-to-do literary figures were a steadier presence in his life. He was comfortable among these people and had even had literary aspirations during the drifting period, though these never came to anything substantial. His Village circle of acquaintance was wide and included a number of individuals who became prominent in publishing.

There seems to have been a notable quality of imagination to his advertising work more or less from the start. The most salient example for this narrative concerned the Whitman Candy Company of Philadelphia. They were a client of the firm he worked at in 1916 and they wanted to sell more (boxed) candy. Scherman got the idea that there might be a bigger incremental market in the predecessors of Bridget Jones than in the Dead End Kids. His proposal was essentially Shakespeare with Sweets: he suggested that Whitman buy 1000 leather-bound copies of each of fifteen classic Shakespeare plays (at 10 cents each), add them to the boxes, and advertise the fact. Whether the boxes were resized, for example to correspond to a typical play-reading time, is not recorded. It would not have been an out-of-character suggestion.

The atmosphere of the initiative and the man come through vividly in his reminiscences of the events.

> "Either Charles or Albert Boni [literary friends of Scherman's from the Village] got the idea of having a … [small] leather-bound book which would not be given away but would be sold for 25 [cents]. They got up a dummy of Romeo and Juliet. I think it wasn't even printed—I think it was nothing but a dummy. There might have been a few pages printed; I don't think they would have had the money to do more than that. None of us had the money to do anything of the kind. … I conceived the idea of getting an original order anyhow. We had a list of fifteen titles, I think. I wrote a letter to the Whitman Candy Company in Philadelphia, suggesting that they get out a library package, where they would add a book, wrapper with a box of candy.
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> The reply to that letter was an actual order for 15,000 copies, a thousand copies each of fifteen titles. We didn't have the damned things! We did have the order, though. On the basis of that order, among us we raised a few thousand dollars …. The members of our original corporation were Charles and Albert Boni and myself, Sackheim, and Pelton. When we started the business it was with about $5000 or $6000 at the most [more than half of which would have come from Pelton], which was needed to print the first fifteen titles.
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> Having the titles, we could offer them in the stores. They were offered first to bookstores and to drugstores. … We had never thought of starting an enterprise until that order came in—well, I wouldn't say we didn't think of it, but it just seemed a kind of wild idea."[12]

This is the restless entrepreneurial spirit, plain and simple.

Scherman began to wonder whether it might be possible to sell other traditional books in such unconventional ways, resigned from J. Walter Thompson, and set up with Maxwell Sackheim (the other mail-order expert at Thompson colleague) and the Boni brothers (who about a decade later started the firm with Horace Liveright that launched The Modern Library) the Little Leather Library Corporation.[13] The idea was to publish editions of classics and well-known authors up through turn-of-the-century figures such as Conrad, all in sets and all ex-copyright. (Scherman and his colleagues in this venture

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[12] Harry Scherman Oral History, pp. 21-22, 24.

[13] Sackheim's background gives a sense of American life at the turn of the century. He grew up in the upper Midwest, his father a peddler in the farm districts. The children were sent for a few weeks each summer circa 1905 to board on a farm in Michigan. "In those days … the farmer was isolated," Sackheim recalled. "There were no good roads and hardly any telephones." (Maxwell Sackheim Oral History, p. 1.) When Sackheim first went to work in advertising, it was in the regional metropolis of Chicago. He worked for an agricultural products advertising agency for seven years before moving to Sears Roebuck (whose clientele at the time was largely rural), after which he came to New York.

didn't anticipate being able to afford paying royalties.) The individual books would be—and at least started out—small and leather-bound. The channels of distribution Scherman initially had in mind were five-and-dime stores such as Woolworth's, drug stores, and mail-order. There is a nineteenth-century history, especially before International Copyright, of the sale of book sets by mail order.[14] There is much less in the way of precedent for the others—indeed, the extensive chain store organization of these enterprises was itself a relatively recent development.[15]

Woolworth's had no particularly relevant sales experience but knew it would need a lower price point, being a five-and-dime. This led to blunt negotiation (and some reconsideration of the materials to be used, about which Woolworth's seems to have cared little); but in the end an agreement was struck.[16] Millions of copies were subsequently sold, perhaps an agreeable surprise to both sides. For some sense of the novelty of the idea from the Woolworth customer's perspective, imagine setting out for the CVS or Rite-Aid in search of toothpaste or shampoo and returning with thirty novels of Balzac in duodecimo in a second bag.[17]

Be all that as it may, Scherman and Sackheim felt, Woolworth's drove a hard bargain ("the buyer was … trying to get all the blood he could out of us") and the other

[14] This subject requires more extensive treatment than I can give it in the present draft.

[15] See e.g. William J. Baxter, *Chain Store Distribution and Management* (New York: Harper, 1928) and the more retrospective and less operations-oriented but much more easily found Godfrey M. Lebhar, *Chain Stores in America 1859-1950* (New York: Chain Store Publishing Corporation, 1952).

[16] On the negotiation, see Scherman Oral History, pp. 26-27.

[17] This may not be as odd as it at first sounds. We easily visualize large racks of current magazines when we think of drug stores, and nineteenth century magazines certainly published a great deal of what we now think of as serious fiction in serial form. (See Frank Luther Mott, *A History of American Magazines* (Cambridge: Harvard University Press, 1938-1968), especially volumes III and IV.) But there seems to have been very much less of this by the time of World War I, never mind the 1920s. I hope to go into this—and in particular why it stopped—in much greater depth in the next draft. Whatever the answer is, however, the point remains that there may have been, one way or another, less of this sort of substantial reading matter on offer.

retail dealers weren't much easier: the Little Leather Library Corporation needed the dealers more than the dealers needed them. It really did seem worth trying mail order.[18]

> "Max proposed selling a set of thirty books by mail at $2.98. We did. The first ads were tested, and again it was an extraordinary success. Shortly after trying one publication advertising we began some heavy circularizing—very heavy for that day—and the Little Leather Library set, sold by mail, became one of the outstanding mail-order enterprises of the time. We used lists; we also used advertising in all publications—that is, we used a combination of advertising and circularizing."

We know what the circular approach was like.

> "The principle way we had … in selling by mail was to enclose a sample cover. Inside was a short letter which said, "How much do you think thirty classics with this kind of binding and this size would sell for? Make your guess and then open the enclosed sealed envelope." That was our mailing, and that would have been an expensive mailing because you had a sample, a sealed envelope inside … [I]t was kind of complicated."

Perhaps the complexity was expensive (though Scherman comments that even in New York in those days, the labor was cheap). And the yield may sound modest: "In all probability," he recalled, "we must … have gotten an average of about three percent." But the production costs were low and three percent

> "… was a tremendous mail-order success. Before we were through we increased the number of titles to 100, all excellent titles from a good library point of view. I think altogether we must have sold between thirty-five and forty million of those books. First there was the package of thirty, and then to those who bought the thirty we sold an additional seventy titles—not all of them, but a sizeable proportion. By that time the Little Leather Library Corporation had become a real mail-order business."

Scherman and Sackheim took on a financial partner, Robert Haas, but continued to dominate the firm.[19] The Little Leather Library ultimately sold in excess of 48 million copies. In general, they do not seem to have thought their problem was deficient demand, though selling costs were rising towards the end. The problem, they thought, was that they ran out of sufficiently well-known classics.

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[18] On this and for the next three block quotes, see Scherman Oral History, pp. 29-31.

[19] Haas and his investment came to them through an informal network of personal relationships. See Sackheim Oral History, p. 9, also Scherman Oral History, p. 31.

Scherman had other business problems to think about besides books in this period: as the Little Leather Library began to run out of steam, he and Sackheim had started their own ad agency. On the other hand, the money had been easy and the subject did not leave his ever-active mind.[20] The Book-of-the-Month Club was his next book trade idea. The venture occupied him, once it got seriously under way, for the rest of his career (and, indeed, his life).

The Status Quo Ante in 1926

It will be helpful in understanding what follows to have some sense of market and industry context. Table 1 gives some general descriptive statistics about America at the time Scherman turned again to entrepreneurship.[21] The population was booming and population density was on a steady upwards course. The median age, estimated from the published data in the simplest way, was one at which many are still very curious about

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[20] Meredith Wood, one of his Book-of-the-Month Club senior subordinates, later described the trouble with working with him as follows. "He is just popping ideas all the time … [most] of which—after one has striven hard to find out what is wrong with them—he's forgotten by the next day. … On the other hand, every so often a brilliant idea comes along. This makes up for all the others that were just sparks from the anvil." (Meredith Wood Oral History, p. 1.)

[21] Marketing research as we know it today was in its very early days then and probably had little relevant quantitative data to offer. The data in Tables 1-8 are what inquiring minds at the time of the company's foundation would have found in Census and other Commerce Department publications in the government documents collection of e.g. the New York Public Library. The data in Tables 9-13 come from a trade publication also available in, again for example, that building. (These publications could also be obtained by mail from the Government Printing Office and Bowker, respectively, and perused in the evenings anywhere. "Even as a young lieutenant during construction of the Panama Canal," one future President of Sears, Roebuck famously "preferred to pass up … parties [in the evenings] and stay in his quarters studying the Statistical Abstract of the U.S. …." "The Cover [General Robert E. Wood]," *Business Week*, October 19, 1946, p. 8.) On the career of the person who seems to have been the leading figure in private provision, see Douglas B. Ward, "Tracking the Culture of Consumption: Curtis Publishing Company, Charles Coolidge Parlin, and the Origins of Market Research, 1911-1930," University of Maryland doctoral dissertation, 1996. George Gallup's career began studying what readers noticed and found salient in newspaper articles and advertisements in newspapers ca. 1928. (See George Gallup [free-standing] Oral History, e.g. at 28 and 38. The research activities of the Harvard Business School during this early period of its history were focused on firms (in particular, on the structure of operating expenses in retail and wholesale trade). See Melvin T. Copeland, *And Mark an Era: The Story of the Harvard Business School* (Boston: Little, Brown, 1958), pp. 208-223. Preliminary exploration suggests that other research sponsored by business schools in this period shared this characteristic.

the world and other people. (George Gallup observed in work conducted for the company in the 1930s that about two-thirds of all books read were read by persons under the age of thirty-five.)[22] The foreign-born population had leveled off after the war years and the subsequent immigration restriction legislation, so the incremental potential readers almost all had English as their mother tongue. Literacy rates were very high. High school education was widespread (see Table 2). Tertiary education was not, but enrollments were rising robustly. There were lots of potential customers. The issue was where they were to be found.

Cities were smaller than they are now and much more modest agglomerations perhaps surprisingly common. (See Table 3.) More strikingly, the population overwhelmingly didn't live in places we would today think of as cities at all. (See Table 4.) The nation was for the very first time even barely less than half rural—on a very cautious definition of rural—in the 1920 Census. "Urban" or rural, most of the population still lived in relatively small places.[23] Manufacturing had surpassed agriculture as an employing sector (see Table 5)—the image of turn-of-the-century industrialization notwithstanding—but only just.

Table 6 gives some basic facts about the transportation and communications infrastructure of the day. Again, the theme is, as Sackheim had suggested (see Footnote 13 above), isolation outside the cities. Railroad expansion was basically played out by this point. The growth in automobile registrations will probably not be surprising, since this was the heyday of the Model T. Data (not reported in the table) on the total mileage of roads, surfaced and unsurfaced, exists only from 1921. In 1921, only 11 percent of the

[22] George Gallup Book-of-the-Month Club Project Oral History, p. 13.

[23] Note that the median American in 1920 lived in a place of population 2,500-4,999. This is, for most, at best a small-town society.

total was surfaced i.e. all-weather.[24] The rest were mud or deeply rutted ice for much of the year. Rural places might be physically isolated, but telephone service increasingly reached out towards them.[25] The Post Office and Rural Free Delivery reached them inframarginally. One might almost think that information and goods could circulate more easily than people.

George Gallup remarked in an interview in the mid-1950s that

> … about 70% of all books sold in the United States are sold in half a dozen major cities. … [This pattern] is accentuated by the advertising media available. … I can remember listening to Joseph Pulitzer in St. Louis … in 1932 telling me that all the time there was not one really first-rate book store in the entire city of St. Louis.[26]

Table 7 presents a picture of where the trade's establishment outlets were located in 1925. As one might expect of enterprises holding inventory in those days, they were disproportionately to be found where the population was densest. The pattern is even more vivid when the establishments are disaggregated by store type (e.g. "General" vs. "Foreign [Language]", "Department Store" [i.e. a department store's book department), etc.). (See Table 8.) Table 9 gives data on what the establishments chiefly sold. Most were in the "General" category i.e. what we would think of today as independent general interest bookstores. Among stores selling or otherwise making available trade titles, the share of such stores was particularly large.

Other types of stores did make recent trade books available. The most important category of these was circulating (i.e. rental) libraries. As Table 10 shows, there were

[24] Susan Carter, Scott Gartner, Michael R. Haines, Alan Olmstead, Richard Sutch, and Gavin Wright, eds., *Historical Statistics of the United States* Millenium Edition (New York: Cambridge University Press, 2006), Series Df 184 and 187.

[25] Data on households with radios begin only in 1922. The numbers rise rapidly but start from an extremely low base. See *Historical Statistics* Series Dg 128.

[26] Gallup Book-of-the-Month Club Project Oral History, p. 25.

some businesses which solely rented books. But two-thirds of the firms that did any circulating business had general trade books at retail for their main business. The rental line was probably a way of drawing customers into the store and possibly also a means of getting some revenue out of titles that weren't selling as well as originally anticipated. Rental fees also represented a smaller financial commitment from the customer than purchase: this may have appealed to both tentative and cash-constrained potential customers. Rental books seem to have been more broadly available than straight retail, but the same basic problem of needing a substantial business to cover the fixed costs of the business probably constrained the diffusion to areas of low population density. (See Table 11.) At the end of the day, there remained an underserved market: new books were not within the local reach of many potential readers.[27]

Surviving evidence about the profitability of retail bookselling in the mid-1920s is sketchy.[28] The best source is the report commissioned by the National Association of Book Publishers by O.H. Cheney, a banker with an interest in the industry.[29] Figures for 1929 retail bookseller profitability before interest (the qualification matters little: interest costs were a small consideration on average, Cheney says, averaging 0.27 percent of revenue, and he summarizes the situation by remarking that "comparatively few borrow,

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[27] I should probably say whatever can be said about the geographical diffusion of public libraries (and its course over time) and borrowing at this point. I have not yet found any good data.

[28] Evidence from the Census of Distribution establishment returns can shed some limited light, and these returns from the first such Census survive and can be accessed, albeit not very conveniently, by researchers; but that Census was not conducted until 1929. (For the published summary, with aggregate and average figures, see United States Bureau of the Census, *Census of Distribution* (Washington, D.C.: Government Printing Office, 1933). The 1927 field test is not helpful at all for present purposes. Some copies of this survive, and interested parties can find them as Domestic Distribution Department, Chamber of Commerce of the United States, *Retail and Wholesale Trade of Eleven Cities* (Washington: Chamber of Commerce of the United States, 1928).

[29] This is O.H. Cheney, *Economic Survey of the Book Industry 1930-1931* (New York: R.R. Bowker, 1931).

and then relatively little.") are given in Table 12.[30] Figures are given separately for independent and chain stores in three categories: Under $60,000 [that year] in volume, Over, and All i.e. together. A separate entry gives figures for all stores i.e. including department stores.[31] For each of these, there are figures for "Average", "Relatively Poor", and "Relatively Good" stores i.e. results. The average for all independent and chain establishments was 2 percent. Even the relatively good figure was shy of 6 percent. Brick- and-mortar bookselling was a low-margin business.

Americans also bought books via the mails. The most well-established vendor may have been Sears, Roebuck mail order catalogue.[32] The breadth of distribution was extreme: 13,310,978 copies of the 1925 catalogue were circulated.[33] This offered, amidst the clothing, the cream separators, and all the commodities in between, slightly in excess of five hundred popular novels and story collections along with several hundred titles of joke and cartoon collections, how-to books, reference works, and bibles.[34] Most of the 500-odd are not notably new and all seem likely to be steady sellers, whatever the volume. (The groupings include "The Famous 'Readers' Library'", "American Home Classics", and "Smashing Two-Fisted Books of Daring and Adventure".) Individual

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[30] Ibid., p. 282. Profitability before interest is derived as total revenue less cost of merchandise, salaries, rent, heat, and light, other operating expenses, and advertising He does not say explicitly how taxes are treated in his calculation.

[31] Whether the "department store" addends are for the department stores as a whole or only for their book departments goes unstated.

[32] The Sears catalogue was something of an icon of American plenty. Franklin Roosevelt is said once to have been asked what single volume he would place in the hands of every Soviet Russian if only he could. His interlocutor may have had in mind works of historic documents or commentary, political science, American literature, or perhaps even the Bible. Roosevelt, in the story, proposes the Sears catalogue. See, for example, Richard S. Tedlow, *New and Improved: The Story of Mass Marketing in America* (New York: Basic Books, 1990), p. 261. I have not yet been able to trace this remark back to a contemporary source.

[33] Boris Emmet and John E. Jeuck, *Catalogues and Counters: A History of Sears, Roebuck and Company* (Chicago: University of Chicago Press, 1950), p. 307.

[34] For the books, see Sears, Roebuck, and Co., *Catalogue* Spring and Summer (Chicago, 1926), pp. 427-433.

authors featuring prominently include Mark Twain and such pulp writers as Zane Grey and Edgar Rice Burroughs.) (See Figure 4.) The price points are distinctly modest. These offerings may have been substitutes for some products of the major trade houses; but they would not have been much competition for books the houses hoped might be best-sellers.[35] And the wide distribution of the catalogue certainly set an example.

There was at this time at least one recent and conspicuous case of a specifically book-oriented approach to the mass market that did operate on—indeed, reached for—a very large scale.[36] It was equally well-known to have been financially quite successful.[37] This was the so-called "Little Blue Book" enterprise of Emmanual Haldeman-Julius. The business developed out of a turbulent left-wing weekly called *The Appeal to Reason* that emanated from Girard, Kansas.[38] (See, e.g., Figure 5.) In the years prior to World War I,

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[35] To the best of my knowledge, no information about book unit sales or revenue totals for Sears survives.

[36] In addition to many breathless or adulatory pieces, the great part of one week's "Roving Critic" column of Carl van Doren in *The Nation* (June 21, 1922, p. 749), and a rather more arch but still basically respectful "Profile" by Alexander Woolcott in the New Yorker (June, 1925, pp. 7-8), interested parties at the time might well have seen "Selling Thirty Million Books" in *Publishers Weekly* (the main trade paper) (June 2, 1923), p. 1717, and such sober and detailed illustrated accounts of inter alia operations and routines as Carroll Y. Belknap, "Books by the Million," in *Business Magazine* (May, 1923), pp. 26, 36-37, 53, and 56, and Herbert Flint, "Haldeman-Julius—The Ford of Publishing," in the Midwestern trade paper *The Inland Printer* (January, 1925), pp.548-550. Interested parties living in New York might well also have encountered "Pay as You Go Out, 5 Cents a Copy, in the New Cafeteria Bookshop," *New York Times* (February 24, 1924), Section 8, p. 18, or even set foot in the shop, which sold only Haldeman-Julius's productions, described in the article. Most of the information given in these articles and more appeared a little later in Emmanuel Haldeman-Julius, *The First Hundred Million* (New York: Simon and Schuster, 1928), though this was itself of not in circulation at the time of the Book-of-the-Month Club's foundation.

[37] For some representative traces, see the equestrian photograph of Haldeman-Julius in the *Inland Printer* article and the closing paragraphs of that text, replete as it is with references to the life of a gentleman farmer owning multiple farms, a herd of full-blooded Holsteins, and a positively manorial residence on the home farm whose subordinate structures included a children's playhouse "done on a colossal scale", complete with a play-garage, and also, for Haldeman-Julius's own retreats from the tumult of family life, a summerhouse "spacious, cool, [and] beautifully appointed, with a noble library upstairs where that big fireplace chimney is". Haldeman-Julius had been born poor; and he pretty clearly didn't mean to die that way. (For more on the man, see Andrew Neilson Cothran, "The Little Blue Book Man and the Big American Parade: A Biography of Emmanuel Haldeman-Julius" (University of Maryland Department of English Ph.D. dissertation, 1966). The original financial resources came from the inheritance of his wife, a well-to-do county-seat niece of Jane Addams whom he seems to have treated poorly both personally and financially.)

[38] The two counties in southeastern Kansas sat atop major bituminous coal, lead, and zinc deposits.

The Appeal had a peak circulation of about 750,000.[39] (For some sense of scale, this was more than three times than that of the *New York Times*, a leading daily in the largest city in the country and with, even then, a demonstrably national circulation).[40] The *Appeal* had a line of books and sets that would appeal to its socialist readership, printed on the presses in Girard. These were advertised in the *Appeal* itself, in severe plain type ads (see Figure 6), but they sold profitably.[41]

After the war, the *Appeal* fell into financial difficulties and a group of younger staff, eventually dominated by the entrepreneurial Haldeman-Julius, took over.[42] Haldeman-Julius had had an earlier career as an Eastern socialist journalist. He was fluent, full of ideas, and a great enthusiast for reading. His main initiative at the *Appeal* was to start publishing a series of pocket-sized paperback pamphlets (64 and 128 pages long), initially ex-copyright literary classics though eventually including commissioned pieces on many subjects. (See Figures 7 and 8.) These were priced as cheaply as demand levels and optimized production equipment and methods would permit, and the initial 25 cents a copy bottomed out at 5 cents.[43] This was a very different price point from the established book trade. (See Figure 9.) Haldeman-Julius seems to have seen himself as the Henry Ford of literature.

See John G. Clark, *Towns and Minerals in Southeastern Kansas: A Study in Regional Industrialization, 1890-1930* (1970). The miners who were brought in to extract them did not leave their politics in Europe.

[39] See John Graham, ed., *"Yours for the Revolution": The Appeal to Reason, 1885-1922* (Lincoln: University of Nebraska Press, 1990), p. 15.

[40] Meyer Berger, *The Story of the New York Times: 1851-1951* (New York: Simon and Schuster, 1951), Appendix II, p. 569.

[41] Unfortunately, we know no more than this: no details of the volume of sales of the associated revenues or costs appear to have survived. (Indeed, nothing resembling an income statement for the enterprise as a whole, disaggregated or otherwise, seems to have survived. The main surviving business records are board meeting minutes consultable in the Rare Book and Manuscript Room of the Ax Library of Pittsburgh State University in Pittsburgh, Kansas.

[42] See Cothran, "The Little Blue Book Man," pp. 66-85.

[43] See Emmanuel Haldeman-Julius, *The First Hundred Million* (New York: Simon and Schuster, 1928), pp. 222-239.

This publication program, along with some periodicals that featured the writings of Haldeman-Julius and promoted the series, took over the business.[44] In due course, the series issued 2000 titles and by 1928 had sold 100 million copies.[45] Some sales occurred through captive shops and racks in general stores; but the series was advertised widely in newspapers and periodicals and Haldeman-Julius claimed 95 percent of the sales were mail order.[46] The orders seem to have come from all over the country and indeed from all over the world.[47]

Several aspects of this venture visible by 1926 seem striking. The tremendous overall sales indicate a large latent demand for literary content, spread out across the continent, and the viability of sales via advertisements and fulfillment via the mails. From a more operational perspective, what seems striking is the value of inventory control methods not common in American publishing of the day. Production runs were relatively small and reprinting frequent. The value placed upon information and forecasting was conspicuous. Unlike Sears, Haldeman-Julius seemed to study systematically the structure of demand, intent as he was on pushing the price for his modest products as far down as he could afford. Scherman was well aware of the Haldeman-Julius enterprise.[48] But his eye was on books that sold at higher prices and richer margins.

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[44] Eventually the company's name was changed so as to promote Haldeman-Julius as a brand name.

[45] Haldeman-Julius, pp. 9 and 12.

[46] On the development of the bricks-and-mortar presence, Cothran, pp. 194-198.

[47] Haldeman-Julius, pp. 251-252.

[48] Scherman Oral History, pp. 25-26.

It will also prove helpful to sketch the upstream context. The barriers to entry in publishing have never been high. While they were probably higher in the mid-1920s than they are now, they still seem to have been modest. There were many publishers in 1920s America; many of them did a brisk business in what we would now call trade books; and on all accounts many new titles were published each year (see Tables 13 and 14).[49]

Publishers in the 1920s and beyond operated in an industry with occasional big successes but far more general slender margins. Cheney, again writing with access to firm- and industry data, wrote that

> Profits of publishers show an instability second only to that of theatrical producers Publishing profits are much more unstable than those of any other branch of the industry. The publisher in a year with a 'lucky break' makes up for the years without but the average return for most in the industry offers little more than the intangible rewards of the book lover amidst books.[50]

Cheney saw one major source of this state of affairs in lax credit policies—in fact, a "credit structure [in] the industry—to and from the publishers— … unbalanced in general [and] very often [simply] haphazard."

> The industry as a whole has come to a condition where it believes that 'carrying' an account is a substitute for real cooperation, real service, and real coordination of manufacturing and merchandising. Everyone seems to have been 'carrying' everybody else—and now, of course, is no time to let go. It is all very touching and very beautiful, this economic 'chivalry'—but also very unpromising.
>
> Publishers' credit 'policies,' in too many instances, deserve the crown of quotation marks. The principle seems to prevail that an outlet is an outlet and a new one even better. The corollary principle guiding some publishers in relation to new outlets sees to be 'We might as well get the money as somebody else.'

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[49] I am not aware of a good published quantitative analysis of the accounts of any 1920s publisher. The view a retired President of Scribner's expressed at the Penn Economic History of the Book in America seminar in 2006 was that these firms had for many years prior to his time made little or no money from their trade lists and had financed the enterprises from other lines of publishing or other family ventures entirely. (The Scribner money, for example, came from nineteenth century railroad investing.) His pithier characterization was (more or less) that the high-level managerial and editorial attention went to one division of the enterprise and the reliable economically meaningful cash flow came from the rest of it.

[50] Cheney, p. 158. For the next four quotations, see pp. 192, 193, 172-173, and 214 respectively. (The word "new" in the next quoted paragraph seems in context to be figurative (more precisely, sarcastic) rather than a reference to conditions of genuinely depressed demand.)

The vulnerabilities this sets up were, he felt, only worsened by a grotesque lack of attention to evidence in managerial decision-making. The evidence he had in mind concerned manufacturing operations, advertising, and sales records. He wrote as follows.

> A house which will go to the trouble and expense of publishing the biography of a man a thousand years dead for the entertainment and inspiration of a few thousand readers,[sic] will kill the records of its own vital history which should be the very hormones of its own existence.
>
> …
>
> Every day dozens of urgent and important questions arise, in every house, which could be answered clearly and practically by the proper sales records. Shall we publish this book? When? What should the first printing [size] be? Will it sell in the Middle West? How many ought the wholesalers to take? Shall we advertise it in New England newspapers? What copy should we use? The questions, [good] answers to which [would represent effective] publishing, depend on these records. But instead, these questions are the subjects of guessing contests, interminable debate, squabbling, blind scurrying around [sic] and general futility—ending in inefficiency and loss.

Publishing is distinguished from printing by the bearing of inventory risk and is, operationally speaking, quintessentially a coordination business, requiring acquisition of material, editing, manufacturing, inventory management, marketing, and sales for the output to generate revenue. Cheney observed revenue within the calendar year of his data to be concentrated in a relatively small number of titles—for fiction on average nearly 46 percent for each house from the top five and 81 percent from the top 20. The non-fiction percentages were higher. (See Table 15.) From the publishers' perspective, this is an economy of best-sellers, with the revenue side of profits being driven by big hits and the cost side by economies of scale in manufacturing. To these we will return. Cheney noted, sourly, that decisions concerning initial print runs were made "in … near total darkness as to probable sales." In general, he felt, opportunities for profit-enhancing coordination among functions within the firm and with the distribution channels across the firm's boundaries were going to waste for the lack of such information.

Getting Started

The problem for Scherman was that mail order sales only made economic sense for sets. Most publishers basically printed texts one edition at a time. They certainly printed one newly written book edition at a time. They needed a retail intermediary that could get potential customers to buy single copies; and this intermediation was generally thought to require having the books ready and available to be bought when the impulse struck the customer. This had two implications. One was that the publishers needed to make inventory commitments in advance of sales i.e. to make to stock. The other was that the customers had, somehow, to be induced to want the particular book the publisher was producing. It is helpful to address the second of these now and the first later.

The traditional means of converting potential customers was personal approach and the ability actually to close a sale. (Thus, in the opening song of "The Music Man" "But you gotta know the territory!") Salesmen urged, speaking with authority (either charismatic, with asides extracted from promotional materials, or on the basis of reference works and information in catalogues).[51] The *New York Times* book review section began publication in 1896; but, isolated libraries of record aside, it does not seem to have circulated far amongst individuals and businesses. Such systematic reviewing in national periodicals and nationally circulated local publications as there was tapered off to quite a modest level until the mid-1920s (an upsurge only even arguably beginning with the foundation of the *Saturday Review of Literature* in 1924).

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[51] "Franchise" examples such as Mark Twain and the campaign to sell President (ex-General) Ulysses Grant's autobiography, beautifully recounted in Walter Friedman's *Birth of a Salesman : The Transformation of Selling in America* (Cambridge: Harvard University Press, 2004) are exceptions that prove the rule.

Scherman's marketing idea was to organize a panel of authorities whose perceived distinction and taste would help potential customers feel that whatever books the company wanted to ship were, unknown as they might be because of newness if not isolation of the potential customer, indeed good literature. Janice Radway quotes the following [published!] description of one of his first recruits.[52]

> "Seasoned in Oxford, he has the air of a man who has been reading old books and drinking old wine with old friends before a fire of old wood. His muse has haunted many libraries and has brought back many antiquarian treasures. At his pen's end he has the vocabulary of the Elizabethans, the idioms of the seventeenth century. A great deal of fine liquor, apparently, has flowed under his bridges. He knows where the best food may be obtained and ransacks ancient volumes for imaginary meats. He is a connoisseur of tobacco and understands to a nicety the conduct of a pipe. He talks spaciously of pets and children. Mr. Morley has a robust feeling for life lived out of doors and a special taste for the sea and ships. … He has considerably enriched the imagination of his followers by laying a new stress upon the pleasures of eating and drinking, of playing and laughing, of collecting good things and living jovially among them, of preferring scholarship to jazz."

This may seem like marketing pornography. But that isn't to say that it wasn't effective. (You gotta know the territory.) If trust in the judgment of a selection committee could be established, the expense burden of the advertising and other overhead could be spread over many titles instead of weighing (i.e. heavily) on the account of a single one.[53] Customers would be offered something like a subscription to a magazine, edited by someone who knew their tastes and arriving conveniently at their doorstep.

The moment of revelation may be worth recording.

> "When the Little Leather Library business got bad, we felt morally obligated to do something for Haas [the new financial partner]. It was beginning to get bad when he bought [in], and he had known that because he had stayed with [us observing] for several months before he took up his option. I think, though, that he felt we would come up with something or other that would be successful. Then one day, Harry and I were walking down the street after lunch and Harry suggested the book-of-the-month idea. We talked about a book-of-the-week business and then we discussed the book-of-the-month and how it could be done. You couldn't very well do it with classics, as that had been done by Dr. Eliot and others.

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[52] It appeared originally in Carl van Doren, "Day In and Day Out," *Century*, December 1923, pp. 308ff.

[53] See e.g. Meredith Wood Oral History, pp. 17-18

> Bob Haas was not with us at [that] moment. Bob was a very conservative, wealthy man. He was not the gambling type at all. We were. We had nothing to begin with, and we had nothing to lose, and so whenever a deal came along we could afford to gamble. It takes money to lose money, and we didn't have any to lose, so we couldn't lose much.
>
> Harry said, well, the record business was good when we sold classics, but it was terrific when we sold popular records. Let's sell popular books. Let's sell new books instead of the old classics."[54]

Scherman lived in New York City and apparently began the test for his own idea using the New York *Social Register* as a distribution list. But he soon ran ads in the *New York Times* and national periodicals.[55] The pitch was simple. Subscribers would commit to buying a book a month for twelve months. (There were briefly bonus books after the twelfth, but this feature as a regular commitment of the company was soon dropped.) All books would be priced at retail and no individual book would cost more than $3. A distinguished panel of reliable judges would select one newly published title a month (the so-called Main Selection). The book would arrive in the mail. There would be no prior notification of which it would be.[56] Customers could return any month's book for an alternative selection if they did so promptly. The customer would be responsible for all postage, coming and (if the book was to be returned) going. Payment for the books could be in a lump sum or on a month-by-month basis. (Payment for the postage was on a month-by-month basis.) The ads solicited requests for further information rather than subscriptions per se.

The initial *New York Times* ad appeared on the back page of the Book Review

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[54] Maxwell Sackheim Oral History, pp. 11-12.
[55] Edith Walker Oral History, pp. 3-4 and 9.
[56] Walker Oral History, p. 6.

section for May 16, 1926. The Oral History of Edith Walker suggests that Scherman viewed the whole initiative as highly exploratory. "It was pretty much a trial balloon, to see if there was any interest in such an enterprise," she said.[57]

> The ad was in the nature of an announcement of this new venture, with a coupon at the bottom suggesting that readers write in for more information about the Club. … The answers were [to be] only inquiries. We [would] then [send up to] four sets of "follow-ups" to these people.

Once the ad actually ran, the owners and employees—the secretary and a clerk—sat in a rented two-room walk-up office on West 40th Street waiting to see what the mail brought in. "I'll never forget that first Monday morning," the Walker later recalled.

> [We] opened the mail, wondering whether we had received even a single even a single answer. The first envelope we opened contained a check for either $25 or $30, as an advance payment for that many books. We really felt then that we had a going business.

Sackheim reckoned the subscriber list would have to get into the 5,000-10,000 range for the firm to stay in business. They had 4,750 subscribers at the end of the first month and more than 46,000 by the end of the year. Scherman and his associates claimed that in these years at least they were mainly sending books to addresses where other channels weren't doing business.[58] I have not yet encountered any contemporary evidence on this one way or the other.[59] But some facts are clear. They shipped more than 232,000 books that calendar year and only more thereafter. Table 16 gives some relevant data. The company was very quickly off and running.

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[57] For this and the two block quotes that follow, see Walker Oral History, p. 4.

[58] In speeches and advertising materials, they claimed to have shipped books to every local post office in the United States. See, for example, "One Hundred Million Books in the Homes of America," Supplement to the *Book-of-the-Month Club News*, April, 1946, unn. p. 4, also Scherman Oral History, p. 40.

[59] But see the discussion of the 1948 Gallup poll results below.

Settling in

There were aspects of operations early on that went roughly as initially envisaged.[60] For example, record-keeping on the customer accounts was relatively simple (since the customers had very constrained choices). The physical tasks of packing were not overwhelming, at least in the very earliest days. But the oral histories suggest that this sort of thing was not representative. To the actors, it seemed that frantic improvisation was much more the theme.

The promptness and the volume of the response to the ad was at least temporarily a problem in itself. They had to feel their way along, said Walker.

> At that time, we had no organization, other than myself, the three partners, two of whom were not actually active in the business, and one clerk. As a result, my first work with the new company, [sic] was pretty much everything. I swept up, wrapped books, acted as secretary, and did most of the clerical work involved. … We couldn't hire people fast enough. We didn't know how (5) to train them, because we changed our policy frequently. … Every person that came in, I had to train myself and half the time I didn't know what to tell them.[61]

More concretely, the incoming mail alone strained the premises as well as the staff. Shipping the books at all required taking physical possession of the books, creating a staging area, packing and addressing them, and getting them out again. Even in the very beginning, when the numbers involved were smallest, most of these were challenges.[62] A new lease was soon seen to be required. Then there was the matter of actually getting paid.

> A short time after we had started, when we had worked up to perhaps 25,000 members or so, we would get a tremendous number of money orders in payment for single volumes. The bank just wouldn't handle them any more. It said, "We can't do this without special arrangements." … I didn't blame them. We would take those [money orders] over to the uptown branch of the Chemical, I think it was, and they would just be staggered by them. They weren't equipped to process them.[63]

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[60] For the following two examples, see Walker Oral History, pp. 49-50 and 9.
[61] Walker Oral History, pp. 4-5.
[62] See e.g. Haas Oral History, pp. 21 and 23.
[63] Haas Oral History, pp. 21-22.

Routines were valuable. But they had to be developed, a trial-and-error process.

It is worth taking note of the original supply arrangements. It seems the trade-ready books were initially purchased on ordinary wholesale terms (occasionally, better) and were physically transported from the publishers to the leased company facilities in Manhattan. There the various transactions were recorded and the individual books boxed and mailed. These last two activities also, of course, strained both premises and staff. All these were problems, but they were good problems to have; and investments in facilities, staff, and organizational routines coped with them adequately or adapted rapidly.

Other early problems were less attractive and seemed initially less tractable. Part of the confidence-enhancing gambit, as I have noted, was to offer return rights post examination. (These rights were not free even in a marginal sense, as also noted.) The staff and indeed the facilities were swamped by returns from the first two selections—Scherman says "they came back in droves" in the beginning—and this was as nothing to the response to the selection of excerpts *The Heart of Emerson's Journals* the following January. This volume, like Hume's *Treatise*, seems essentially to have fallen dead-born from the press: "The country didn't want *The Heart of Emerson's Journals*; they didn't want any part of Emerson's journals."[64] This threatened to swamp the accounts as well as the facilities, since the company itself had no return rights with the publishers.

[64] Scherman Oral History, p. 70. Scherman may have had more in common with Hume than one might have thought. I for one had forgotten that Hume, after observing that his text had not even reached "such distinction as even to excite a murmur among the zealots", went on to remark that "being naturally of a cheerful and sanguine temper, I soon recovered from the blow and prosecuted with great ardour my studies in the country." David Hume, "My own Life" (April, 1776), written in anticipation of his impending death and much reprinted posthumously.

Scherman's colleague Sackheim devised a clever tactical solution to this, a technique still in use and known to posterity as the negative option.[65] The form of the contract with customers, and what the company sent the customers, was changed. Now an announcement came with the previous book. The customer could reply, if the reply was prompt enough, to say that the selection looked unappealing and should not be sent. A form with which to do this came with the announcement. But procrastination, distraction, and general human nature being what they are, few forms ever came back. A major source of short-run forecasting error went substantially away.[66]

Note that the forms that did come back came back before the Main Selection went to press.

> "… The Book-of-the-Month Club [had], at this [time], over 65,000 members. By reporting to them in advance, in this way, we can estimate fairly accurately in a few days (through percentages that rarely vary) how many copies of the next "book-of-the-month" will be needed for our entire membership, and we can place orders … accordingly." [67]

The range of substitution numbers at that time was typically two to two-and-a-half times the range of return numbers.[68] The company had some months previously dropped the number of required purchases per year to four.[69] Presumably this had not introduced disruptive variance.

The other routine that called for investment was book reviewing and the Main Selection apparatus. Many, many books needed to be considered; and the selection committee itself had to read a dozen or so each month and argue over them. An

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[65] For Sackheim's own description, see Sackheim Oral History, p. 13.

[66] The announcement also offered specific alternatives. The list of these included prior Main Selections. This was surely, so to speak, an attack on residual errors.

[67] *Book of the Month Club News*, March 1928, unn. p. 4.

[68] *Book of the Month Club News*, April 1928, unn. p. 10.

[69] *Book of the Month Club News* December 1927, unn. p. 4.

infrastructure of staffers and a healthy payroll for the selectors grew up along with the publicity concerning about the selectors themselves.

At the heart of the early advertisements stood the Committee of Selection. The selection system seems to have worked smoothly from the start, at least as a system. The initial members all came from a relatively small world—Dorothy Canfield Fisher reports being pleasantly surprised, entering the first meeting, to realize that she knew all the other members.[70] Two were adult acquaintances from literary professional work; William Allen White had been a student of her father's and a familiar presence in the family home; and Heywood Broun "I had known as a high school boy in [his time at] the Horace Mann School, and wasn't I surprised to see him come into the room, looking as a stout and fairly middle-aged man, exactly as he had as a high school boy!" The discussions were described as vigorous but amicable.[71] A clear majority of the committee members had Quaker background, and Fisher says that Quaker procedure was in the background if not in the rules of order per se.[72]

The invitation letters to the committee members had been clear: the business men would manage the business end but would not say anything about choices or try to steer the committee.[73] Members of management attended the meetings but apparently did nothing more than listen and from time to time make mixed drinks.[74] The most

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[70] Dorothy Canfield Fisher Oral History, pp. 6-7.

[71] On the vigor, see Lynch Oral History, p. 26: "The judges' meetings were usually very entertaining and usually—well, I don't think the word [would be] acrimonious, but sometimes the discussion became rather heated".

[72] Fisher Oral History, p. 11.

[73] Fisher Oral History, p. 9.

[74] "We sat in on the judges' meetings," said one of the owners, "but we never in any way tried to influence their judgments. In fact, if I must say so myself, I think we bent over backwards on that…. We really felt the only chance the business had was to let the judges have the literary responsibility and we would do the business work." Haas Oral History, p. 6. "At the judges' meetings," said the Vice-President for Advertising in the mid-1950s, "I usually try not to say anything unless I'm asked. I don't think my

externally prominent committee member remarked in his Oral History interview that he had been prepared to resign if there was any managerial interference in the committee's decision-making.[75] Apparently, there never was.[76] The members report this to have been clear from the very beginning. The committee arrived at the first meeting not certain what to expect and found itself unanimous in its preferred book—"It was the most interesting and unusual book," recalled Fisher, "and had the most literary quality."[77] But the book was an unusual text in many respects and had been written by an unknown. It was, they all thought, unlikely to be a popular success. "Mr. Scherman and Mr. Haas never said a word—didn't even look a word—and it was chosen and sent out" directly.[78] Looking back from the 1950s, none of the interviewees recalled experiences to modify this general account. The *New York Times* obituarist, whose research was clearly extensive, made a section title of it.[79]

Management's view was that it was, editorially, in the business of screening books rather than guessing which ones would sell.

> [Staff] readers shouldn't try to guess what's going to be popular and what isn't. If all the Club wanted to do was to sell books in quantity, I could sit here alone and make the decisions, and we could throw out the whole God-damned reading department, the whole editorial department, which must cost the company a quarter of a million dollars a year.

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opinion really counts for anything unless there is a stalemate and they turn to me, you might say, for the 'lay reader's' opinion. … [M]y chief role in the meeting [is] that of mixing the drinks for those of the judges who drink. They have a cocktail before lunch and then start right off. … " Lynch Oral History, pp. 25 and 27.

[75] Canby Oral History, pp. 3-4. (Canby was the founding, and then current, editor of *The Saturday Review of Literature* and taught from time to time at Yale.)

[76] "Bob Haas sat in on the meetings in the early days, but he didn't steer them at all. I was pretty sure [from the start] that we didn't have to worry about Harry Scherman disapproving decisions; after I got to know him, I knew that he wouldn't. … [I]f he had, I would just have resigned right away. I hadn't much at stake." Canby Oral History, p. 4.

[77] Fisher Oral History, p. 10.

[78] Ibid.

[79] "Harry Scherman, 82, a Founder of Book-of-the-Month Club, Dies," *New York Times*, November 13, 1969, p. 47.

said Ralph Thompson, the head of the editorial department in the 1950s.[80] They did believe themselves to be the most profitable book club on a per-member basis.[81] Predicting popularity wasn't how they understood themselves to be making their money. They understood the ultimate basis of this to be their customers' trust that the company was doing what it said and not something else.

More broadly, and occasional bad reactions to specific selections notwithstanding, the response from potential customers in the early days seemed very positive. This brought three sorts of secondary responses in its train. These came from traditional book retailers, from imitators, and from the publishers who created the books being sold by the company.

The infrastructure of traditional i.e. what we would now call bricks-and-mortar retailers of books in the United States at this time looked rather different from today. There were just shy of 6,000 establishments in the United States into which a customer could walk to buy a book at retail in 1928.[82] These stores were overwhelmingly single-establishment firms. A small number of chains existed, but these tended to be quite local: with only one major exception, it appears that multi-establishment firms were strictly regional and indeed tended to be confined either to adjacent East Coast cities or to a single city, somewhere in the country, and its immediate hinterlands. Department stores were still a significant factor in the trade, representing about fifteen percent of the total establishments, the book departments generally being placed on the ground floors, near the doors, and functioning much as cosmetics departments did and do in such

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[80] Ralph Thompson Oral History, p. 24.
[81] Lynch Oral History, p. 19.
[82] *The American Book Trade Directory* (New York: R.R. Bowker, 1928).

establishments today. Department stores, gift shops, and drug stores account for about one-quarter of the establishments.

The retail venues were distributed, albeit not very well, across all the states and in many small places as well as cities. (Recall Table 9.) As observed above, they did not make much money. And anecdotal evidence suggests they were generally thinly capitalized. Their response to the advent of the company was, understandably, one of hostility. The commonest idiom in which this was expressed publicly seems to have been that subscribing involved delegating choice, that part of the pleasure in reading (if indeed not part of the pleasure of being an American citizen) was in fact the making of choices by the individual. This resonated with intellectuals writing for magazines and perhaps with others, though there is not much evidence it seemed a powerful argument to potential customers. Scherman and his colleagues claimed in speeches that trade sales of titles selected by the company tended to grow after selection and to be markedly larger than the trade sales of earlier and later books by the same authors.[83] There is certainly corroborative (if less than unambiguous) documentation for the claim in correspondence from friendly publishers during the early years. Viking had originally obtained 1000 copies of the initial selection, *Lolly Willowes* (which was initially published in the U.K.) Their initial sale to the Book-of-the-Month Club was quite large (see below). But they wrote to say, I presume having been asked, that they eventually sold through traditional channels a number roughly equal to their sales to the Book-of-the-Month Club.

[83] For a summary of evidence and the company's tendentious interpretation of it, see Wood Oral History, pp. 21-26. (The same facts could be explained with no reputation effects but authors' works being of uneven quality and both the company and the reading public recognizing a good book when they saw one.)

Scherman cited other instances, some with larger effects, in writings and speeches.[84] The independents were trying to get the publishers to stop selling books to the company; and the fact that in the end they failed more or less comprehensively at this suggests there may have been something to these examples.[85]

There was also direct imitation. Some of these firms competed head-to-head, but the first mover advantages seem to have been substantial. Perhaps some point of differentiation was required. The easiest candidate to hand was price. The perennial question of how sharp strict price sensitivity is relative to the intrinsic appeal of specific products seems to have been answered in this case in favor of the product attributes.[86] The imitator firms were always smaller and soon enough started trying to differentiate their offerings by seeking niche audiences (childrens' books, science, detective stories, etc.).[87]

The response of the publishers was the most interesting. They appeared to have worried about losing the (selling) assistance of their bricks-and-mortar intermediaries until they became persuaded that they were better off with the Book-of-the-Month Club

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[84] Publishers also said this sort of thing to their authors. For example, see Barker to [Booth] Tarkington, December 5, 1944 (how valuable having a novel chosen as a Literary Guild main selection would be and how the advertising would have further consequences for sales of the trade edition) and Longwell to Scherman, July 7, 1932 (the publisher wanting to coordinate decisions he had to make with the schedule of the Book-of-the-Month Club selection meeting for the following month, also noting that his author "made us turn down $35,000.00 for one serial, refused to consider another, said "no" to any book club except Book-of-the-Month". This could, of course, simply be flattery on the editor Longwell's part; but given the numbers in the first letter and the very much larger sales of the Book-of-the-Month Club than those of competing book clubs , it sounds much more like his author, Miss Glasgow, was holding out for the biggest boost to trade sales). Both letters can be found in [Doubleday] 75th Anniversary Book, Research Material Chapters, Part 3 "Expanded Uses of Books: Book Clubs," 1927-61, Box 169, Ken D. McCormick Papers, Library of Congress.

[85] At least from the publishers' perspective: nothing in the example speaks to the question animating the retailers, namely what their sales would have been in the absence of the Book-of-the-Month Club.

[86] It is difficult to assess the case of the Literary Guild, which rapidly became an instrument for maintaining high capacity utilization of the Doubleday presses.

[87] Walker Oral History, p. 47. The main categorical exception to this claim is the book clubs run by department stores, where books could be selected from the shelf stock. The category was not very durable.

than without.[88] One element of that was surely the basic order. Book-of-the-Month Club Main Selections sold in very large numbers relative to typical initial releases. Haas remembered negotiating the discount on *Lolly Willowes*, that highly literary and somewhat dreamy first Main Selection about whose prospects in the American market Viking was distinctly cautious.

> "… I remember [the publisher] Harold Guinzberg coming down [from Viking] and talking to me …. I simply asked him, "What discount would you give us on that book if we order 4000 copies?"
>
> He almost fainted at the idea of a 4000-copies order, but said "I would give you a 60% discount."
>
> That sounded pretty good, so we agreed on that."[89]

Even for a book with an ordinary prospective initial sale, the publisher "might [plan to] have an edition of 15,000 or 20,000," Scherman commented later, "and [our sale] was quickly up in the vicinity of 40,000."[90] This promised a very different cost structure, since the fixed costs of making a book were not insubstantial.[91] The publishers had initially sent bound copies of books for consideration. Soon they were sending galleys. Soon enough thereafter, they were seeking the lower unit costs of co-publication agreements, in effect a new vertical structure for (part of) the industry.[92]

Depression and war

The early 1930s were a terrible—truly a nightmarish—time for American business overall. The 1920s boom had had its pauses and hiccups, but the demand collapse starting in late 1929 (see Table 17) was simply staggering. Real Gross National

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[88] The *Book of the Month Club News* for March 1927 gives a very long list of cooperating publishers.
[89] Robert Haas Oral History, p. 7.
[90] Scherman Oral History, p. 49.
[91] Dale cited the cost advantages to publishers in his Oral History at p. 18.
[92] See below for more on this.

Product fell from $203 billion in 1929 to $141 billion in 1933. Unemployment shot up, especially among non-farm employees (amongst whom it reached a peak in excess of 37 percent). In general, unemployment was the only national economic statistic going up.

The most familiar response to negative demand shocks, abundantly on display in American retailing in this period even before Roosevelt's election, focuses on pricing and market control. By the late springtime of 1930, the price points for new trade fiction were moving.[93] Department stores, which had a long history of using loss-leaders in their book departments to draw trade, grew very active.[94] The business of circulating libraries appears to have boomed. Once the machinery of the NRA swung into position, efforts began to constrain the remainder trade and maintain prices.[95]

The history of the Book-of-the-Month Club in this period can certainly be seen in this way. The company was reluctant to lower posted prices. But it found ways to do its discounting in disguise. As from July, 1930, the company said, a coupon worth a 20% discount on a future purchase would accompany each accepted main selection.[96] In March 1931, a dividend fund was announced which would from time to time as

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[93] See "Publishers Announce Revolutionary Price Plans," *Publishers Weekly* May 24, 1930, pp. 2610-11, for discussion of announcements by Simon and Schuster, Coward McCann, Farrar and Rinehart, and Doubleday Doran, cautious comments concerning what half-a-dozen others might conceivably be considering doing, and a sympathetic response to a spokesman for the Booksellers' Board of Trade.

[94] For a sketch of the history, see Hellmut Lehmann-Haupt, Lawrence C. Wroth, and Rollo G. Silver, et al, *The Book in America: A History of the Making and Selling of Books in the United States* (New York: R.R. Bowker and Co., 1952), pp. 383-386. The most well-known example of competitive price-cutting in the early Depression book trade concerns sales of Modern Library titles by Macy's and Gimbels'. The list price was ninety-five cents a volume. The price nadir was Macy's offering at nine cents each (one copy to a customer for the obvious reason). Gimbels' response to this was unlimited copies at ten. For one report, see "Merchants Gone Mad," *Publishers Weekly* for October 18, 1930, p. 1847.

[95] Only the former met with any real success. See *Publishers Weekly* for November 4, 1944, p. 1588. The efforts continued until the Supreme Court declared the business codes unconstitutional in May of 1935.

[96] See "Book-of-the-Month Club Cuts Offer to Publishers," *Publishers Weekly*, June 14, 1930, p. 2928.

circumstances allowed finance free additional books for subscribers.[97] A 1932 circulation drive with an up-front book premium was denounced as a give-away to potential subscribers.[98] Books were occasionally simply given away on an ad hoc basis to subscribers.[99] In 1938, an enhanced dividend program, really a policy of one free book for every two purchases carrying dividend credit, was put into place.[100]

But such an account would be seriously, and intriguingly, incomplete. Other company initiatives were more complex and idiosyncratic. The most striking of these concerns the terms on which the books became available to the company for shipping to customers. Initially, the books were purchased at trade (i.e. wholesale) prices from the publishers. This had come to involve a substantial transfer of surplus to the publishers inasmuch as the Book-of-the-Month Club sale was often, as noted above, several times the whole of the first printing. By 1930, the market was not good but there was reason to think—or at least for entrepreneurs to hope—that the company had a more reliable relationship with book-buyers than individual publishers did.

In June, the company announced different terms. It would pay publishers a $14,000 flat fee for the use of the publisher's printing plates i.e. to produce its own edition using contract printers. "The contract stipulate[d] the payment of this sum for plates used in editions of from 42,400 to 70,000. Should the edition go above or below these limits, adjustments [were to] be made."[101] The company would stand such inventory risk as physical production entailed—it backward integrated, in this

[97] "Books as Dividends," *Publishers Weekly*, March 21, 1931, p. 1577.

[98] "Club Now Gives Its Books Away," *Publishers Weekly*, September 17, 1932, p. 1038

[99] The rationale in 1935 was to rescue "from an undeserved oblivion [a book] of exceptional merit, which we feel certain would be enjoyed by thousands of readers … the most neglected book of 1934 …." *Book-of-the-Month Club News*, January, 1935.

[100] *Publishers Weekly*, May 28, 1938, p. 2088.

[101] "Book-of-the-Month Club Cuts Offer to Publishers,"*Publishers Weekly*, June 14, 1930, p. 2928.

development, into publishing. The timely feedback generated by the negative option plan meant that the company had less inventory risk to stand. Soon enough, as I suggested above, publishers were coming to the Club seeking to share the economies of scale. The lease terms evolved over time, but the company stuck with this basic change in its vertical scope.

The Book-of-the-Month Club business performed, in this period, remarkably. (See Table 18.) Subscription numbers dipped in 1931 and again in 1934 but otherwise grew steadily. Total books sold grew vigorously, with the 1938 figure more than treble the 1930 one. Net profits as a proportion of net revenues grew.

The war years came out better still, commercially speaking. Table 19 gives some particulars. By 1945, the year the war ended, subscriber numbers had more than doubled the 1939 level and they would be up nearly two-and-a-half-fold by the end of the following year. Books sold were also up disproportionately by then. Net revenues had more than tripled. The ratio of profit net of tax to sales had been down since the United States had entered the war, presumably due to sharply increased materials costs, but was still very healthy.

> "… Back in 1939 and 1940, while we weren't in the war, people were pretty prosperous and were buying books—were buying everything. When we got into the war the total of our membership begins to reflect the fact that people not only had a lot more money to spend but that they couldn't spend it on many consumer goods. The whole book industry boomed: you could sell almost any book in that period. … The cost of getting subscribers then was very (206) low. You almost could put an ad in anywhere, or send out any kind of circular, and get results."[102]

As the post-War years began, the company was in good shape.

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[102] Scherman Oral History, pp. 205-206.

The post-war IPO and the mid-50s status quo

The Book-of-the-Month Club was incorporated in 1926. It carried on as a private company for many years with only incremental changes in its basic approach. (I consider how well this worked out for the investors in Section 4 below.) By the end of the war, however, Scherman had had major health troubles . The other initial investors, by then mainly in their sixties, had at one point or another sold out to him and moved on to another stage of their lives.[103] Concerns were expressed about continuity of leadership in the event of further health problems or retirements. Scherman's lawyers also wanted a price on the shares so that the inheritance taxes would not be essentially at the discretion of the Treasury when Scherman died. An initial public offering was proposed for 1947.

One can piece together a reasonably picture of the company's operating context as of that moment in time. Table 20 gives three key elements of the environment. Real GNP was slightly down relative to the war years but up massively over 1929. The number of Armed Forced personnel on active duty of course expanded greatly over the war years, rising from approximately 334,000 in 1939 to a 1945 peak in excess of 12 million. By 1947, the number was down to about a million and a half. The GI Bill (the "Servicemen's Readjustment Act of 1944", to call it by its official name) was signed by President Roosevelt on June 22, 1944. It subsidized inter alia tuition, fees, books and supplies, and living expenses for the honorably discharged. Within the following seven years, it sent roughly two and a third million people to college. The 1948 and 1950

[103] Haas did so colorfully. His post-Club curriculum vitae included Columbia University, the National Bureau of Economic Research, and the Geneva conference on the causes and effects of the Depression. See Haas Oral History, p. 15. He later returned to publishing and retired as a vice-president and director of Random House. (One would not imagine it from the references to him in his former partners' Oral Histories, but the *New York Times* [August 13, 1964, p. 29] also refers to a Distinguished Service Cross for bravery under fire.)

tertiary enrollment figures were 2,616,000 (an increase from the previous figure of almost 80 percent) and 2,659,000. These people were acquiring, amongst other habits, the habit or reading books. Personal consumption expenditure patterns in 1947 were not much different from what they had been in 1929. (See Table 21.) In the finest subdivision reported in the source capturing expenditure on books, the share remained for practical purposes constant. The prospective market looked good. A 1947 “Census of Sales” conducted by the Commerce Department showed adult trade books i.e. sold direct from publishers or through bricks-and-mortar trade channels at 16.1 percent of total volumes compared to mail-order sales, which went principally through book clubs, of 15 percent. (See Table 22.) The Book-of-the-Month Club dominated this sector.

Some questions from a Gallup poll conducted in early January of 1948 add detail.[104] The sample involved 2,983 respondents, a relatively large number as polls go.[105] Almost thirty percent (29.7 percent, to be precise) said they (presumably speaking on behalf of their households) were members of a book club. Slightly more (30.7) said they were ex-members.[106] Places of residence were grouped into a number of population classes, from those of 500,000 and more down to towns of less than 2,500 and more rural places. Those answering “Yes” to one or the other of these two questions formed a clean majority in all classes (see Table 23). Those who answered “Yes” to either of these questions were asked to identify the club or clubs in question. The answers are shown in Table 24. About two-thirds (67.1 percent) answered the Book-of-the-Month Club. The

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[104] This is Gallup Poll 410-T, consultable at the Roper Center for Public Opinion Research at the University of Connecticut.

[105] I have not yet been able to find any documentation of the sampling procedure (or, come to that, response rates).

[106] It seems clear from the way the question is laid out that these are intended to be exclusive categories, though it is not of course clear that the respondents interpreted them that way. The numbers seem very large either way.

second-place book club was the Literary Guild at 19.2 percent. None of the other book clubs had above 8 percent of the answers, and most were less than 2 percent.

Table 25 gives market penetration of the Book-of-the-Month Club in the Gallup sample by place of residence population class. It is strongest in relatively sparsely populated places and in larger places. The three classes in question are where 70 percent of the U.S. population lived. (See Table 26.) The highest penetration figure is in the most populous population class, and this is the one in which competition for a mail-order company from bricks-and-mortar stores is likely to be weakest. This is a promising environment.

The IPO prospectus showed that the company was throwing off money; and the prospects must have seemed bright. Even so, it is not immediately apparent from the figures in the prospectus that the company was being managed as well as it might have been. Further analysis is possible. Table 27 gives such churn data (a key parameter in understanding whether the company had roughly the right size or not) as I have been able to discover to date. The S-1 breaks out an accounting category corresponding to (nominal) customer acquisition expenses. Mobilizing (boldly, and conceivably slightly recklessly) the churn data and the subscriptions series, a series on the inflows of new customers can be estimated for 1937-1946 and a series on the real cost per new subscriber calculated. (See Table 28.) This was back to pre-war levels by 1946.

Table 29 gives the key figures in a calculation of the lifetime customer value of average (i.e. not incremental) customers during the 1937-1946 period (again somewhat awkwardly assuming some stability in churn rates over the period). These values are the benefits corresponding to the (nominal values of the) costs of the preceding paragraph.

In general, the benefits look smaller than the costs. One might home in on uncertainty as to the actual churn rates and observe that for most years in the period the two were not statistically distinguishable from one another.[107] But this looks clearly untrue for 1945 and 1946. I note that the first big postwar operating initiative was to scale back numbers.

Perhaps the analysts did not dig so deeply. Perhaps they did and thought the company would be worth even more with pressure from public shareholders. In any case, the IPO went off quite successfully.

At the time of the IPO, the company was by far the largest single book club and a very substantial force in the industry overall.[108] Even a decade later, at the time the Oral Histories were taken, the company's book club competitors, the Literary Guild aside, remained focused on niche clienteles; and the Literary Guild continued a much smaller operation.[109] These external perspectives can be complemented: the Oral Histories give quite a detailed picture of internal operations in the period following the IPO. A number of details are quite salient in the context of the history given above. The most important ones concern consumer research, marketing and analysis, and production planning and control.

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[107] The break-even annual churn rate given in the Table is the rate that would equate the benefit and cost columns. In general, one might think to compare these to the range of actually observed rates. The churn rate used in the lifetime customer value calculations comes from a Monte Carlo simulation. Measures of its variance are therefore available (as such measures corresponding to the actually observed rates are not). The asterisks in the Table's final column indicate the break-even churn rates that are within 1.96 standard deviations of the estimated mean.

[108] The company sold 9,940,000 books in 1947. (1948 Annual Report, unn. p. 3). A Census study of the American book trade that year (cited in the 1949 Annual Report unn. pp. 4-5) puts the unit volume of the whole mail order sector that year at 45,546,000. Management comments that book club sales "must surely comprise the main part of the segment". If 'the main part' means something between 40 and 80 percent, the Book-of-the-Month Club market share would be somewhere between roughly 25 and 50 percent, either—surely—very large.

[109] See Walker Oral History, p. 47.

The Book-of-the-Month Club was one of George Gallup's early private clients and it employed his services steadily thereafter.[110] Indeed, the company valued Gallup's counsel enough that it eventually put him on its board. The main work the Gallup firm did involved exploring characteristics of the company's customers.[111] Who were they? Where did they live? (This was not just a matter of postal addresses—the pollsters wanted to distinguish cities from small towns from farms.) How old were they? How much education did they have? This was basic background, the sort of thing any business decision-maker would want to know, and may seem a very unsurprising use of firm resources now; but it was in fact unusual at the time.[112] Some of the answers were surprising. Gallup himself expressed surprise at how many came from the smaller towns.[113] Two-thirds of all books were read by people under the age of thirty-five.[114] And so on. There were also, from time to time, questions more directly addressed to the customers preferences—in particular, questions concerning whether the customers liked the premium books (which were not selected by the judges but simply given to the members along with their books). Table 30 summarizes some information of this sort ca. 1947.

The company was always searching for new members since—just as with magazines and other subscription businesses—there was ongoing attrition of its customer base. The highest-level marketing decision was therefore the allocation of funds between the principle advertising vehicles. These were the periodical ("space") advertising with

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[110] Gallup Oral History, page cite to follow. (I hope the next version of this paper will be able to quote more extensively from the private client work.)
[111] Gallup Book-of-the-Month Club Oral History, p. 13.
[112] Gallup [freestanding] Oral History, pp. 126-127.
[113] Ibid., p. 24.
[114] Ibid., unn. page.

which the company had begun and the direct mail advertising that was Scherman's own individual stock-in-trade.[115] Company executives wrote their own copy for the most part—an advertising agency was employed, but apparently mainly to offer advice about periodicals and to book space at advantageous rates.[116] The scale of all of this was very great: the company sent out 5-6 million pieces of direct mail in a typical year, 10 in a good one and sometimes as many as 12.[117] Premia were offered in some advertisements to attract new members.[118] Very elaborate testing was done prior to major campaigns to explore the relative attractiveness of alternative premia among populations of interest.[119] Addresses for direct mail generally came from leased or purchased lists. The attributes and tastes of members of alternative lists could vary greatly, and considerable resources were put into discerning the value of the alternatives both ex ante and, for the ones deployed, as time went on.[120] This was a company in which operating statistics were gathered systematically from very early on, research and testing represented a major use of funds, and quantitative incremental analysis was standard procedure in managerial decision-making.[121]

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[115] See Warren Lynch Oral History, pp. 21-22.

[116] See Lynch Oral History, pp. 3-4 and 10.

[117] See Lynch Oral History, p. 21, and Walker Oral History, pp. 10 and 48.

[118] "By and large, however, the ads that succeed with us are those that feature the free book." Lynch Oral History, p. 5.

[119] Lynch Oral History pp. 16-17 describes the 1956 program. There were three annual tests, twelve different candidate offers (with the hope that two or three would be successful enough), and a mailing of 100,000 for each of these. A variety of different mailing lists were used and tested against one another. There were also intra-list tests: "For example, in one mailing we may decide to offer part of the group, as an extra premium, another book. We test that group against a similar group which is not getting the extra book, to see whether the extra book lowers the order cost and increases the number of people who join."

[120] Walker discusses this in her Oral History on pp. 45-47 and 51-52.

[121] For evidence of a Statistical Department in the 1930s, see Edwina Kohlmann Oral History, p. 1. For a matter-of-fact account of incremental analysis in decision-making concerning advertising, see Lynch Oral History, p. 7. For a small but very vivid trace, recall from Figure 9 above that the initial advertisement in the *New York Times* asked that the coupons be returned to Department 9-E. The second ad was largely identical but the department had become 9-F. See *New York Times* , June 13, 1926, p. BR-32.

But the impact of information on operations was more striking still on production planning and control. The facts that make it striking are these. While the oral histories do not record subsequent acceptance disasters on the scale of *The Heart of Emerson's Journals*, there continued to be significant residual uncertainty as to the ultimate sales of any selected title.[122] The peak annual average acceptance rate we know about for Main Selections, at just shy of 62 percent in 1927, was substantial but not overwhelming.[123] The secular trend in acceptance rates ran firmly downwards, with the rate just above 38 percent shortly before the oral histories were taken. This was so notwithstanding the fact that the company and its offerings must have been, for almost all of the period from which these observations are drawn, very well-known and notwithstanding the large and ongoing investments in knowing the clientele at any moment. Whatever the company was trying to do, it was, ex post, not outstandingly good at creating acceptance. And aside one observed upward swerve in the postwar—demobilized?—year of 1949, the performance got monotonically worse over time. Yet profits were healthy and secularly rising. The key was, as before, managing risk. But routines were now in place.

The process began with initial demand forecasts derived from trends to date, membership and cancellation trends and the like, and basic attributes of the Main

[122] "Some of the judges—and I won't name them—are sometimes inclined to be concerned with the eventual sale of the book rather than with its quality. We feel—and I think perhaps we should know better than our judges, since we are concerned daily with selling books—that no one can predict the sale of a book. If anyone could—except for the obvious examples of books written by very successful authors—he could go out on his own in this business and clean up. Any concern, on the part of our judges, as to whether a book will sell or not is not important, really. There are areas, obviously, where they couldn't pick a book—technical books, for example, no matter how good. They have to consider, of course, the education and the interests of our membership. But none of us has a crystal ball. We have been fooled by lots of books that no one thought would sell but did, and vice versa." Lynch Oral History, pp. 25-26.

[123] These figures are physical measurements from a plot, reproduced below as Figure 11, taken from the Strategic Study of 1984 (on which also see below). The plot points—to the best of my knowledge, the only available data on company acceptance rates—are annual averages for 1927, 1934, 1937, 1944. 1949, 1954, 1959, 1964, 1969, 1974, 1979, and 1984.

Selection itself.[124] These forecasts would first be modified on the basis of early card returns concerning rejections and substitution and some knowledge of how the populations in the regions from which the early returns came related to the company's larger customer population.[125] These inter-regional behavioral relationships were usually fairly stable, though reviews in newspapers and the like might sometimes have some impact.

The company was in its production planning fearful of stockouts but also of overstocks.[126] On average, the estimates were within 1 ½ to 2 percent of sales. Initial print runs were always conservative.[127] Within the month over which shipments took place, further printings were made as required—at the margin, printing as well as binding were being done more or less on a just-in-time basis.[128] Since the copyright holders furnished a set of printing plates sufficient to the company's three (contract) printing locations and the printers behaved as if the company was leasing press time rather than paying by the copy, such real-time adaption to order flow was perfectly feasible.[129] Given the company's vertical integration, it spared the Book-of-the-Month Club the inefficiencies that Cheney had noted in 1931 and that plagued the industry at the time of the Oral History interviews and still do.

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[124] See Kohlmann Oral History, pp. 1-2, Dale Oral History , pp. 8-9, and Gallup Oral History, p. 3.

[125] "We found out … that we in New York are not at all an index of the rest of the country. Acceptance here is usually lower. We pay very little attention to that zone in estimating the rest of the country. Greater New York we have in a zone by itself." (Kohlmann Oral History, p. 2.)

[126] See Dale Oral History, pp. 10 and 19, Kohlmann Oral History , p. 3, Lee dissertation p. 165.

[127] Dale Oral History, p. 6.

[128] See Dale Oral History, pp. 6, 10, and 21. (Indeed, the books were shipped throughout the month to even the load. See Kohlmann Oral History, pp. 1-2.)

[129] On the printing plates, see Lee diss., pp. 164-165. On the printers behaving as if the time was leased, see Dale Oral History, pp. 6-7 and 21.

4. Some discussion of economic substance as of the IPO

The company was started with an investment of $40,000, half from the wealthy investor Haas who joined the firm for half a dozen years and half from Scherman and Sackheim. They were profitable more or less from the start and this may not seem surprising: from 1928, gross margins were consistently in the 60 percent range (Table 31) and capital expenses were minimal. Data available in the S-1 allows computation of returns during the private period. Table 32 gives a series for the return on shareholders' equity during the private period and a series comparable to the usual total return calculation for calculations in public companies.[130]

The numbers reported in that Table are healthy, very healthy indeed; and if the real sizing mistakes in fact came shortly before the IPO, one wouldn't have expected to see big consequences until afterwards.[131] So how should we assess the returns data? It certainly is possible to offer some crude standards of comparison.[132] Excluding 1927 as a transitional year, the Book-of-the-Month Club mean return figure from Table 32 is 22.16 percent (with a standard deviation of 19.43 percent).[133] The analogous figure for the Standard and Poor's 500 stock index is 3.04 percent (27.76 percent respectively.). For a market capitalization-weighted average of the analogous figures for the largest mail order

[130] The calculations go as follows. Deduct from net sales COGS ("cost of goods sold") and SG&A (selling, general, and administrative expenses), add in other income, and subtract off taxes, to get profit after taxes. Subtract off cash dividends to obtain retained earnings. Calculate stockholders' equity as initial capital investment plus retained earnings. Calculate return-on-equity as net after-tax profits divided by stockholder equity. (This is the per-dollar statistic given in Table 2.) Calculate the total return as the year-to-year change in return-on-equity. (This is how the value of holding the company changes and is the statistic given in Table 3.)

[131] These did in due course appear.

[132] The fact that these comparisons are calculated from stock market valuations rather than accounting ones and that the companies in question had different asset (and so depreciation) structures limits the value of this exercise. I have hopes of creating strictly comparable series but have not yet done so.

[133] The exclusion depresses the mean.

general merchandise retailers (Sears Roebuck, Montgomery Ward, and Spiegel), the numbers are 14.87 (49.60).[134] For a similar weighted average of the analogous figures for five major department stores, they are 5.67 (40.49).[135] Calculations of risk-adjusted rates of return show the Book-of-the-Month Club doing more than three times better than the mail order index and about ten times better than the department stores. Both of the latter show beta values (representing covariation with the market average) greater than 1, while the Book-of-the-Month Club's beta appears at about .5 . Commercially speaking, the Book-of-the-Month Club was a good idea.

What sort of idea was it? The first scholarship on the company more or less takes Scherman's line from the late 1920s that it was mainly selling books where bookstores weren't. I could paraphrase this to say that the company is portrayed rather as if it was Henry Ford discovering the mass market for automobiles. Scherman was a bit defensive, of course, as to precisely where his customers lived; and even in its public company days the company never published data about where its customers lived that was very illuminating.[136] Still, the perspective of both these sources is, oddly, rather like that of a neoclassical economist. There are fixed costs to having a bricks-and-mortar store. Only some areas will represent markets large enough to be able to support it. I want to propose a different interpretation.

What the store owner established in some specific venue worries about first is not whether to open a satellite shop in the location's hinterlands. The first worry is how to

[134] This is the same weighting system employed in the S&P index.

[135] I would have liked to add to this set another series for publishers (for reasons that will emerge below). Unfortunately, the quantitative raw materials do not appear to exist.

[136] The president of the company said specifically at the time of the IPO that two-thirds of the customers lived in rural areas and towns. But the company never gave data that could be correlated to the location of book-selling venues. I asked a quantitatively-minded manager who worked at the firm in the late 1970s where the customers were and was told to imagine a map of the National Public Radio subscriber base. I continue in search of real evidence on this point.

make money in the space to which there are already financial commitments. This appears fundamentally as a problem of merchandising—In what goods should working capital be invested? What variety should be shown off in the inevitably limited display space?—and may in this guise seem relatively modern. It is not. For a vivid old American example, Parson Weems (he of George Washington and the cherry tree, etc.), in his capacity as traveling salesman, wrote in 1809 to Mathew Carey, the publisher of the books he was selling about a scheme to set up and stock stores. Carey was skeptical. Weems replied as follows: "You speak of dead Capital. But, in my opinion there is nothing to be dreaded on that score, provided your Capital be vested in the right books."[137] The problem is chronic and was until very recently in general not less than extremely difficult for a general audience retailer to address.[138]

The Book-of-the-Month Club was not passive about vesting its capital in the right books. It was an early and intensive user of George Gallup's services. (It eventually even put Gallup on its board.) It wanted to know about its customers as well as about the inducements it might offer. It strove to control operations and costs, and it did not in this period suffer from anything like the overproduction and general coordination problems the contemporary alternative channels did. Subscriber acceptance rates of the Main Selections declined secularly, but on the evidence currently available appear to have been fairly easy to predict.[139] All this may indeed have been completely independent of the Selection Committee's decision-making. That does not mean it had no economic value.

[137] Weems to Carey, March 25, 1809 in Skeel ed., vol. II, p. 397. The whole letter is marvelous as well as illuminating of various aspects of the early book trade (and Weems's temperament, if that is not itself one of the aspects). I reproduce the key parts in the Appendix to this text.

[138] On the transition, see my essay entitled "Distribution" in *Historical Statistics*, Vol. 4 [Economic Sectors], pp. 705ff.

[139] At present the number of observations of acceptance rates in the private period is smaller than I wish. But a one-variable regression captures nearly ninety-five percent of its variance. I will give more

This point is worth emphasizing. The more recent Cultural Studies perspective, in particular as articulated by Radway, suggests that the key to the company's success was producing "only the number of copies [it] needed in order to supply those consumers who had been permanently integrated into the marketing circuit as regular subscribers."[140] "In effect Scherman was attempting to create an automated system that took the inexorable pace of Ford's assembly line one step further by attempting to regularize not only production and distribution but the more unpredictable process of consumption as well."[141] Whatever Scherman's intentions may have been, this was not how the company worked out: if this was the objective, the company just was not very successful. As noted above, the acceptance rates were at best large but not enormous; and they were in marked secular decline. Cancellation rates were within the normal range for magazines, which is to say that as employee turnover rates they would have struck any employer as alarmingly high. And yet the company does appear to have been a success.

My sense is that the Book-of-the-Month Club was in effect a variance-reducing means of profiting from investment in retailing books: it made its money not from having a captive audience but from having a large and potentially receptive audience and knowing how much that audience wanted to buy.[142] This may well have been an economically superior model for the whole vertical enterprise of publishing-cum-

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details in the next draft.

[140] Janice A. Radway, *A Feeling for Books: The Book-of-the-Month Club, Literary Taste, and Middle-Class Desire* (Chapel Hill: University of North Carolina Press, 1997), pp.175-176.

[141] Ibid., pp. 174-175

[142] A direct test of this at the moment still seems elusive. There definitely is some preliminary evidence the company got good at reducing the variance of profiting period (which is not quite the same counterfactual). The calculations behind Table 26 involve running a trend line through the returns series of Table 22, calculating the value of the deviations of the realizations from this trend, and taking their absolute value. Note that values in the series in this table fluctuate but are basically damping through America's entry into World War II, then (in what must have been somewhat novel circumstances) up a bit (but not much by the earlier standards). Note also that the slope of the trend line in question is -0.056 but with a standard error of 0.031. It might conceivably in fact be negatively sloped (and it would be easy enough to explain that). But by the usual conventions, the trend is indistinguishably different from being flat.

retailing.[143] Neither retailing nor publishing were known as high-margin businesses in this period. A simple calculation concerning the profitability of the Book-of-the-Month Club is suggestive (though very far from conclusive).

Forty thousand (nominal) dollars went in to establish the company early in 1926. There were cash dividends in every year starting in 1927. One can calculate the present value of this dividend stream as of the time of the initial investment given an interest rate. Similarly, the share price as of the IPO established a terminal value on the initial investors' investment. This too can be discounted back. If the discount factors are nominal interest rates, then changes in the price level as well as the time value of money are accounted for. Using what I imagine is the most realistic available interest rate series (i.e. for investors' alternative investments), that on prime corporate debt, it appears that the ration of investments benefits to costs was slightly in excess of 228:1. (Using the most financially conservative alternative, that of federal government short debt—procedure that does not give the most conservative estimate since the interest rate discounts future earnings—the numerator of the ratio is in just shy of 350.) Table 33 gives the basic facts. The Book-of-the-Month Club was a very effective way of doing whatever it did.

In general, whole-channel profit rates cannot be calculated from publicly available data.[144] The Federal Trade Commission Line-of-Business program in the mid-

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[143] Trade publishing, then and now, is reminiscent of venture capital in its dependence on a small number of very successful titles to carry a much larger list most of which are at best modest financial successes. The great part of this remainder in fact generally loses money. The main way publishing in the period under discussion differs in these respects from venture capital is that the houses we think of as major trade publishers also had lines of textbooks, dictionaries, and the like that were used to subsidize trade operations that often enough lost money overall. The ability of the Book-of-the-Month Club relatively regularly to sell extremely large numbers of its main selections was a major advantage, comparatively speaking.

[144] See Betty Bock, *Line-of-business reporting: Problems in the formulation of a data program*

1970s made calculations for selected industries on the basis of non-public data but the coverage was not broad and the effort was not continued.[145] But a weighted average of two figures must lie between the extremes of the two: it cannot be more than the value of the larger figure. The Book-of-the-Month Club figure cited above is very much larger than any plausible weighted average of value chain components given what we know about the typical financial performance of the various elements of the value chain. This was a supranormally profitable channel structure.

5. Two further interims sketched and discussed

The narrative might perfectly well stop here. But there is light to be shed on the issues raised in Section 1 by continuing.

There was significant environmental change in the years after the war. The soldiers came home and started families; and the bulge in population known as the Baby Boom began. (See Table 34.) The population overall became more likely book buyers. The GI Bill created a much larger market of people who had been stimulated by tertiary education and had their horizons expanded; and the educational policy initiatives undertaken in the aftermath of Sputnik only intensified this development. (Recall Table 20 and see Table 35.) As primary and secondary school enrollments (and school library-building) in due course ballooned (see Table 36), more demand still materialized. As the children of the Baby Boomers grew up more, the tertiary sector underwent a major expansion at both intensive and extensive margins. (See Table 37.) The students needed

(New York: The Conference Board, 1975) [Conference Board Report No. 654].

[145] The results that were published appear as U.S. Federal Trade Commission, *Annual line of business report* (Washington: U.S. Federal Trade Commission, 1973-1977).

books. The school libraries needed books. (Even the nation's public libraries did well out of this period.)

The nation was also growing markedly more prosperous. Keynes had written in the 1930s; but his ideas did not really become accepted in America until after the war. Their acceptance came at a fortunate confluence of events, with the manufacturing facilities of many other industrial nations devastated by war, and what is now thought of as the long Keynesian boom began. The subsequent course of real Gross Domestic Product was such as to make a retailer's heart glad. Real GDP per capita grew more slowly (see Table 38) since the population was also growing; but its growth was still quite vigorous. For those selling consumption goods not strictly necessary to daily life, this was certainly good news.

This growth in the demand for reading matter and the development of readers was certainly a good thing for the Book-of-the-Month Club. Unfortunately, it also made entry more tempting. New publishers often identified themselves with sophisticated literature and non-fiction (for example, Schocken, Atheneum, Grove Press, Praeger, and Braziller). Since bookstores in this time often organized their stock by publishers, this was itself a guide to potential readers. A more worrying development concerned what is now called mass market publishing.[146] At the heart of this, from the Book-of-the-Month Club's perspective, were publishers selling titles in paperback that would previously only have been offered in hard covers. These books were known as trade paperbacks. The price points were, of course, much lower. The great entrepreneur of this was a young

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[146] For an overview, see John Tebbel, *A History of Publishing in the United States Vol. IV: The Great Change, 1940-1980* (New York: R.R. Bowker, 1981), pp. 347-365. Paperback publishing had been economically significant at other times in the history of the American book trade; but this seems to have been the first time it really attacked the sort of niche the Book-of-the-Month Club was occupying.

Columbia graduate (and ipso facto a recent graduate of its famous Western Civilization core course) named Jason Epstein.[147] The established publishers were hesitant to print paperbacks in the early 1950s and most paperback publishers then distributed mainly to drug stores and news-stands. Epstein, in his first job at age 24, persuaded the New York publisher Doubleday to start a higher-quality higher-price paperback imprint called Anchor and to sell the output to retail bookstores and to wholesalers. The first four volumes' first two weeks' sales would have been satisfactory totals; Knopf began the Vintage imprint the following year to take advantage of its copyrights; and the genre was off and running.

Anchor's early offerings were classics and Vintage's well-known Knopf titles. All of these came, so to speak, with endorsements if not established reputations. Their publishers advertised. This may well have seemed to Scherman and his colleagues to be a threat, at least at the margin, their own company's model. Against this, published titles and editions continued to proliferate through the fifties, sixties, and seventies (and, for that matter, beyond). Indeed, for some time following the end of World War II, the pace only quickened. (See Table 39.) Yet reviewing media were also multiplying, this giving interested readers—even those without easy access to a bookstore, however its stock might be organized—a better idea than their predecessors would have had about what new books they might want to read. A new and genuinely authoritative voice among reviewing vehicles emerged starting during the long New York city newspaper in 1963 (which inter alia took out of publication the Sunday *New York Times* book review section). It was called the *New York Review of Books*. It too was soon thriving.

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[147] Epstein had a long and significant career. He was in the fullness of time the editor-in-chief of Random House and was one of the founders of the Library of America. He was also a co-founder of the *New York Review of Books*, on which see below..

There was also entry in the channels. The most important element of this proceeded on the back of the post-War suburbanization. As the population grew more dispersed, more roads and more automobiles became a standard feature of American life. (See Tables 40 and 41.) Land was generally cheaper farther away from the central business districts of cities; and with roads and automobiles providing easy access, shopping centers and malls became important potential sites of commerce. They proliferated. There are no precise numbers on their growth available but the figures reported in Table 42 are consistent with the literature and casual empiricism. The basic economic approach of mall operators in particular was to have anchor tenants (particularly large department store branches) that would advertise and draw foot traffic. The lure of this foot traffic was dangled in front of smaller tenants. The operators sought a mix of lines of business among the tenants; and bookstores were an attractive category. The Waldenbooks chain, which had its start as a rental library during the Depression years, was by 1948 a 250-establishment retail chain and after that only grew. In the 1960s, a second mall chain called B. Dalton (named, jokingly, by its entrepreneur, a personally modest department store heir named Bruce Dayton) soon also attained national scope. The mall chains' establishments were generally quite small by modern standards and were not broadly merchandised. But they did a vigorous trade in best-sellers and as companies sold significant numbers of books. By the late 1970s, publishers treated them with respect.

These are the most important environmental developments, conventionally conceived, in the thirty years after the Book-of-the-Month Club IPO. Other developments mattered too. Towards the end of this period, American culture was changing markedly as well. Outward events were turbulent—the Cuban missile crisis, the facts of the Vietnam War and the domestic political debate about how to proceed, drugs and the counterculture, the Arab oil price shock of the early 1970s and stagflation, and so forth. If America was an island (and to an important extent culturally it was), the isle was full of noises. The book trade saw this as an explosion of interests and responded with an explosion of titles, sales venues, and industry infrastructure (for example, small relatively local wholesalers). It was an age of curiosity, from the trade's perspective, of heterogeneity of tastes and offerings. Perhaps readers did not need the Book-of-the-Month Club's selection committee to tell them what they wanted to read as much as they once had.

Harry Scherman died in 1969. Control of the company remained within the family and the executive leadership passed to his son-in-law Axel Rosin. It stayed there through 1977. Rosin was not the advertising genius Scherman had been; but much about the company's operations had become routinized by that point and the gears certainly continued to turn.[148] As the preceding paragraph may have suggested, the trend in Main Selection acceptances continued monotonically downwards. (See Figure 11.) Manuscript acquisition costs were generally rising and the Club's value to publishers was

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[148] Some information about the publishing firm Doubleday, which by this time owned the Literary Guild and other more niche-oriented book clubs, is illuminating on the where the force multiplication from gear-meshing originated. In fiscal year 1974, Doubleday's Book Clubs division produced overwhelmingly the largest single part of the company's overall pre-tax profits (which came to $11.4m out of $20m.) The trade journal "Knowledge Industry Report" (8(18): February 15, 1975), p. 2) commented as follows:

> "In a real sense, the key to Doubleday's profitability as a publisher and book seller is its manufacturing division. Its printing plants in Maryland, Pennsylvania, and Virginia do all the printing for the book clubs …. They turn out an estimated 28-30 million books a year [overall i.e. for the trade as well as the book clubs], keeping costs low through long print runs … and the use of standard trim sizes, inexpensive paper and perfect binding[,] and perfect binding.

on the downswing.[149] An update of Table 33, put into compound annual growth rate terms, would still have looked positive but was not nearly so impressive. As Table 43 shows, the growth rates grew less and less impressive as each post-IPO decade passed.

From the perspective of 1977, then, thirty years on from the IPO, how did the company look and how did its methods seem? The first question comes first. The company was profitable though not outstandingly so; and it was increasingly a niche player rather than a dominant force in the industry.[150] If you were looking at the book trade in cross-section, searching for an interesting research subject or an investment play, the company would not have jumped out at you. It would have been even less conspicuous had you been looking more broadly for a stand-alone investment. The Book-of-the-Month Club's methods were effective; but given the returns, they were not intriguing—a curious sound, at most, and surely not a fire alarm. The company would not have seemed to be living on having sunk its costs. (It gave away a lot of copies of the two-volume edition of the *Oxford English Dictionary* in this period as subscription premia.) As a prominent firm, however, it would nonetheless have seemed more an artifact of the past than a harbinger of the future. The end did not appear to be nigh; but the years of giddy prosperity did appear to be clearly past. Business writers looking to explicate success would have looked elsewhere.

The company was purchased, and taken private, in 1977.[151] The buyer was not looking for a standalone investment but rather a firm with businesses to complement its

[149] On acquisition costs, see Ed Fitzgerald (at the time the head of the Literary Guild and thus one of the bidders), "Fun Fifteen Months of the Year," *New York Times Book Review*, November 3, 1985.

[150] The Doubleday book clubs appear also to have seemed diminished. See the issue of "Knowledge Industry Report" cited in Footnote 148, p. 3.

[151] See Dierdre Carmody, "Tims and Book-of-the-Month Club Disclose an Agreement to Merge," *New York Times*, July 6, 1977.

own. The buyer was Time, Inc. Time already owned Time-Life Books and the old-line publisher Little, Brown along with its stable of magazines. The thought seems to have been that the magazines could promote the books. As the executive Time put in to manage the venture remarked to me in interview, "Of course we overpaid for it."

By the mid-1980s, the new owners were worried. They had by then taken in that the competition was changing and that demand conditions for the new books that were the Club's main input were shifting unfavorably. Supply conditions were also shifting unfavorably: the conglomerate movement had led both to consolidation of publishing houses and to ownership of the deepest-pocketed ones by businessmen rather than literary gentlemen. Worried, they commissioned a so-called Strategic Study.

Table 44 gives the sharp edge of the channel facts presented. The company's segment was shrinking. Most of the shrinkage, the analysts thought, was being taken up by the mall chains (which seemed then appropriately characterized as "giant national chains"). Under Time's direction, managers had succeeded in driving the churn rates down and expanding the membership. (See Table 45.) These customers may have stayed longer, on average; but they were not cheaper to acquire: the real cost of new customer acquisition was not falling. There was no new sweet spot. As of the acquisition, the Book-of-the-Month Club corporation ran seven subsidiary book clubs, all with a fine niche focus. But the old Book-of-the-Month Club business was the bulk of the company (see Table 46) and it was a drag on the averages.[152] Its acquisition costs were rising even more sharply than those of the other clubs.

In a retrospective passage in an early 1989 newspaper article, a *New York Times*

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[152] See Edwin McDowell, "Time Inc's Grand Plan Leaves Room for Books," *New York Times*, January 30, 1989.

reporter took the following as a commonplace assessment about both the division and the Book-of-the Month Club overall (and the other book-publishing units too): as of mid-decade, he wrote, the operations were "… Time's sputtering book publishing units[,] creating a drag on profits" and "the company [was] considering cutting back or even dropping out of the [book] field." The point of the article is that perspectives had changed yet again. The change was turbocharged just over a month later when Time and Warner announced plans to merge. Much of the excitement in the deal concerned books. But the emphasis was all on publishing and its opportunities, this time, and the *Times* article on this has only a scanty single passing reference to the Club.[153] The paragraph about the most important asset Time brought to the deal concerned the publisher Little-Brown. "[T]he influence of chain bookstores" was cited as the main force influencing publishers' practices. And by then, the chain bookstore landscape was itself changing. A new set of giant firms, with far more power vis-à-vis the publishers was rising.[154] Four decades on from the IPO, the Book-of-the-Month Club was worth keeping but an increasingly insignificant feature of the industry landscape. No respectable Whig history would lead up to it.

6. Concluding comments

There is more work to be done here on the firm's development of its capabilities—what the managers thought they needed to do, how and what they learned to

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[153] Edwin McDowell, "Time-Warner Combination Joins Giants in Publishing," *New York Times*, March 6, 1989. See also Floyd Norris, "Time Inc. and Warner to Merge, Creating Largest Media Company," *New York Times*, March 5, 1989. The Club is mentioned, just once and in a list of subsidiaries, only in paragraph fourteen That paragraph is not the one that explains why Time was such an attractive partner.

[154] See Daniel M.G. Raff, "Superstores and the Emergence of Firm Capabilities in American Bookselling," *Strategic Management Journal* 21(10-11): 1043-1059. (By themed-1990s, these new chains had bought up the old ones.)

guide themselves, what they did, and how well their initiatives worked in terms of infrastructure as well as outcomes. Resources definitely exist to support this. Such an account—theory-driven but in its essence forward-looking—gives a very different portrait of the firm's progress from one that reasons backwards from outcomes at moments chosen for arbitrary or hortatory reasons. It is what causal rather than functionalist explanation looks like in an evolutionary context.[155]

If the context really is evolving, there is a problem with traditionally framed narrative business history. If the narrative is to be anchored on the features of its endpoint, it really does matter when the narrative stops. The Book-of-the-Month Club, never mind the company in its demand setting and industry niche, looks very different in 1947 and 1977, never mind in the mid-to-late 1980s. What is, in context, being attempted and what capabilities and resources matter for doing successfully vary tremendously. With the thing to be explained looking so very different, the natural points of emphasis in the narrative differ too. This is in a sense no more than a variation on the standard critique of the survivor principle in applied microeconomics.[156] But it seems a clear argument that the Whig approach is just not a robust way to do history.

But this is not to say that there is nothing to be learned from stopping the time line at interesting points and examining what is happening. Selling books by subscription in America is a very old practice. Weems certainly did some of it, for example; and the records of printers preceding Carey tell us that the practice long pre-dated him. In those days, however, the mechanism was used to raise money and financial commitments to

[155] For some discussion (amidst other matters), see Naomi R. Lamoreaux, Daniel M.G. Raff, and Peter Temin, "Beyond Markets and Hierarchies: Towards a New Synthesis of American Business History," *American Historical Review* 108(2): 404-433, and "Against Whig History," *Enterprise and Society* 5(3): 376-387. I am working on a paper that takes these issues on squarely.

[156] See George Stigler, "The Economies of Scale," *Journal of Law and Economics* 1: 54-71.

publish expensive editions of specific works and the clientele seems to have been fairly well-to-do. The late nineteenth century incarnation was much more popular but—rather like the Little Leather Library—overwhelmingly organized around the collected works of well-known authors. The Cultural Studies people have it right that what the Book-of the-Month Club was doing was quite different from both of these models. My observation is that the company's model raised different problems from an operating perspective. The model seems, at least in the environment of the initial private period, to have addressed those problems notably effectively relative to the contemporary alternatives for making and selling books.[157]

Much has changed, at least superficially, since then. But the company's model's different problems are remarkably salient in the modern book trade, a line of business with tens of thousands of new products every year and in itself a fine grain of sand in which to see the economy's ongoing struggles to provide potential customers with sought variety.[158] The problems are in fact quite general to the distribution of any product the manufacturing technology of which renders making to stock significantly less expensive than making to order. This is a very common state of affairs, though technical change in that manufacturing technology might well change its extent over time.[159]

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[157] I have yet to explore in detail the practices of the German book clubs that began to flourish in the difficult times there following the First World War. The Book-of-the-Month Club founders claim they were not imitating; the typical selections have a very different character; and the book retailing context seems, at least on the surface, to be very different.

[158] Raff, "Distribution," *Historical Statistics of the United States Millenium Edition Vol. IV: Economic Sectors* (New York: .Cambridge University Press, 2006): 705ff.

[159] Some business consultants—a notoriously blue sky set of authorities—suggest that this is a widespread and significant phenomenon. The evidence I have seen thus far is quite inconclusive. Jason Epstein, for example in *Book Business: Publishing: Past, Present, and Future of Books* (New York: W.W. Norton, 2001), takes what seems to me a quite optimistic view on how much and how rapidly this change is occurring in the book trade. But that some change is under way there is beyond doubting.

One gets another illuminating perspective by moving from the relatively distant past to very recent days and the future. The business students I teach think of Amazon as a poster child for the Internet economy, by which phrase they seem to mean a set of firms the most salient aspect of whose business model is the way their current offerings can be searched by physically remote potential customers. The students may well be right that thinking this unprecedented. It is well less than the whole story. Some readers of this text may remember going to the Amazon webpage in the earliest years of the company. The potential customer identified a book and learned whether Amazon could send it out within twenty-four hours, within two to three days, or within four to six weeks. The four-to-six week service amounted to having Amazon call up the publisher and offer its own credit card rather than the customer doing this directly.[160] The two-to-three day service involved, in effect, selling out of the inventory of the national wholesaler Ingram. The within twenty-four hours service obtained only for the maximum four hundred titles of which Amazon had physical possession and ownership. The company was selling books radically minimizing inventory risk. It was a very different strategy from the traditional book store. But it was not without precedents.

It was not, of course, the same as the Book-of-the-Month Club's approach. The Book-of-the-Month Club minimized inventory risk in part by minimizing choice. Amazon is quite different in this respect. But it is much less different than it looks; and the history of the company and of its managerial challenges has been in substantial measure a history of investment in facilities, software, and analysis aimed at manage inventories.

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[160] Why publishers were then still so slow in responding to small lot orders and reorders is a topic I take up in a paper in process currently titled "Capability Development, Segmentation History, and the Origins of Strategy in Twentieth-Century American Wholesale Bookselling".

List of Tables

Table 1:

The United States as it appeared looking backwards in 1925:
General statistics on population

	1900	1910	1920
Population	75,994,575	91,972,266	105,710,620
Pop/sq. mile land area	25.6	31.0	35.6
Pop 21& +	40,879,000	51,852,000	61,235,000
Median age	22.9	24.1	25.3
Pop Foreign-born	5,630,190	7,667,748	7,675,435
10+ % Literate	89.3	92.3	94.0

Sources (for now, for convenience): *Historical Statistics of the United States Bicentennial Edition* [hereafter *HSUS BE*] Series A2, A5, A41, A143, A105, and H664.

Table 2:

The United States as it appeared looking backwards in 1925:
Education

	1900	1910	1920
Primary + secondary enrollment	16,885,000	19,372,000	23,278,000
Enrollment rate (5-17 population)	78.3	79.4	83.2
Tertiary enrollment (residential)	238,000	355,000	598,000
Enrollment rate (18-24 population)	2.3	2.9	4.7
BA's awarded	27,410	37,199	48,622
Per 1000 persons 23 years old	19	20	26
Per 100 HS graduates 4 years prev.	36	30	19

Sources (for now, for convenience): *HSUS BE* Series H418-419, H706, and H751.

Table 3:

The United States as it appeared looking backwards in 1925:
Number of places by size of place

	1900	1910	1920
Places of 1,000,000 or more	3	3	3
Places of 500,000-999,999	3	5	9
Places of 250,000-499,999	9	11	13
Places of 100,000-249,999	23	31	43
Places of 50,000-99,999	40	59	76
Places of 25,000-49,999	82	119	143
Places of 10,000-24,999	280	369	465
Places of 5,000-9,999	465	605	715
Places of 2,500-4,999	832	1,060	1,255
Places of 1,000-2,499	2,128	2,717	3,030
Places under 1,000	6,803	9,113	9,825

Sources (for now, for convenience): *HSUS BE* Series A43-56.

Table 4:

The United States as it appeared looking backwards in 1925:
Population location (in thousands)

	1900	1910	1920
Places of 1,000,000 or more	6,429	8,501	10,146
Places of 500,000-999,999	1,645	3,011	6,224
Places of 250,000-499,999	2,861	3,950	4,541
Places of 100,000-249,999	3,272	4,840	6,519
Places of 50,000-99,999	2,709	4,179	5,265
Places of 25,000-49,999	2,801	4,023	5,075
Places of 10,000-24,999	4,388	5,549	7,035
Places of 5,000-9,999	3,204	4,217	4,968
Places of 2,500-4,999	2,899	3,728	4,386
Places of 1,000-2,499	3,298	4,234	4,712
Places under 1,000	3,003	3,930	4,255
Other rural territory	39,533	41,809	42,586
Total	75,995	91,992	105,711
% Rural	60.3	54.3	48.8

Sources (for now, for convenience): *HSUS BE* Series A 57-72, A57 and 59.

Table 5:

The United States as it appeared looking backwards in 1925:
Population employment by sector (percentages)

	1900	1910	1920
Agriculture	36.9	30.4	24.6
Manufacturing	20.0	22.1	25.1
Trade	10.8	11.8	13.2
Other (6 categories)	32.3	35.7	37.1

Sources (for now, for convenience): *HSUS BE* Series F250-261.

Table 6:

The United States as it appeared looking backwards in 1925:
Transportation and communication infrastructure

	1900	1910	1920
Transportation			
Railroads			
Total track operated (miles)	258,784	351,767	406,580
Track built during year	4,894	4,122	314
Automobiles			
Registrations	8,000	458,300	8,131,500
Surfaced roads (miles)	---	204,000	369,000
Communication			
Miles of telephone wire*	4,9000,451	20,248,320	37,265,953
Telephones per 1000 pop	17.6	82.0	123.4
Post Offices	76,688	59,580	52,641
Postal routes mileage exclusive of Rural Free Delivery	500,989	447,998	435,342
Rural Free Delivery route mileage	28,085	993,068	1,151,832

* The reporting years for this series (only) are 1902, 1912, and 1922 i.e. two years after all the other figures here.

Sources (for now, for convenience): *HSUS BE* Series Q288 and 329, Q153, 56, and 50, R104, R2, R 163, and *Statistical Abstract of the United States 1924* Tables 321, 312, and 317.

Table 7:

Retail distribution channels for books ca. 1925:
Where they were

	Total establishments	% total est.	% 1920 pop.
Places of:			
1,000,000 or more	761	13.17	9.60
500,000-999,999	424	7.34	5.89
250,000-499,999	246	4.26	4.30
100,000-249,999	613	10.61	6.17
50,000-99,999	546	9.45	4.98
25,000-49,999	615	10.64	4.80
10,000-24,999	1192	20.63	6.65
5,000-9,999	745	12.89	4.70
2,500-4,999	384	6.65	4.15
1,000-2,499	168	2.91	4.45
Under 1,000	84	1.45	44.31

Source: *American Book Trade Directory 1925* [hereafter *ABTD 1925*]

Table 8:

Retail distribution channels for books ca. 1925:
Where they were (by categories)

Store type:	G	E	J	N	Gi	C	M	L	F	Dr	S	X	O	W	D	R
Places of:																
1,000,000 or more	293	34	5	24	20	13	10	18	29	4	65	0	88	14	44	60
500,000-999,999	165	19	4	15	18	12	5	8	6	2	33	0	20	13	53	39
250,000-499,999	91	15	2	11	10	3	3	11	1	2	14	0	10	11	39	19
100,000-249,999	200	44	6	25	32	8	1	6	9	9	42	0	16	26	139	44
50,000-99,999	210	30	2	35	35	11	1	2	5	14	24	0	6	5	140	19
25,000-49,999	241	37	8	54	45	13	2	1	2	30	16	0	7	1	143	10
10,000-24,999	496	61	7	158	110	9	0	1	1	138	6	0	7	1	185	9
5,000-9,999	294	34	2	95	82	3	0	0	2	122	2	1	3	0	102	1
2,500-4,999	141	34	3	30	55	1	0	0	0	52	2	0	4	1	55	2
1,000-2,499	57	20	0	18	20	0	0	0	0	32	2	0	4	0	14	1
Under 1,000	20	13	0	7	15	1	0	0	0	18	0	0	3	0	4	0

Store type code: G(eneral), E(ducational), J(uvenile), N(Periodical), Gi(ft shop), C(irculating library), M(edical), L(aw), F(oreign), Dr(ug store), S(econd-hand), X(Export), O(ld and rare), W(holesale), D(epartment), R(eligious), Un(classified). Σ here means “total”.

Source: *ABTD 1925*.

Table 9:

Distribution channels for books ca. 1925:
What they mainly sold

Store type	Percent leading self-identification	
	All categories	Selected categories only
G(eneral)	38.14	60.90
E(ducational)	5.90	
J(uvenile)	0.67	
N(Periodical)	8.20	
Gi(ft shop)	7.69	
C(irculating library)	1.28	2.04
M(edical)	0.37	
L(aw)	0.81	
F(oreign)	0.94	
Dr(ug store)	7.31	11.67
S(econd-hand)	3.59	
X(Export)	0.02	
O(ld and rare)	2.92	
W(holesale)	1.25	
D(epartment)	15.90	23.28
R(eligious)	3.52	
Un(classified)	1.49	

Source: *ABTD 1925*.

Table 10:

Circulating Library self-identifiers in 1925

	Instances	Percent
Circulating library sole business	170	19.81
Circulating library and General only	566	65.92
Circulating library and Department store only	44	5.13
Circulating library and Drug store only	29	3.38
Circulating library, General, and Department store only	45	5.74
Circulating library, General, and Drug store only	4	0.47
Circulating library, Department store, and Drug store	0	0.00
Circulating library, General, Department, and Drug store	0	0.00
Total	858	

Source: *ABTD 1925*.

Table 11:

Circulating Library self-identifiers in 1925
Where they were

Places of:	Number
1,000,000 or more	112
500,000-999,999	54
250,000-499,999	30
100,000-249,999	112
50,000-99,999	99
25,000-49,999	101
10,000-24,999	193
5,000-9,999	82
2,500-4,999	39
1,000-2,499	25
Under 1,000	11

Source: *ABTD 1925*.

Table 12:

Cheney Report Evidence on Bookseller Profit Rates in 1929
(Percent of revenue)

	Average store	Relatively poor store	Relatively good store
Independent and chain stores			
Under $60,000 in volume	-0.1	-6.9	5.9
Over “ “ “	3.7	0.1	6.3
All	2.0	-2.4	5.9
All stores (including department stores)	1.3	-4.5	5.5

Source: Cheney (1931), p. 282.

Table 13:

Book publishing in America 1900—1920

	1900	1910	1920
New books	4,490	11,671	5,101
New editions	1,866	1,799	1,086
Total new stock-keeping units	6,356	13,470	8,422

Sources (for now, for convenience): *HSUS BE* Series R192-194.

Table 14:

Book publishing in America 1920-1925

	New books	New editions	Total new SKU's
1920	5,101	1,086	8,422
1921	5,438	1,008	8,329
1922	5,998	865	8,638
1923	6,257	921	8,863
1924	6,380	1,158	9,012
1925	6,680	1,493	9,574

Sources (for now, for convenience): *HSUS BE* Series R192-194.

Table 15:

Concentration of sales across titles in 1929

	Percentage of total income received	
	Fiction	Non-fiction
Number of titles		
5	45.7	55.9
10	65.3	72.4
15	75.3	80.0
20	81.0	85.3
25	85.4	89.3
Percentage of total number of titles		
5%	24.2	34.1
10%	40.7	51.4
25%	65.7	73.0

Source: Cheney (1931), p. 186.

Table 16:

The early years of the enterprise

	Subscribers	Books sold	Net revenues	Profits (net of tax)
1926	46,539	232,389	502,756	(24,054)
1927	60,058	641,978	1,481,061	151,933
1928	94,690	867,390	1,813,803	162,087
1929	110,588	986,044	1,986,626	230,349

Source: Securities and Exchange Commission S-1 Registration Statement dated March 20, 1947 [hereafter S-1].

Table 17:

The economy during the firm's early years and the years of the Great Depression

	Real GNP	Unemployment Civilian labor force	Unemployment Non-farm employees
1926	190.0	1.8	2.9
1927	189.8	3.3	5.4
1928	190.9	4.2	6.9
1929	203.6	3.2	5.3
1930	183.5	8.9	14.2
1931	169.3	16.3	25.2
1932	144.2	24.1	36.3
1933	141.5	25.2	37.6
1934	154.3	22.0	32.6
1925	169.5	20.3	30.2
1936	193.0	17.0	25.4
1937	203.2	14.3	21.3
1938	192.9	19.1	27.9

Sources: *HSUS BE* (for now, for convenience) Series F3 (1958 prices), D9 and D10.

Table 18:

Book-of-the-Month Club performance in the Depression years

	Subscribers	Books sold	Net revenues	Profits (net of tax)
1930	93,660	843,300	1,633,455	138,512
1931	82,248	892,235	1,550,203	272,583
1932	88,025	973,356	1,440,805	120,498
1933	94,739	963,338	1,584,208	209,960
1934	93,070	949,828	1,590,967	216,256
1935	137,019	1,197,440	1,974,929	174,248
1936	195,785	1,613,999	2,791,194	248,682
1937	246,337	2,327,449	3,832,500	519,313
1938	282,300	2,821,301	4,623,066	486,580

Source: S-1.

Table 19:

Book-of-the-Month Club performance in the war years and immediately after

	Subscribers	Books sold	Net revenues	Profits (net of tax)
1939	362,585	3,360,217	5,288,513	627,791
1930	404,451	3,768,667	6,037,279	769,068
1941	517,785	4,858,702	7,888,707	720,433
1942	584,773	5,932,203	9,928,224	662,860
1943	633,455	6,765,739	11,905,278	829,921
1944	636,422	6,965,176	12,796,096	758,273
1945	767,622	7,860,258	13,551,377	778,850
1946	889,305	11,412,647	18,190,086	1,346,460

Source: S-1.

Table 20:

Looking back in 1947:
Economic context

	Real GNP	Armed Forces (active duty)	Tertiary education enrollment
1926	190.0	247,396	941,000
1927	189.8	248,943	
1928	190.9	250,907	1,054,000
1929	203.6	255,031	
1930	183.5	255,648	1,101,000
1931	169.3	252,605	
1932	144.2	244,902	1,154,000
1933	141.5	243,845	
1934	154.3	247,137	1,055,000
1935	169.5	251,799	
1936	193.0	291,356	1,208,000
1937	203.2	311,808	
1938	192.9	322,932	1,351,000
1939	209.4	334,473	
1940	227.2	458,365	1,494,000
1941	263.7	1,801,101	
1942	297.8	3,858,791	1,404,000
1943	337.1	9,044,745	
1944	361.3	11,451,719	1,155,000
1945	355.2	12,123,455	
1946	312.6	3,030,088	1,677,000
1947	309.9	1,582,999	

Sources: *HSUS BE* (for now, for convenience) Series F3, Y904, and H706.

Table 21:

Looking back in 1947:
1929 and 1947 personal consumption expenditure
(% of total)

	1929	1947
Food, beverages and tobacco	27.5	34.9
Clothing, accessories, and jewelry	14.5	14.2
Personal care	1.4	1.4
Housing	14.9	9.7
Household operations	13.9	14.9
Medical care expenses	3.8	4.3
Personal business	5.4	3.4
Transportation	9.9	9.4
Recreation	5.6	5.8
Other	3.1	2.0

Source: *HSUS BE* (for now, for convenience) Series G460-469, 416, and 456.

Table 22:

Department of Commerce 1947 “Census of Sales” in the book publishing industry

	Percent (of total volumes)	
Text books (all levels)	27.8	
Trade books	20.7	
of which:		
Adult		16.1
Juvenile		4.7
Mail order books (principally book clubs)	15.0	
Subscription books (sold principally through agents in sets on a subscription basis)	14.7	
Technical and professional books	10.5	
Religious books	6.6	
Other	4.6	

Source: (For now, for convenience) Book-of-the-Month Club, Inc. *Annual Report* [hereafter *AR*] for 1949.

Table 23:

Percentage of Gallup respondents ever a member of a book club and US population

Population of place of respondent’s residence	Gallup respondents ever a member of a book club (percent)	Proportion of US population
Town of <2,500 or rural area	68.93	40.99
2,500-10,000	59.07	8.92
10,000-100,000	59.38	20.60
100,000-500,000	66.07	11.85
> 500,000	62.56	17.65

Sources: U.S. Census of Population 1950 plus Gallup Poll 410-T.

Table 24:

Book club memberships reported by Gallop respondents

Club	Proportion of total book club members	Proportion of sample population
Book-of-the-month Club	67.08	21.86
Literary Guild	19.24	6.27
Book Find Club	8.02	2.61
MacLeans	1.85	0.60
Doubleday	1.85	0.60
Book League	1.03	0.34
Dollar Book Club	0.62	0.20
Home Book Club	0.21	0.07
American League of New York	0.10	0.03

Source: Gallup Poll 410-T.

Table 25:

Book-of-the-Month Club Penetration in Gallup sample

Population of place of of respondent's residence	Ever a member of the Book-of-the-Month Club? (Percentage)
Town of <2,500 or rural area	24.27
2,500-10,000	18.74
10,000-100,000	18.43
100,000-500,000	22.62
> 500,000	25.46

Source: Gallup Poll 410-T.

Table 26:

The 1948 Gallup Sample versus the U.S. in 1949

Population of place of respondent's residence	U.S.	Gallup sample
Town of <2,500 or rural area	40.99	24.17
2,500-10,000	8.92	22.36
10,000-100,000	20.60	20.55
100,000-500,000	11.85	13.04
> 500,000	17.65	19.88

Sources: U.S. Census of Population 1950 plus Gallup Poll 410-T.

Table 27:

Aspects of operations in 1947 perspective:
Churn data, such as survives

1942-1946:		
	Monthly	Implied annual rate
Minimum observed cancellation rate	2.60	27.10
Maximum	4.90	45.28
Mean	3.46	34.46
Monte Carlo simulation (see note)		35.80
Early 1980s:		
1980-81		30
1981-82		29
1982-83		28
1983-84		27

Simulation protocols: I assumed a triangular distribution and simulated with 5000 trials.
NB: The 1980s data prove nothing but suggest the possibility that churn rates during the war were historically high.

Source: S-1, *Strategic Study*, and author's calculations.

Table 28:

Aspects of operations in 1947 perspective:
New customers and their acquisition

	Real customer acquisition expenses	Estimated new subscribers	Real cost per subscriber
1937	817,179	120,643	6.77
1938	847,274	124,152	6.82
1939	1,144,732	181,348	6.31
1940	1,022,966	171,671	5.84
1941	1,577,026	258,127	6.03
1942	1,485,237	252,355	5.89
1943	1,075,583	258,031	4.17
1944	837,508	229,744	3.65
1945	1,315,627	359,039	3.66
1946	2,678,463	396,492	6.76

Sources: S-1 and author's calculations. Customer acquisition costs come from the S-1 and have been deflated using the CPI. The Monte Carlo estimate of annual customer losses was used in combination with the S-1 total customer figures to estimate the annual influx of new customers.

Table 29:

Aspects of operations in 1947 perspective:
The net value of the customers reviewed
(squinting very hard)

	Nominal annual profits (net of tax) per average customer	Lifetime customer value estimate	Cost of new customer acquisition	Break-even annual churn rate
1937	2.35	6.04	5.51	.3950**
1938	1.84	4.76	5.44	.3096**
1939	1.95	5.05	4.96	.3651**
1940	2.00	5.21	4.62	.4069**
1941	1.56	4.07	5.01	.2860**
1942	1.20	3.13	5.42	.1952
1943	1.36	3.55	4.07	.3089**
1944	1.19	3.12	3.62	.3041**
1945	1.11	2.89	3.73	.2723
1946	1.62	4.24	7.44	.1931

Source: S-1 and author's calculation. LCV is nominal annual profits net of tax/customer divided by the sum of the annual churn rate and the interest rate corresponding to the opportunity cost of funds. The cost element of the cost of new customer acquisition comes from the S-1 (and is in nominal dollars). The number of new customers comes from Table 28 (and assumes the Monte Carlo estimated mean annual rate thoughout i.e. as a constant—this is surely not correct, but it is not clear it is systematically biased, still less biased in one direction of another). The break-even annual churn rate is the rate that would equate the preceding two columns in the cases in which the benefits calculated are less than the cost. The asterisks in fourth column flag the break-even churn rates that are within 1.96 standard deviations of estimated mean.

Table 30:

Book-of-the-Month Club customers in 1947

Gender:	
Male	35
Female	65
Age	
Under 30	48
30-39	28
40-49	14
50 and older	10
Education	
Attended college	67
Did not attend college	33

Source: Book-of-the-Month Club., Inc. *AR* for 1952.

Table 31:

Looking back in 1947:
Relatively external views of the firm

	Subscribers	Total books distributed	Real net sales per customer (1926 $)	Gross Margin
1926	46,539	232,389	10.89	52.98
1927	60,058	641,978	25.09	52.70
1928	94,690	867,390	19.83	60.14
1929	110,588	986,044	18.59	63.58
1930	93,660	843,300	18.48	64.10
1931	82,248	892,235	21.95	68.72
1932	88,025	973,356	21.15	66.80
1933	94,739	963,338	22.77	66.16
1934	93,070	949,828	22.58	62.39
1935	137,019	1,197,440	18.62	64.15
1936	195,785	1,613,999	18.15	63.94
1937	246,337	2,327,449	19.12	62.60
1938	282,300	2,821,301	20.56	62.18
1939	362,585	3,360,217	18.57	61.89
1940	404,451	3,768.667	18.87	65.20
1941	517,785	4,858,702	19.34	63.43
1942	584,773	5,932,203	18.44	62.07
1943	633,455	6,765,739	19.23	61.91
1944	636,422	6,965,176	20.22	65.44
1945	767,622	7,860,258	17.36	65.39
1946	889,305	11,412,647	18.57	61.59

Source: S-1, Consumer Price Index [hereafter CPI].

Table 32:

Looking back in 1947:
The firm's financial performance

	Return on shareholders' equity	Change in s/e
1928	182.28 %	28.3 %
1929	242.11	- 9.6
1930	115.84	64.8
1931	187.83	- 5.0
1932	67.83	51.3
1933	86.09	28.0
1934	80.24	- 3.2
1935	62.85	9.2
1936	78.27	19.6
1937	121.70	46.6
1938	83.08	30.9
1939	80.71	34.3
1940	73.68	34.1
1941	54.74	20.1
1942	42.55	16.9
1943	44.52	22.0
1944	34.97	11.6
1945	33.55	3.0
1946	52.40	18.1

Source: Author's calculations based on data from the S-1.

Table 33:

Data and outcome for the discounted cash flow calculation

	Annualized prime corporate bond yield	Cash dividends	Terminal valuation
1926	4.36 %	$ (40,000)	
1927	4.18	90,000	
1928	4.19	140,000	
1929	4.47	240,000	
1930	4.31	80,000	
1931	4.15	280,000	
1932	4.61	48,000	
1933	4.19	150,000	
1934	4.83	225,000	
1935	3.44	150,000	
1936	3.11	192,000	
1937	3.12	358,000	
1938	2.90	330,000	
1939	2.77	400,000	
1940	2.70	465,000	
1941	2.59	480,000	
1942	2.66	420,000	
1943	2.55	460,000	
1944	2.54	520,000	
1945	2.54	710,000	
1946	2.53	920,000	
1947	2.61		$ 10,800000

The present discounted value of this cash flow, calculated using the interest rates given in the first column in constructing the discount factors, is $9,130,430, terminal value .

Sources: Homer and Sylla (1991) [hereafter Homer and Sylla], S-1.

Table 34:

American population, households, and crude birthrate, 1900-1980

Year	Population	Households	Crude birthrate (/1000)
1900	75,994,575	15,977,199	32.2
1910	91,972,266	19,984,021	30.1
1920	105,710,620	24,073,793	27.7
1930	122,775,046	29,798,669	21.3
1940	131,669,275	34,904,634	19.4
1950	150,697,362	42,857,335	24.1
1960	179,323,175	53,023,935	23.7
1970	203,322,926	63,637,721	18.4
1980	226,545,805	80,351,106	15.9

Sources: *Historical Statistics of the United States Millenium Edition* (hereafter *HSUS ME*) Series Aa2, Ae2, and Ab40.

Table 35:

Male enrollments in institutions of higher education, 1939-1950
(in thousands)

Year	Enrollments
1939	893
1941	819
1943	579
1945	928
1946	1,418
1947	1,659
1948	1,709
1949	1,726
1950	1,560

Source: *HSUS ME* Series Bc525.

Table 36:

School enrollments K-12, 1927-1977
(in thousands)

Year	Enrollments (000)
1927	27,810
1937	28,663
1947	26,998
1957	38,756
1967	49,239
1977	48,717

Source: *HSUS ME* Series Bc7.

Table 37:

Institutions of higher education, 1927-1977

Year	Total number (000)	Total enrollment (000)	Total enrollment as % of the 18-24 year-old population
1927	1415	1,054	7.2
1937	1690	1,351	8.4
1947	1788	2,338	14.2
1957	1930	3,324	22.0
1967	2374	6,912	32.2
1977	3095	11,286	39.0

Sources: *HSUS ME* Series Bc510 and Bc523.

Table 38:

Total and per capita real Gross Domestic Product, 1947-1977
(1996 $)

Year	Total ($B)	Per capita
1947	1,495.1	10,333
1957	2,183.9	12,698
1967	3,308.3	16,649
1977	4,511.8	20,486

Sources: *HSUS ME* Series Ca6 and Ca11, both in 1996 dollars.

Table 39:

Total new book stock-keeping units, 1927-1977

Year	New sku's
1927	10,153
1937	10,912
1947	9,182
1957	13,142
1967	28,762
1977	42,780

Source: *HSUS ME* Series Dg225.

Table 40:

Paved road mileage, 1937-1977
(in thousands)

Year	State and municipal	Federal
1937	1,232	227
1947	1,780	599
1957	2,371	810
1967	2,827	911
1977	3,164	

Sources: *HSUS ME* Series Df184 and Df213.

Table 41:

Automobile ownership, 1937-1977

Year	Registrations	% households owning One or more autos
1937	25,467	
1947	30,849	(1948: 54)
1957	55,918	75
1967	80.399	78
1977	112,288	

Sources: *HSUS ME* Series Df340 and Df330.

Table 42:

Approximate numbers of shopping center and malls

Year	Number
1946	8
1950	100
1953	300
1964	7,600
1972	13,174

Source: Choy (2002).

Table 43:

CAGR of present discounted value of the investment over various intervals 1926-1977

Interval	CAGR with proceeds discounted at the risk-free rate	CAGR with proceeds discounted at the prime rate for corporate bonds
1926-1947	27.24	25.18
1947-1957	6.83	5.78
1957-1967	4.44	3.66
1967-1977	3.14	2.47

Sources: S-1, *AR*'s, Homer and Sylla.

Table 44:

Some channel breakdowns for 1980 and 1984

	1980	1984
Units sold via:		
Book clubs and mail order	24	19
Mass market channels	44	45
Trade	32	36

Source: *Strategic Study*.

Table 45:

Real cost of new customer acquisition, 1980-1984

Year	Average subscribers	Annual churn (%)	Real cost/new customer ($ 1926)
1980	1,465,585		
1981	1,558,950	30	2.43
1982	1,668,359	29	2.36
1983	1,780,059	28	2.39
1984	1,871,186	27	2.50

Sources: *Strategic Study*, *AR*'s.

Table 46:

Book-of-the-Month Club divisional versus overall corporate performance, 1980-1984

Year	Members (in thousands)		Units sold (in thousands)		Net cost/order (nominal $)		CPI
	Overall	BOMC proper	Overall	BOMC proper	Overall	BOMC proper	
1980	1,564	1,144	9,199	4,599	22.16	25.92	82.4
1981	1,648	1,125	9,092	4,379	24.95	32.61	90.9
1982	1,747	1,111	9,718	4,628	25.31	29.75	96.5
1983	1,859	1,161	9,796	4,599	24.29	29.55	99.6
1984	1,922	1,132	10,070	4,288	25.75	34.31	103.9

Source: *Strategic Study* (membership and units numbers are in thousands) and *HSUS ME* Series Cc1 ($ 1980-1982=100).

List of Figures
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Appendix I
Excerpts from a letter from Mason Locke Weems to Mathew Carey

Weems to Carey

Dumfries, March 25, [18]09

I sit down to write you a long letter. It pleases me much to find that you are getting to see things in the light in which they have long appeared to me. I now and ever have enjoyed the solace and support of principle in this most important of all human pursuits, I mean the dissemination of books …. You seem to think this grand enterprise is most to be advanced by subscription. Very greatly no doubt it is … [Y]et I contend that in your circumstances it would be immensely wrong to have but one arrow in your quiver when you could have two equally feathered and sure. You have at least 80,000 Dollars worth of books on hand. Are you so fond of them as to be resolved that they shall never leave their shelves. Why let not some of your Charity begin at home? Those blessed books well written, and printed to go abroad and enlighten and exalt mankind. And could those excellent dead Authors, who have so long been lying in state in your store, but lift up their voice they would break your midnight slumbers with lamentation and mourning at their doleful confinement. Well, now were you to open their prison doors and let the Captives loose, you could no doubt, in way of Cartel obtain in exchange such a mass as would, in conjunction with those of your own now at press and printing, enable me with infinite ease to establish at least 150 to 200 stores of about 200$ each. You speak of dead Capital. But, in my opinion there is nothing to be dreaded on that score, provided your Capital be vested in the right books. And certainly there are books of that description; and of this, surely you and I must be Judges at this time of day. Indeed of this I have long been informed as you well know. For…. I have been incessantly preaching to you about the Right books. And when I was with you in Philad[a], was I not constantly telling you that high priced books and books without name would not do. Our Country, said, I, is made up of the small fry. Give me a Seine of small meshes. It is but rare that I want to see an Author that stands higher than a dollar. Give me 50 varieties, from 25 to 50 or 75 cents—interesting subjects—popular titles—fascinating frontispieces and showy bindings and I shall carry everything before me—especially if to these you add the Auxiliaries of numerous catalogues, and striking flourishes on the great pleasure and profits which the Farmers and their Boys and Girls may derive from education and Reading. Thank God I am now getting to be known by great numbers, who, I believe, will aid your sales, especially if I could have handsome circulars, addressed to my numerous acquaintance Legal, Theological, Medical, Military, Agricultural, &c &c and distributed at little or no expense ….

Content not yourself with one string to your bow when you can have two!! I repeat, that if Heaven should restore the ancient order of things, Peace and Plenty, the good that you may do and the money that you may make, may greatly exceed anything that you first thought of. Weigh well my plan—SUBSCRIPTIONS and ORDERS hold perhaps the first place in my expectations—And next, metamorphose a great deal of your present stock—cut down your heavy ships into smaller craft—Turn (in the language of Vulcan) your old Sows into Pigs—I shall write again—I have a world to say.

Source: Emily Ellsworth Ford Skeel, ed., *Mason Locke Weems: His Works and Ways* 3v (NY privately printed, 1929), pp. 396-400.