1

The Book-of-the-Month Club as a New Enterprise

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Introduction

This chapter concerns the founding of a company, the Book-of-the-Month Club, and what one might call the foundation of its fortunes. The aspects of the company's history of particular interest are the establishment of those foundations (and *ipso facto* their character) and the scale of the fortune. This history vividly exemplifies the uncertainties, challenges, and opportunities that may be encountered in the starting up and early growth phases of a new firm. Organizational routines—in the sense given in this volume's Introduction—were central to this company's existence and success. Some more detailed questions raised below are thus: Where did the organization's routines come from? How did they come into being as routines? How were they sustained? Why were they of particular value (or how did they come to be so)? Some concern the flow of information, but they are as a group considerably more various than that; and even the strictly information-related ones have a much broader significance than may initially be apparent. Considering these matters calls, especially in a new firm, for some background about the principal actors and their objectives before getting to organization, action, and routines as such, since those actors' particular histories, furnishing them with both context and resources as they do, may have mattered. It is readily apparent that the Book-of-the-Month Club founders developed a means of creating value for the company's customers; and it proves equally apparent that they learned to capture a great deal of that value. At the close, I therefore also discuss how much of a difference this company's particular routines and the strategy they supported made, relative to the industry's then-conventional routines.

The Book-of-the-Month Club started in 1926, went public in 1947, was purchased by another corporation in 1977, and is still trading, albeit several further owners on. The customer base is now relatively small. But it was once very likely the largest single retail distributor of trade books in the country and the largest firm of its type; and the company's name was for many years well enough known that it was key to the humor of many *New Yorker* cartoons.[1] Companies of the type it pioneered represented a significant channel of distribution for the American book trade, a small piece of the economy but one of considerable absolute size as well as obvious significance, given the cultural importance of books and reading. Of course, this distribution channel was of conspicuous later salience as well. One should always be cautious about a Whig history bias, in particular in focusing on success stories; but how such an enterprise got started and why it was able initially to establish itself is nonetheless a matter of natural interest.

This discussion is not focused, unlike most of the published literature, on the company's cultural significance.[2] It concerns, rather, how the Book-of-the-Month Club worked as an organization: how it evolved and developed, how valuable was the way the company worked, and what organizational institutions were most important in establishing and sustaining that value.

The Principal Actor

This history concerns not only a business with a character but also an entrepreneur with a character. 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, unrecorded. The marriage did not last. The mother moved with the children to Philadelphia, which then as now had a large Jewish community with a number of Jewish-affiliated institutions. They were at least initially, in Scherman's words, in "fairly straitened" circumstances. Mrs. Scherman found work at the Jewish Publication Society, which issued religious and secular books in

[1] "Trade books" are books published for sale and intended for a general audience.

[2] The first major study was Charles Lee's *The Hidden Public: The Inside Story of the Book-of-the-Month Club* (Garden City, NY: Doubleday, 1958). The company is a principal subject of Joan Shelley Rubin's *The Making of Middlebrow Culture* (Chapel Hill: University of North Carolina Press, 1992). Perhaps the best-known study is Janice Radway's *A Feeling for Books: The Book-of-the-Month Club, Literary Taste, and Middle-Class Desire* (Chapel Hill: University of North Carolina, 1997). These discussions are all substantially based on an extensive set of oral histories in the Columbia University collection conducted in the mid-1950s. The text that follows derives from those same oral histories, a remarkably detailed and apparently not previously consulted S-1 registration statement submitted to the Securities and Exchange Commission when preparing for a 1947 initial public offering of shares, and various other sources identified below.

English. It was a membership organization and aspired to reach national scale. Mrs. Scherman traveled around the country building up the membership list. The family lived in a boarding house that offered an apparently warm and inclusive atmosphere. Her 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, very good at school. He received a classical education at Philadelphia's Central High School (the second public high school in the United States, then an even more demanding place than it is now), graduated first in the class of 1905, and won a scholarship to the University of Pennsylvania.[3] He enrolled at Wharton, a business school intentionally planted within a liberal arts university.[4] 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 Oral History interview with his colleagues decades later, that this choice resonated with 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, and drifted to New York and into advertising. For this he had serious gifts. At a booming time in that line of business, he easily found work, moving from one job to another in search of more challenge or more money, but in any case without any great difficulty. He began to write copy for mail order firms. The J. Walter Thompson firm hired him in 1914 to specialize in this.[5]

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

His advertising work seems to have been imaginative more or less from the start. The most salient example concerned the Whitman Candy Company of Philadelphia. An agency client in 1916, they wanted to sell more (boxed) candy. Scherman got the idea that there might be a bigger incremental market

[3] 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), 105.

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

[5] Oral History interview with Harry Scherman (1955), *Book-of-the-Month Club Project*, Columbia Center for Oral History Archives, Rare Book and Manuscript Library, Columbia University in the City of New York, 18. (All Oral Histories cited below are to be found in the Columbia Center's collections.)

among the antecedents of Bridget Jones than among the Dead End Kids. His proposal was essentially Shakespeare with Sweets: he suggested that Whitman buy 1,000 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 Oral History interview with these events.

> Either Charles or Albert Boni [Scherman's literary friends 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.

The reply to that letter was an actual order for 15,000 copies, 1,000 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.[6]

This is the restless entrepreneurial spirit, plain and simple. Scherman wasn't programmatic. He wasn't particularly a planner in any other than the most tactical sense. But he was always looking for an angle or a gap. He was always, ultimately, looking for something he could do.

The Most Apparent Opportunity

Scherman began to wonder whether it might be possible to sell other traditional books in such unconventional ways. So he resigned from J. Walter

[6] Oral History interview with Scherman, 21–2, 24.

Thompson and set up the Little Leather Library Corporation, with Maxwell Sackheim (the other mail-order expert at Thompson) and the Boni brothers (who about a decade later started the firm that launched the Modern Library).[7] 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 didn't anticipate being able to afford paying royalties.) The individual books would be—and at least started out as—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. There is much less precedent for the other venues—indeed, the extensive chain store organization of these enterprises was itself a relatively recent development.[8]

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.[9] Millions of copies were subsequently sold, perhaps an agreeable surprise to both sides. To sense the novelty of the idea from the Woolworth's 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 a second bag.[10]

That said, 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 retail merchants weren't much easier: the Little Leather Library Corporation needed the dealers more than the dealers needed it and the dealers knew this.

[7] Sackheim grew up in the upper Midwest, his father a peddler in the farm districts. "In those days . . . the farmer was isolated," he said. "There were no good roads and hardly any telephones" (Oral History interview with Maxwell Sackheim (1955), *Book-of-the-Month Club Project*, 1). Sackheim first went to work in advertising 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 went to New York.

[8] 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).

[9] On the negotiation, see Oral History interview with Scherman, 26–7.

[10] 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, MA: Harvard University Press, 1938–68), especially Volumes III and IV). There seems to have been very much less of this by the 1920s. The importance of impulse purchases to chain drugstore sales then and now remains.

Hence, trying mail order seemed worthwhile: this problem was avoided and mail order was, at least, terrain they knew their way around.

> 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 principal 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, 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 3 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.[11]

Scherman and Sackheim took on a financial partner, Robert Haas, but continued to dominate the firm.[12] The Little Leather Library sold in excess of 48 million copies over its seven-year lifetime. In general, the leaders 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.

Scherman had other business problems to consider in this period: as the Little Leather Library began to run out of steam, the duo had started their own ad agency. Yet the Little Leather Library money had been easy and the subject,

[11] Oral History interview with Scherman, 29–31.

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

approach, and success did not leave Scherman's ever active mind.[13] The Book-of-the-Month Club was his next book trade idea. The venture occupied him, once it got seriously underway, for the rest of his career (and, indeed, his life).

The Industry: The Status Quo Ante of 1926

It will be helpful in understanding what follows to have some sense of market and industry context. Some general descriptive statistics about America at the time Scherman turned again to entrepreneurship will sharpen the picture.[14] The population was booming, rising from 76 million in 1900 to 92 million in 1910 and nearly 106 million in 1920, and population density was on a steady upwards course. The median age in 1925, estimated from the published data in the simplest way at 25.2 years, was one at which many are still very curious about the world and other people.[15] (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.)[16] The foreign-born population had leveled off after the war and the subsequent immigration restriction legislation, so the incremental potential readers almost all had English as their mother tongue. Literacy rates were very high. Primary and secondary education was widespread, and enrollment in public high schools in particular had quintupled since the turn of the century. Tertiary education was limited, but enrollments were rising robustly.[17] 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 were perhaps surprisingly common. More striking, the U.S. population overwhelmingly didn't live in places we would today think of as cities. The nation was, for the very first time, barely less than half rural—on a very cautious definition of rural—in the 1920 Census. "Urban" or rural, most

[13] 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." (Oral History interview with Meredith Wood (1955), *Book-of-the-Month Club Project*, 1.)

[14] Marketing research as we know it today was in its very early days then and probably had little relevant quantitative data to offer. Someone in Scherman's position and location would have found most of the available information on the shelves of the New York Public Library, in particular in Census and *Statistical Abstract of the United States* volumes and in the *American Book Trade Directory*.

[15] Susan Carter, Scott Gartner, Michael R. Haines, Alan Olmstead, Richard Sutch, and Gavin Wright, eds, *Historical Statistics of the United States*, Millennium Edition (New York: Cambridge University Press, 2006), series Aa2, and Aa3, Aa34.

[16] Oral History interview with George Horace Gallup (1955), *Book-of-the-Month Club Project*, 13.

[17] Carter et al., *Historical Statistics*, Aa1896, Bc793, Bc8, 11, and 16, and Bc523 and 524.

people still lived in relatively small places. Manufacturing had surpassed agriculture as an employing sector, but only just.[18]

Statistics concerning the nation's transportation and communications infrastructure at the time confirm, as Sackheim suggested, isolation outside the cities. Railroad expansion was basically played out by this point. Automobile registrations were booming in that heyday of the Model T.[19] But in 1921, only about 13 percent of the nation's roads were surfaced, i.e. all-weather: the rest would have been mud or deeply rutted ice for much of the year.[20] Rural places might be physically remote, but telephone service increasingly reached out towards them,[21] as did radio.[22] The Post Office and Rural Free Delivery had been operating for years. 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."[23] There were stores in an enormously larger number of locations. But as one might expect of enterprises holding inventory, the trade's establishment outlets in 1925 were still disproportionately found where the population was densest.[24] A tabulation of information in the 1925 *American Book Trade Directory* documents what they chiefly sold. 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 section], etc.). Most were in the "General" category, what we would think of today as independent bookstores. Among stores selling or otherwise making available trade titles, the proportion of such stores was particularly large.

Other types of stores did make recent trade books available. Most important among these were circulating (i.e. rental) libraries. Some businesses only rented books, but two thirds of all circulating firms also sold general trade books at their main location.[25] 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 anticipated. Rental fees also

[18] Carter et al., *Historical Statistics*, Aa686–94 and 697–8, Aa701–9 and 713–15 (note that the median American in 1920 lived in a place of population 2,500–4,999—this was, for most, at best a small-town society), and Ba821 and Ba817.

[19] Carter et al., *Historical Statisics*, Df931 and Df928, Df340.

[20] [U.S.] Department of Commerce, Bureau of Foreign and Domestic Commerce, *Statistical Abstract of the United States 1924* (Washington, DC: Government Printing Office, 1925), table 336.

[21] There were about 5 million miles of wire in 1902, 20 million in 1912, and 37 million in 1922. See Department of Commerce, *Statistical Abstract*, table 321.

[22] Carter et al., *Historical Statistics*, Dg117 and Dg128. (Data in the latter series, on households with radios, began only in 1922. The numbers rise rapidly but start from an extremely low base.)

[23] Oral History interview with Gallup, 25. He added that this pattern "is accentuated by the advertising media available."

[24] Author's calculation from *American Book Trade Directory 1925 including Lists of Publishers, Booksellers, Organizations, and Periodicals* (New York: R.R. Bowker, 1925).

[25] Author's calculation from *American Book Trade Directory 1925*.

represented a smaller financial commitment from the customer than purchase: this may have appealed to both tentative and cash-constrained customers. Rental books seem to have been more broadly available than straight retail, but the same basic problem of needing a substantial turnover to cover fixed costs probably constrained its diffusion to areas of low population density. At the end of the day, there remained an underserved market: new books were not within the local reach of many potential readers.

Surviving evidence about the profitability of retail bookselling in the mid-1920s is sketchy.[26] The best source is a National Association of Book Publishers report by O.H. Cheney, a banker with an interest in the industry.[27] This provides, among many other statistics, measures of 1929 retail bookseller profitability before interest (the qualification matters little, interest costs were small).[28] Figures are given separately for independent and chain stores in three categories: under $60,000 [that year] in volume, over $60,000, and all, i.e., together. A separate entry offers figures for all stores i.e. including department stores. For each of these, there are results for "Average," "Relatively Poor," and "Relatively Good" stores. The average for all independent and chain establishments was 2 percent profit on sales. 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 mail. The most well-established vendor may have been Sears, Roebuck, famous for its mail-order catalogue. The breadth of its distribution was remarkable: Sears circulated 13,310,978 copies of the 1925 catalogue.[29] This offered, amidst the clothing and the cream separators, more than 500 popular novels and story collections along with several hundred joke and cartoon collections, how-to books, reference works, and bibles.[30] Most of the 500-odd likely were steady sellers (the groupings include "The Famous 'Readers' Library,'" "American Home Classics," and "Smashing Two-Fisted Books of Daring and Adventure"). Individual authors featured included Mark Twain, Zane Grey, and Edgar Rice Burroughs. The price points are distinctly modest. These offerings may have been substitutes

[26] Evidence from the Census of Distribution establishment returns can shed some limited light. But the first such census was conducted only in 1929 (for the published summary, with aggregate and average figures, see United States Bureau of the Census, *Census of Distribution* (Washington, DC: Government Printing Office, 1933)).

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

[28] Cheney, *Economic Survey*, 282. Profitability before interest is derived as total revenue less cost of merchandise, salaries, rent, heat, and light, other operating expenses, and advertising. Chaney does not say explicitly how taxes are treated in his calculation.

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

[30] For the books, see Sears, Roebuck, and Co., *Catalogue*, Spring and Summer (Chicago, 1926), 427–33.

for some products of the major trade houses; but they would not have been much competition for books the houses hoped might be bestsellers. Still, 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 relatively large scale.[31] This was the so-called "Little Blue Book" enterprise of Emanuel Haldeman-Julius, well known to have been financially quite successful. The business developed out of a turbulent left-wing weekly called the *Appeal to Reason* that emanated from Girard, Kansas.[32] Before World War I, the *Appeal* had a peak circulation of about 750,000,[33] more than three times that of the *New York Times*, a leading daily in the nation's largest city, with a demonstrably national circulation at least to libraries.[34] The *Appeal* had a line of books and sets that would intrigue its socialist readership, printed on the Girard presses. These were advertised in the weekly paper presented in severe plain type ads, but they sold profitably.[35]

After the war, the *Appeal* fell into financial difficulty and a group of younger staff, eventually dominated by the entrepreneurial Haldeman-Julius, took over.[36] Following 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. These were priced as cheaply as demand levels and optimized production equipment and methods

[31] It would have been known to the trade at least through "Selling Thirty Million Books," *Publishers Weekly* (June 2, 1923), p. 1717 and the detailed illustrated accounts of inter alia operations and routines as Carroll Y. Belknap, "Books by the Million," in *Business Magazine* (May, 1923), 26, 36–7, 53, and 56, and Herbert Flint, "Haldeman-Julius: The Ford of Publishing," in the Midwestern trade paper the *Inland Printer* (January, 1925), 548–50. There was also a New York store, visitable but also written up in "Pay as You Go Out, 5 Cents a Copy, in the New Cafeteria Bookshop," *New York Times* (February 24, 1924), section 8, 18.

[32] The area in southeast Kansas around Girard sat atop major bituminous coal, lead, and zinc deposits. See John G. Clark, *Towns and Minerals in Southeastern Kansas: A Study in Regional Industrialization, 1890–1930* (Lawrence: State Geological Survey of Kansas, 1970). The miners who were brought in to extract them did not leave their politics in Europe. Good rail connections facilitated distribution of the newspaper.

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

[34] Meyer Berger, *The Story of the New York Times: 1851–1951* (New York: Simon and Schuster, 1951), appendix II, 569. Re. circulation, the *New York Times Index* issue for the final quarter of 1925 (Vol. 13 no. 4, front matter) reports 271 places where "Files of the *New York Times* can be consulted" in forty-two states and the District of Columbia (mostly libraries but also the occasional newspaper, bank, and detective agency).

[35] Unfortunately, we know no more than this: no details of the volume of sales or the associated revenues or costs appear to have survived. The main business records are board meeting minutes consultable in the Rare Book and Manuscript Room of the Ax Library at Pittsburg State University in Pittsburg, Kansas.

[36] See Andrew Cothran, "The Little Blue Book Man and the Big American Parade: A Biography of Emanuel Haldeman-Julius" (College Park: University of Maryland Ph.D. dissertation, 1966), 66–85.

would permit. The initial 25 cents a copy bottomed out at 5 cents,[37] a very different price point from the established book trade. Haldeman-Julius seems to have seen himself as the Henry Ford of literature.

This publication program took over the business, along with some periodicals that featured Haldeman-Julius and promoted the series.[38] In due course, the firm issued 2,000 titles and by 1928 had sold 100 million copies.[39] Some sales occurred through captive shops and racks in general stores; but as the series was advertised widely in newspapers and periodicals, Haldeman-Julius could claim that 95 percent were by mail order,[40] across the U.S. and indeed all over the world.[41]

Several aspects of this venture visible by 1926 seem noteworthy. The tremendous overall sales indicate a continent-wide, latent demand for literary content, as well as the viability of sales via advertisements and fulfillment via the mail. From a more operational perspective, what is striking is the value of inventory control methods not common in American book 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. Scherman was well aware of the Haldeman-Julius enterprise.[42] But the former's eye was on books that sold at higher prices and richer margins.

It will also prove helpful to sketch the upstream context. Barriers to entry in publishing have never been high. While they were probably greater 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 an active business in trade books; and on all accounts many new titles were published each year.[43]

Publishers in the interwar years experienced occasional big successes but far more generally, faced slender margins, much like booksellers. Cheney, again with excellent 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

[37] See Emanuel Haldeman-Julius, *The First Hundred Million* (New York: Simon and Schuster, 1928), 222–39.

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

[39] Haldeman-Julius, *The First Hundred Million*, 9 and 12.

[40] On the development of the bricks-and-mortar presence, Cothran, "The Little Blue Book Man," 194–8.

[41] Haldeman-Julius, *The First Hundred Million*, 251–2.

[42] Oral History interview with Scherman, 25–6.

[43] For statistics on new books and new editions, see Carter et al., *Historical Statistics*, Dg225 and Dg226.

> without, but the average return for most in the industry offers little more than the intangible rewards of the book lover amidst books.[44]

Cheney saw one major source for this state of affairs in lax credit policies—in fact, a "credit structure [in] the industry—to and from the publishers . . . unbalanced in general, very often [simply] haphazard." The vulnerabilities this set 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. Here was a large-scale problem.

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 before the output can 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. From the publishers' perspective, this is an economy of bestsellers, with the revenue side of profits 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 outside were going to waste for the lack of such information.

Getting Started and Settling In: The Importance of (Certain Particular) Routines

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 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 had to make inventory commitments ahead 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.

[44] Cheney, *Economic Survey*, 158.

The traditional means of courting potential customers was the 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 purchases, speaking with authority or charisma.[45] More formally, the *New York Times* book review section commenced in 1896, but does not seem to have circulated far amongst individuals and businesses. Such systematic reviewing in national periodicals and nationally circulated local publications tapered off until the mid-1920s (an upsurge arguably beginning with the 1924 foundation of the *Saturday Review of Literature*).

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

> 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. [Christopher] 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.[46]

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 overheads could be spread over many titles instead of weighing heavily on the account of a single one.[47] Customers would be offered something like a subscription to a magazine, edited by someone who knew their tastes and arriving conveniently at their doorstep.

[45] "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, MA: Harvard University Press, 2004), are exceptions that prove the rule.

[46] It appeared originally in Carl van Doren, "Day in and Day out," *Century*, December 1923, 308ff.

[47] See e.g. Wood, 17–18.

Schermer's 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. 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."[48]

The search for new opportunities was, once again, close to what they knew they could do and close to where they knew they could do it successfully.

Scherman lived in New York City and apparently began testing his idea using the New York *Social Register* as a distribution list. But he soon ran ads in the *New York Times* and national periodicals.[49] The pitch was simple. Subscribers would commit to buying a book a month for twelve months. 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 Main Selection. The book would arrive in the mail. There would be no prior notification of which it would be.[50] 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. 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 section for May 16, 1926. Edith Walker later suggested 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. The ad was in the nature of an announcement of this new venture,

[48] Oral History interview with Sackheim, 11–12.
[49] Oral History interview with Edith Walker (1955), *Book-of-the-Month Club Project*, 3–4 and 9.
[50] Oral History interview with Walker, 6.

> 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.[51]

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," Walker later recalled. "[We] opened the mail, wondering whether we had received even a single response. 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."[52]

Sackheim had reckoned the subscriber list would have to reach 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 they were mainly sending books to addresses where other channels weren't doing business. But some facts are clear. The team shipped more than 232,000 books in the first calendar year and many more thereafter. The 1929 total was 986,044.[53] The company was very quickly off and running.

There was, of course, a process of settling in. Some operations went roughly as initially envisaged.[54] 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 indicate that these matters were not representative. To the actors, it seemed that frantic improvisation was much more prevalent.

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, 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 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.[55]

More concretely, the incoming mail alone strained the premises as well as the staff. Shipping the books at all required taking physical possession of them, creating a staging area, packing and addressing them, and getting them out

[51] Oral History interview with Walker, 4. [52] Oral History interview with Walker, 4.

[53] Annual sales figures from Securities and Exchange Commission S-1 Registration Statement filed by the Book-of-the-Month Club, dated March 20, 1947 [hereafter S-1].

[54] For the following two examples, see Oral History interview with Walker, 49–50 and 9.

[55] Oral History interview with Walker, 4–5.

the door again. Even in the very beginning, when the quantities involved were smaller, most of these were challenges.[56] A new lease was soon 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.[57]

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

The Deeper Opportunity and the Strategic Value of (Other Related) Routines

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), then physically transported to the leased company facilities in Manhattan. There the various transactions were recorded and the individual books boxed and mailed. These last two activities, of course, strained both premises and staff. Although these were problems, they were good problems to have; and investment in facilities, staff, and organizational routines coped with them adequately or funded rapid trial-and-error adaptations.

Other early problems were less attractive and seemed initially less tractable. Part of the confidence-enhancing gambit was to offer return rights after examination. (These rights were not free even in a marginal sense.) 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 a minor mess compared with the response to the following January's selection, *The Heart of Emerson's Journals*. This volume essentially fell 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."[58] This misstep threatened to swamp the profit account as well as the facilities, since the company itself had no return rights with the publishers.[59]

[56] See e.g. Oral History interview with Robert K. Haas (1955), *Book-of-the-Month Club Project*, 21 and 23.

[57] Haas, *Book-of-the-Month Club Project*, 21–2.

[58] Oral History interview with Scherman, 70.

[59] The more familiar contractual arrangements involving limited return rights are an artifact of Great Depression trading conditions.

Scherman's colleague Sackheim devised a clever tactical solution, a technique still in use and known to posterity as the negative option.[60] The form of the contract with customers changed. Now an announcement of the next choice 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 accompanied the announcement. But procrastination, distraction, and general human nature being what they are, few forms ever came back. The book return option ended, too, and a major source of short-run forecasting error went substantially away.[61]

Crucially, the don't-send forms 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.[62]

The range of substitution numbers at that time was typically two to two-and-a-half times the range of return numbers.[63] The company had some months previously dropped the number of required purchases per year to four.[64] 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 the choice. An infrastructure of staffers and a healthy payroll for the selectors grew up alongside the publicity about the selectors themselves. At the heart of the early advertisements stood the Committee of Selection, which seems to have worked smoothly from the start. 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.[65] 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

[60] For Sackheim's own description, see Oral History interview with Sackheim, 13.

[61] The announcement also offered specific alternatives. The list of these included prior Main Selections. Note that the books were being sourced from publishers' inventories at this time, though by the 1930s the club owned the relevant inventories itself.

[62] *Book-of-the-Month Club News*, March 1928, p. 4.

[63] *Book-of-the-Month Club News*, April 1928, p. 10.

[64] *Book-of-the-Month Club News*, December 1927, p. 4.

[65] Oral History interview with Dorothy Canfield Fisher (1955), *Book-of-the-Month Club Project*, 6–7.

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.[66] A clear majority of the committee members had Quaker backgrounds, and Fisher says that Quaker procedure was in the ambiance, if not explicit in the rules of order.[67]

The invitation letters to the committee members had been clear: the businessmen would manage the business end but would not say anything about choices or try to steer the committee.[68] Members of management attended the meetings but apparently did nothing more than listen and from time to time make mixed drinks.[69] The most externally prominent committee member remarked many years later that he had been prepared to resign, had there been any managerial interference in the committee's decision making.[70] Apparently, there never was.[71] 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."[72] 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 at a word—and it was chosen and sent out" directly.[73] Scherman's *New York Times* obituarist, whose research was clearly extensive, made a section title of it.[74]

[66] On the vigor, see Oral History interview with Warren Lynch (1955), *Book-of-the-Month Club Project*, 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."

[67] Oral History interview with Fisher, 11.

[68] Oral History interview with Fisher, 9.

[69] "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, *Book-of-the-Month Club Project*, 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 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" (Oral History interview with Lynch, 25 and 27).

[70] Oral History interview with Henry Seidel Canby (1955), *Book-of-the-Month Club Project*, 3–4 (Canby was the founding, and then current, editor of the *Saturday Review of Literature* and taught from time to time at Yale).

[71] "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" (Oral History interview with Canby, 4).

[72] Oral History interview with Fisher, 10.

[73] Oral History interview with Fisher, 10.

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

Management's view was that it was, editorially, in the business of screening books rather than guessing which ones would sell. Said Ralph Thompson, the head of the editorial department in the 1950s:

> [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.[75]

They did believe themselves to be the most profitable book club on a per-member basis.[76] Predicting popularity wasn't how they were making money. Rather, profits stemmed from 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 proved very positive. This brought three sorts of secondary responses in its train: from traditional book retailers, from imitators, and from the publishers who created the books the club sold.

The infrastructure of traditional, what we would now call bricks-and-mortar, U.S. book retailers then looked rather different from today. In 1928, once the firm was really underway, there were just shy of 6,000 establishments into which a customer could walk to buy a book at retail.[77] These stores were overwhelmingly single-establishment firms. A few chains existed, but they tended to be quite local: with only one major exception, multi-establishment firms were strictly regional and indeed tended to be confined either to adjacent East Coast cities or to a single city and its immediate hinterlands. Department stores were still a significant factor in the trade, representing about 15 percent of the total establishments, their book departments generally being placed on the ground floor, near the doors, and functioning much as cosmetics departments did and do today. Department stores, gift shops, and drug stores accounted for about one quarter of the outlets.

The retail venues were distributed, albeit not very evenly, across all the states and in many small places as well as cities. They did not make much money; and they were generally thinly capitalized. Their response to the advent of the Book-of-the-Month Club was, understandably, hostile. Most commonly booksellers claimed 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 individually making choices. This resonated with intellectuals writing for magazines and perhaps with others, though there is

[75] Oral History interview with Ralph Thompson (1955), *Book-of-the-Month Club Project*, 24.
[76] Oral History interview with Lynch, 19.
[77] *The American Book Trade Directory 1928* (New York: R.R. Bowker, 1928).

not much evidence this argument mattered to potential customers. Scherman and his colleagues argued 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.[78] There is certainly corroborative documentation for this claim in correspondence from friendly publishers during the early years. Viking had originally obtained 1,000 copies of the initial selection, *Lolly Willowes* (initially published in the U.K.). Their initial sale to the Book-of-the-Month Club was quite large. Later they wrote to say, perhaps having been asked, that they eventually sold through traditional channels a number roughly equal to their sales to the Book-of-the-Month Club. Scherman cited other instances, some with larger effects, in writings and speeches.[79] The independents were trying to get the publishers to stop selling books to the company; that in the end they failed comprehensively suggests there may have been something to these examples.[80]

There was also direct imitation. Some book club rivals competed head to head, but first-mover advantages seem to have been substantial for the Book-of-the-Month Club. 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.[81] The imitator firms were always smaller and soon enough started trying to differentiate their offerings by seeking niche audiences (children's books, science, detective stories, etc.).[82]

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

[78] For a summary of evidence and the company's tendentious interpretation of it, see Wood, 21–6 (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).

[79] 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"). 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.

[80] 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.

[81] 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.

[82] Oral History interview with Walker, 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. This category proved not very durable.

Book-of-the-Month Club than without.[83] One element of that was surely the basic order. After all, 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.[84]

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."[85] This promised a very different cost structure, since the fixed costs of making a book were substantial.[86] 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.[87]

The Depression and War Years, the IPO, and a 1947 Valuation

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 proved simply staggering. Gross National Product (GNP) fell from $104.5 billion in 1929 to $56.7 billion in 1933. Unemployment shot up, especially among non-farm employees (amongst whom it reached a peak in excess of 31 percent).[88] 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 even before Roosevelt's election, focuses on pricing and market control. By late spring 1930, the price points for new

[83] The *Book-of-the-Month Club News* for March 1927 gives a very long list of cooperating publishers.

[84] Haas, *Book-of-the-Month Club Project*, 7 (customary trade discounts at the time were significantly more modest).

[85] Oral History interview with Scherman, 49.

[86] On the cost advantages to publishers, see Oral History interview with Harry Dale (1955), *Book-of-the-Month Club Project*, 18.

[87] See p. 43 for more on this.

[88] Carter et al., *Historical Statistics*, Ca2 (note that prices also fell dramatically—the decline in real GNP was smaller but still massive at more than 36 percent, cp. Ca7), Ba476.

trade fiction were moving.[89] Department stores, which had a long history of using loss-leaders in their book departments to draw trade, grew very active.[90] The business of circulating libraries appears to have boomed. Once the machinery of the National Recovery Administration swung into position, efforts began to constrain the remainder trade (i.e. in bargain-priced books that hadn't sold at their original prices) and to maintain prices.[91]

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 accomplish its discounting in disguise. As from July 1930, the company said, a coupon worth a 20 percent discount on a future purchase would accompany each accepted Main Selection.[92] In March 1931, a dividend fund was announced which would, from time to time as circumstances allowed, finance free additional books for subscribers.[93] A 1932 circulation drive with an upfront book premium was denounced in the main trade paper as a giveaway to potential subscribers.[94] Actually, free books were occasionally simply shipped to subscribers on an ad hoc basis.[95] In 1938, an enhanced dividend program, really a policy of one bonus book for every two purchases carrying dividend credit, was installed.[96]

Yet such an account would be seriously, and intriguingly, incomplete. Other company initiatives were more complex and idiosyncratic. The most striking of these concerns was the terms on which the books became available to the company for shipment. 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 several times the scale of the first printing. By 1930, the market was not good; but there was reason to think—or at least for entrepreneurs to

[89] See "Publishers Announce Revolutionary Price Plans," *Publishers Weekly*, May 24, 1930, 2610–11, for announcements by Simon and Schuster, Coward McCann, Farrar and Rinehart, and Doubleday Doran and discussion of what half a dozen others were considering.

[90] For a sketch of the history, see Helmut Lehmann-Haupt, Lawrence C. Wroth, and Rollo G. Silver, *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), 383–6. 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 95 cents a volume. The price nadir was Macy's offering at 9 cents each (one copy to a customer for the obvious reason). Gimbels' response to this was unlimited copies at 10. For one report, see "Merchants Gone Mad," *Publishers Weekly*, October 18, 1930, 1847.

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

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

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

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

[95] 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.

[96] *Publishers Weekly*, May 28, 1938, 2088.

hope—that the club had a more reliable relationship with book buyers than individual publishers did.

In June, the company announced different terms, which amounted to a different routine for getting essential tasks carried out. Hereafter 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."[97] The company would accept such inventory risk as physical production entailed—it thus backward integrated 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 have suggested, 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's business held up remarkably well. Subscription numbers dipped in 1931 and again in 1934 but otherwise grew steadily, reaching, by 1938, 282,300.[98] Total books sold grew vigorously, with the 1938 figure of 2,821,301 being more than treble the 1930 one. Net profits as a proportion of net revenues grew. The war years came out better still, commercially speaking. By 1945 subscriber numbers had more than doubled the 1939 level and were up to a full two-and-a-half times the 1939 level by the end of the following year. Books sold were also up disproportionately by then. Net revenues had more than tripled. The company's 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 low. You almost could put an ad in anywhere, or send out any kind of circular, and get results.[99]

As the postwar years began, the Book-of-the-Month Club was in good shape.

On the other hand, Scherman was experiencing 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. Scherman's lawyers wanted a market valuation for the firm, so that inheritance taxes

97 "Book-of-the-Month Club Cuts Offer to Publishers," *Publishers Weekly*, June 14, 1930, 2928.
98 All statistics in this paragraph are from the S-1 registration statement.
99 Oral History interview with Scherman, 205–6.

would not be essentially at the discretion of the treasury when Scherman died.[100] An initial public offering was proposed for 1947.

One can piece together a reasonable picture of the company's operating context at the time. U.S. real GNP was slightly down relative to the war years but up massively over 1929. The number of armed forces personnel on active duty of course had expanded greatly, rising from approximately 334,000 in 1939 to a 1945 peak above 12 million. By 1947, their numbers declined to about a million and a half. President Roosevelt signed the GI Bill (the Servicemen's Readjustment Act of 1944) on June 22, 1944. It subsidized *inter alia* college tuition, fees, books, supplies, and living expenses for the honorably discharged. Within the following seven years, it sent roughly 2.3 million Americans to college. Enrollment in higher education in 1948 overall was 2,403,000, more than double the figure for the mid-1920s. These people were acquiring, amongst other habits, the habit of reading books. Personal consumption expenditure patterns in 1947 were not much different from what they had been in 1929. Expenditure on books was as a percentage of the total slightly lower than it had been but not substantially changed.[101] The prospective market for the company itself 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 purchases, compared to mail-order sales, which went principally through book clubs, of 15 percent.[102] The Book-of-the-Month Club dominated this sector.

Some questions from a Gallup poll conducted in early January of 1948 add detail.[103] The sample involved 2,983 respondents, a relatively large number as polls go. Nearly 30 percent said they were members of a book club. Slightly more (31 percent) said they were ex-members.[104] 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 yet more rural places. Those self-identified as current or former book club members formed a clean majority in all classes. They then were asked to name the club or clubs in question. About two thirds (67 percent) answered the Book-of-the-Month Club. The second-place club was the Literary Guild at 19 percent. None of the other book clubs had above 8 percent of the answers, and most drew less than 2 percent.

[100] Oral History interview with Scherman, 344.

[101] Carter et al., *Historical Statistics*, Ca7, Ed26, Bc523, Cd153–263 (in which the "books" category, Cd237, is "books and maps").

[102] See Book-of-the-Month Club, *Annual Report* for 1949.

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

[104] 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.

The poll also measured market penetration of the Book-of-the-Month Club (i.e. in the sample) by place of residence population, in five classes. Penetration was highest in relatively sparsely populated places, in the largest places, and in the median category. These three classes were where 70 percent of the U.S. population lived. The highest penetration figure was in the most populous class, the one in which competition for a mail-order company from bricks-and-mortar stores was likely to be weakest. This proved a fruitful environment.

Its initial public offering (IPO) prospectus showed that the Book-of-the-Month Club was throwing off money; and its prospects must have seemed bright. The company started with an investment of $40,000, half from the wealthy Haas, who joined the firm for half a dozen years, and half from Scherman and Sackheim. It was profitable more or less from the start; and from 1928, gross margins were consistently in the 60 percent range and capital expenses were minimal. Perhaps unsurprisingly, the IPO went off quite successfully. 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 rehearses 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 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 ownership days, the club never published data about customer geographies that was very illuminating. 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; and only some areas offer markets large enough to support those expenses. 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 make money in the space where there are already financial commitments. This is 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."[105] The problem is

[105] Weems to Carey, March 25, 1809 in Emily Ellsworth Ford Skeel, ed., *Mason Locke Weems: His Works and Ways*, 3 volumes (New York: privately printed, 1929), vol. II, 397.

chronic and was until very recently extremely difficult for a general audience retailer to address.[106]

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 and even put Gallup on its board. It wanted to know about its customers as well as about the inducements it might offer them. 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.[107] All this may indeed have been completely independent of the Selection Committee's decision making. That does not mean it had no economic value.

This point is worth emphasizing. A more recent perspective 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."[108] Further, "[i]n 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."[109] Whatever his intentions may have been, this was not how the company worked out. 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. This may well have been an economically superior model for the whole vertical enterprise of publishing-cum-retailing.[110] Neither retailing

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

[107] The number of observations of acceptance rates in the private period is much smaller than one would wish. But a one-variable regression captures nearly 95 percent of the variance.

[108] Radway, *A Feeling for Books*, 175–6.

[109] Radway, *A Feeling for Books*, 174–5.

[110] 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

nor publishing were 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 established 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—the expected net present value at the time of the IPO of owning all of the company's future profit streams. 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 ratio of investments benefits to costs was slightly in excess of 228:1 (using the most financially conservative alternative, that of federal government short debt, the numerator of the ratio is just shy of 350).[111] The Book-of-the-Month Club had a very effective way of doing whatever it did.

In general, whole-channel profit rates cannot be calculated from publicly available data.[112] The Federal Trade Commission Line-of-Business Program in the mid-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.[113] Still, a weighted average of two figures must lie between their extremes: 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 its various elements. This was a supra-normally profitable channel structure.

Conclusion

It is clear that the way the Book-of-the-Month Club operated in a fundamentally fairly low-margin business was different and, at least in terms of profitability

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.

[111] The canonical source for such series is Sidney Homer, *A History of Interest Rates* (New Brunswick, NJ: Rutgers University Press, 1963). For details of these calculations, please contact the present author.

[112] See Betty Bock, *Line-of-Business Reporting: Problems in the Formulation of a Data Program* (New York: Conference Board, 1975), Conference Board Report No. 654.

[113] The results that were published appear as U.S. Federal Trade Commission, *Annual Line of Business Report* (Washington, DC: U.S. Federal Trade Commission, 1973–7).

over its first twenty years, extremely successful. But part of what this chapter's narrative reveals is that success is not necessarily—at least in the small—a matter of everything initially envisaged consistently going right. The entrepreneurs hoped more than they expected; and the earliest years appear to have presented one surprise after another to them. The realized profitability relied on scale; but the moment-to-moment profitability—indeed, sometimes the moment-to-moment avoiding of disaster—turned on an ability to maintain the central core of what the firm delivered to its customers while improvising, sometimes in mundane ways but sometimes very imaginatively, about how this was carried out. Routines emerged and successful ones remained—not utterly impervious to change but never entirely disappearing either. This is valuable in a business in which reputation matters for customer acquisition, though it can become a problem if the population of potential customers, or their alternative choices, changes sufficiently radically.

The Book-of-the-Month Club's establishment and early career can be viewed as the highly entrepreneurial development of an alternative channel for book distribution. Such an account would place great emphasis on documenting the opportunity—essentially a marketing opportunity—the entrepreneurs recognized and the peculiar perspective and capabilities they brought to exploit it. One might, alternatively, view the events as a fundamental reconfiguration of an established industry's value chain and thereby an exercise in value creation and value capture of a deeper sort and on a far larger scale. Defending this view would require close examination of the organizational routines in the industry when the company started and in the firm as it started and developed. The two views are not incompatible, of course; and there is indeed something to each of them. This chapter has tried to provide some food for thought on each but particularly regarding the second, which I think has particular light to shed on both the events in tight focus here and events in the American book trade most of a century later as well.[114]

This chapter's narrative has delineated a paradigm case in getting an enterprise organized. There was an initial idea. It didn't come from nowhere, even strictly *qua* idea. It also didn't come from nowhere in terms of its implementation. The company "began" with an attempt to elicit information, to begin operations per se. The entrepreneurs basically had no idea of the scale that would be required when they got started and almost certainly had no concrete ideas about what scaling up might involve. The company faced from the very beginning a series of unanticipated consequences of its initial appeal. The

[114] For an informal and inevitably sketchy exposition of the latter, see Raff, "The American Book Trade in the Digital Age: 1. What Became of Borders? 2. What Was Amazon? 3. O Brave New World," a series of three lectures delivered at Università Bocconi in Milan, October 23–5, 2012.

early history of its supply chain arrangements in particular was one of forced innovation. It was only with the vertical integration into printing—and publishing—that a really forward-looking strategic component is visible in their thinking.

One can also view the company's progress somewhat more abstractly. From nothing, first there was something, then something increasingly large, then largeness created opportunities, even more as that largeness grew steadily. Probing within the organization, one sees that there were operations behind all of this; and behind those operations there were rules and procedures, patterns of actual behavior, and behavioral predispositions in play throughout, the sometimes overwhelming growth and occasional actual chaos notwithstanding. Some of this was explicit (indeed, some was highly organized). Some was much more diffuse and cultural, sufficiently implicit to be better understood as dispositional. All of it was repeated, again and again, to the very great profit of the owners, in the period under study. All of it is well understood now, as organizational routines. The outcomes, that is to say, were to an important extent artifacts of operations and the operational level of the company's history seems impossible to characterize in a cross-sectionally illuminating way, and perhaps even to imagine in isolation, without considering the firm's routines.

Value capture is a natural subject for business history. Routines, explicit and tacit, at the intra and interorganizational levels were essential in the history of this firm's value capture. The implication is that the analysis of organizational routines and indeed of routines in all their variety can be of the first importance in understanding business history. This is true both in appreciating what was possible within individual firms and in grasping the opportunities created when the possible became actual, when other industry actors reacted or failed to react as their own circumstances and sense of the value of opportunities may have suggested, and when resources actually flowed, pressing those who commanded them to decide what further they wanted to do. Writing business history with an orientation to the underlying routines—seeing the outcomes and even the decisions in the context of the organizational life and the individual experiences, sensitivities, and visions from which they flowed—and how those routines developed over time—is an enterprise very much worth pursuing. And it would be, so to speak, a capital mistake to think that only historians would want to read it. Students of entrepreneurship and of organizational start-ups can find a great deal of food for thought and options for action in such work.