German Publisher Buys Random House

Deal Further Consolidates Industry

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The German media conglomerate Bertelsmann announced yesterday that it is buying Random House, the largest and most prominent American book publisher, from billionaire S.I. Newhouse. The deal makes the privately held firm, once a provincial religious house, the biggest force in U.S. publishing.

Estimated to be worth as much as $1.6 billion, the agreement marks another huge step toward consolidation in the publishing industry. The deal will leave only seven major New York houses—four of them owned by foreign conglomerates.

Random House, whose thousands of authors include John Updike, Gabriel Garcia Marquez, President Clinton, Anne Rice, Pope John Paul II, Norman Mailer and Michael Crichton, has an importance that goes beyond its massive size.

Its books—published under the imprints of Knopf, Crown, Pantheon, Villard and Ballantine in addition to Random House itself—look better and often are better than most in the industry. Its deals are flashier, with not only its writers but also its editors turning up in gossip columns. Its self-conscious role as the standard-bearer of literature and literacy in this country is sometimes mocked but rarely denied.

With $16 billion in revenue during its last fiscal year, Bertelsmann is the world's third largest media and entertainment conglomerate, behind Time Warner Inc. and Walt Disney Co., and ahead of Rupert Murdoch's News Corp.

It already owns the U.S. publishing empire Bantam Doubleday Dell. Its best-known author is John Grisham, whose legal thrillers sell millions. Earlier this month, Bertelsmann announced it would go into online bookselling, à la Ama-

See RANDOM HOUSE, *A9, Col. 1*

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Random House Sale Shocks Industry

RANDOM HOUSE, *From A1*

zon.com.

Little work got done in New York publishing circles yesterday. People were too busy trying to figure out what it all meant.

"Half the earth just moved," said Juris Jurjevics, proprietor of Soho Press, an independent house. "The landscape is irrevocably altered. I don't think there's any precedent for something of this size. It will have book clubs, mass-market paperbacks, multiple hardcover lines. It's everywhere, with five varieties of everything. Who knows what to think? It's just so gigantic."

"I haven't talked to anyone who hasn't expressed great shock," said Andre Schiffrin, who left Random House under bitter circumstances eight years ago to found the New Press. "Everybody's now owned by foreigners."

One measure of the huge clout that the new firm will have is that many agents and editors were reluctant to speak on the record, for fear of offending someone. "It's sad, frightening," said one agent. "I used to have a list of 75 editors you can send a book to. Now there are 15. It just reduces, once again, the number of choices."

"Sad" was a word that seemed to come up a lot. Said a former Random House executive: "What's really sad is that Random was the independent voice in a culture that has very few independent voices anymore."

One major Random House author, William Styron, said he wasn't much worried: "The company's gotten so enormous and monstrous and bloated, it hardly makes any difference if it passes into the hands of someone else."

BY MICHAEL KAPPELER—REUTERS

Bertelsmann officers Frank Woessner, left, and his brother Mark at yesterday's announcement of the company's purchase of Random House.

The American Booksellers Association, which represents 3,500 independent bookstores, had been concerned about consolidation prior to yesterday's announcement. Last week it sued the Barnes & Noble and Borders book chains, alleging that these giants use their clout with publishers to obtain secret discounts and other favorable treatment that undermines independents' ability to compete.

"We are stunned," said ABA spokesman Len Vlahos. "We need to take time to analyze it and see how it impacts booksellers."

A woman who answered the phone in S.I. Newhouse's New York office yesterday said he wasn't in. But the deal apparently was initiated when Thomas Middelhoff, Bertelsmann's incoming chief executive officer, visited Newhouse on his 70th birthday on Nov. 7. Bertelsmann had made no secret that it was in the market for a major acquisition.

"Random was a dream, something we hoped would be available someday," said Peter Olson, chairman of Bertelsmann Book Group North America.

Negotiations, which went smoothly, continued under a veil of secrecy through the end of last week. Newhouse, whose family me-

dia empire includes more than a dozen major newspapers and magazines ranging from the New Yorker to Parade, said via a news release that a decision had been made "to focus its efforts on the management and expansion" of those core businesses.

A source close to the deal said Newhouse had been mulling for a while what to do with Random House, including selling it or acquiring another publisher to introduce greater economies of scale. "It was clear to him that the economics of book publishing are changing for the worse," the source said. "And he's a realist. When it becomes clear he's swimming upstream, he's facile enough to swim downstream."

Another factor, several sources surmised, is that none of the next crop of Newhouses felt so passionately about the business to want to keep it. "The Newhouses decided the next generation had enough on their plates," one source said.

Random House's sales slipped from $1.5 billion in 1995 to an estimated $1.22 billion in 1996, with profits of about $70 million, according to Albert Greco, an associate professor at Fordham University's graduate business school who studies the book business. Bertelsmann's imprints had sales of about $670 million in both years.

Greco said the combination of two of the largest publishers will invite "scrupulous investigation" by the Justice Department or Federal Trade Commission. But he said he doubted the government would seek to stop it.

"The book industry is moderately concentrated, but given all the factors in play," it would be hard to justify blocking it on antitrust grounds, he said.

Neither of the companies released terms of the deal, but publishing industry sources estimated that Bertelsmann is paying between $1.2 billion and $1.6 billion for Random House. Newhouse bought Random House from RCA in 1980 for between $65 million and $70 million.

At Random House, a notoriously voluble place, no one wanted to talk on the record. There was surprise, chagrin and hope. " 'Thrilled' is not the word around here," said one employee. Said another: "This morning I was speechless. Now I can talk, but I'm still not coherent." But a third said Bertelsmann "has a good reputation. They seem very interested in books."

Meanwhile, at Bantam Doubleday Dell, a source said: "People are ecstatic. Everyone here always wants to work at Random House. The perception is they do the best books, they attract the best authors. It's generally a stimulating environment. And now, suddenly, we all do work there. Actually, it's even better—they work for us."

Robert Picard, a professor specializing in the economics of media companies at California State University at Fullerton, said consolidation in the book industry is being driven by high debt levels and shrinking profit margins as more titles and more publishers seek to attract readers. By combining operations, Bertelsmann and Random House will be able to save substantially on overhead—everything from warehouse operations to accounts payable to publicity.

"Books are among the most risky of media products," said Picard. "The ability to project success is lower than a TV program. You have fewer formulas. With a book, you're throwing it out there, hoping that the public may like it."

But one veteran industry executive, who asked not to be identified, questioned whether Bertelsmann could really achieve enough cost savings to make the deal succeed.

"The whole thing doesn't make sense," he said. "This is like Columbia Pictures merging with Paramount—instead of making 40 movies a year, they make 80 together, but without closing down a studio. . . . You can cut, but can you do it in a way that will be meaningful? I am flabbergasted by this."

The source close to the negotiations stressed that, at the end of the day, there would be consolidation as employees, books and redundancies are eliminated. "This deal only makes sense if there are economies of scale."

The other owners of top U.S. publishing companies are the privately held Hearst Corp., which has the Morrow and Avon lines; Murdoch's News Corp., which owns HarperCollins; the British conglomerate Pearson, which owns Viking and Putnam; the publicly held Time Warner, which publishes under the Warner and Little, Brown names; the German family Holtzbrinck, which owns Farrar, Straus & Giroux, Henry Holt and St. Martin's Press; and the publicly traded Viacom, which has announced its intention to sell part of Simon and Schuster.

Despite its size, Bertelsmann is barely known in the United States, in part because it is based in tiny Guetersloh, Germany, and because 69 percent of its stock is controlled by the private C. Bertelsmann charitable foundation. The foundation is affiliated with the Mohn family, part of the dynastic succession of family owners since its founding in 1835.

Beyond the book publishing operations, it has a highly successful music division here that includes Arista Records, the label of Whitney Houston, Toni Braxton and Kenny G, and RCA Records, the recording home of Elvis Presley.

The company is a major force in the European magazine, book, television, film and printing businesses. Its roots as a publisher stretch back more than 150 years when its founder, a printer named Carl Bertelsmann, began publishing Protestant religious and educational books. It later added titles by the likes of Lord Byron and the Brothers Grimm.

Random House began in 1925, when Bennett Cerf bought the Modern Library, a line of cheap classic reprints, from Horace Liveright for $200,000. It's a measure of the company's deep concern for its roots that the Modern Library is still a vital force today.