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# Dumping Print, NY Publisher Bets the Ranch on Apps

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**The prince of coffee table books believes paper books are dead. Now he wants to be king of the app.**

Since 1980, Nicholas Callaway has made the finest of design-driven books, building a publishing house and his fortune on memorable children's stories and on volumes known for the fidelity of their reproductions of great art. But the quality of paper, ink and binding mean nothing to him now.

For Callaway, it's all about apps — small applications sold in Apple's App Store where books are enhanced beyond the mere text of e-books. In this cutting-edge new medium, cooks can clap hands to turn pages of an interactive recipe, a book about Richard Nixon can include footage of him sweating during presidential debates, a Sesame Street character can read a story out loud and, should your child get bored, the app can turn the tale into a jigsaw puzzle or a computerized finger-painting set.

"I have bet the whole ranch on this," Callaway told Reuters. "This kind of juncture happens maybe once in a century."

Publishers from New York to London agree this as a moment of huge change. They are adapting to rising sales of e-books, and the popularity of smart phones and tablets such as the [iPad](#). The retail landscape has changed with Amazon becoming the dominant seller of books while countless book stores go the way of video rental stores. America's No. 2 book store chain, Borders, is bankrupt. Some authors have dropped their publishers entirely, self-publishing online and using social media to connect with readers. Others have become adept at using Facebook and Twitter to reach readers or have attracted fans by becoming popular reviewers of books on Amazon and then publishing their own book.

Callaway is among those who believe the change is just beginning and, in the years to come, the app will change things utterly.

Sitting in his chic offices on Manhattan's cobble-stoned South Street Seaport, the 57-year old Harvard graduate, photographer, father of two and daily Anusara yoga practitioner bristles with excitement as he flips open the worn black cover of his iPad.

"This is revolutionary," he says, stroking his finger at the iPad's glass surface and prodding to open an app he has developed. "This is the Looking Glass. This is Alice in Wonderland. We are at the beginning of an entirely new medium."

The increasingly popular e-books sold on Amazon's ([AMZN](#)) Kindle, Apple's ([AAPL](#)) iBook store and Barnes & Noble's ([BKS](#)) Nook store are electronic reproductions of paper books. So, for publishing innovators such as Callaway, it will be Apple's App Store that will ultimately transform books into a new medium.

Titans from Random House, Penguin and HarperCollins are jostling with the likes of Callaway for a piece of the pie. Experts say it's like a Wild West gold rush, perhaps the biggest moment in publishing since Gutenberg's invention of the movable-type printing press in the middle of the 15th Century.

## From Sculpture to "Sex"

Callaway seems an unlikely man to lead a technological revolution in publishing. He started as a publisher at age 26, having read classics at Harvard and spent some time in Europe studying art. He had no publishing experience. Nevertheless, with a \$5,000 loan from his brother Reeves Callaway, he published books about Constantin Brancusi's sculptures, about 20th century photography icon Alfred Stieglitz and painter Georgia O'Keeffe's best-selling "One Hundred Flowers." He repaid the loan within two years.

He gained fame outside the book world when he published Madonna's book "Sex" and later convinced her to write children's books, which have sold millions of copies. But his biggest success began with David Kirk's "Miss Spider's Tea Party" in 1994. It was Callaway's first

children's book and it sold one million copies in its first year.

Then in 1995 came the first movie made entirely from computer-generated imagery, "Toy Story," and Callaway had his "eureka" moment.

"I thought, this is a new form of storytelling, this is going to change the world," he said. "We stopped thinking of books as the sole vehicle for our products and we thought more of core intellectual property that could be executed across many different media."

"Miss Spider" creator David Kirk, Callaway's No. 1 producer, was perfect for the new approach since he was not your typical author. The pair's partnership dated to 1991 when Callaway was looking for the perfect gift for his daughter Nikeyu's first Christmas. In an Upper West Side toy boutique, Callaway stumbled upon a handmade alligator pull toy, being sold in a beautifully illustrated hand-painted box.

"I thought, anyone who could make something this beautiful and crafted so well in toy form might be a good children's book author and illustrator," Callaway said, adding that he called the company named on the box and the phone was answered by Kirk.

Callaway urged the Ohio native and art school graduate to create kid's books. Unlike a typical relationship where the publisher takes most of the revenue and gives the author a royalty, Callaway and Kirk would be partners, splitting the money made from everything that came from their work together.

In the years that followed, Callaway and Kirk went into overdrive on "Miss Spider." Kirk churned out more titles, selling more than six million copies, and Callaway inked deals. They created a computer-generated cartoon series, an interactive game, and a line of consumer products called "Sunny Patch," making everything from backpacks to children's rain boots and watering cans. Unlike the hand-made crafts Kirk once made, this merchandise was sold across America in Target stores. "Sunny Patch" was later sold to Melissa & Doug, which makes educational toys, and is now sold globally.

"You can tell a story in a book. You can tell a story in a game, in a film. You can tell a story in a watering can," Callaway said of their approach. "No one in publishing was doing this. People wondered, 'What is he doing selling watering cans?' In essence, we were building ownership of intellectual property across many different forms."

Callaway believes a lack of understanding of the importance of intellectual property is the biggest challenge for traditional publishers, who have generally been left on the sidelines as authors licensed rights for films and other products derived from their creations.

When it comes to intellectual property, perhaps the biggest name of all in publishing is Harry Potter. But for Callaway, Potter — published by Bloomsbury in Britain and Scholastic in America — is a cautionary tale.

"The book publishers were the ones who drove it and developed its intellectual property into a multi-billion dollar property, but Scholastic ... and Bloomsbury ..., neither of those entities kept the film rights," he said.

Seven Harry Potter movies have yielded \$6.37 billion of box office receipts. The eighth movie is set for summer release. But while author J.K. Rowling profited from selling the rights of the Potter books to Warner Bros in 1998, the publishers did not share the spoils.

"The publishers had the opportunity and they did not see it. That is historically always the case with publishers, they either don't have the film rights or consumer products rights and, if they do, they just license them away," Callaway said.

His model, in contrast, is to set up a partnership with an author from the start, retaining control of the rights.

## A Future of Apps?

Ever since his first children's book, Callaway said he was waiting for that moment when the medium would change — the publishing equivalent of that "Toy Story" moment.

Then in the spring of 2009, the technorati were abuzz with chatter that Apple was preparing a new type of tablet computer — something to bridge the gap between a laptop and the iTouch, which was a hybrid MP3 player and handheld computer.

"I went to my staff and said, 'It's time to burn the boats,'" he said, telling his employees, "We are going to transform ourselves ... and we are going to have to find a whole new set of skills to become app developers."

For Callaway, that meant getting the attention of his hero, Apple's Steve Jobs. The Apple executive knew the publisher's work. In 1983, Callaway published a book about Japanese designer Eiko Ishioka. Jobs loved the book and invited Eiko to talk with Apple employees about how to make the company's products more stylish, Callaway said.

Callaway's team worked during the summer of 2009 building their first app. Then in December, 2009, Callaway sent an iTouch with an alpha build of "Miss Spider" to Jobs, asking to be allowed to come to Cupertino to work inside Apple to get the app ready for the release date of what would become the [iPad](#).

"He e-mailed me and he said, 'I think this is great and I have been playing it for hours,'" Callaway said of Jobs'

reaction. “Having watched this change coming for 20 years, I knew this was the moment. It was now or never.”

## Long Time Coming

Callaway is not joking when he says he waited a long time. In the 1990s tech and Internet boom, the business world was buzzing with talk of media “convergence” and of the need for multimedia content. Volumes were filled with articles on how content was king and knowing your customer was key.

However, experts say publishers made a conscious decision in the 1990s not to get into multimedia because it brought with it new costs while not yielding the kind of returns they had imagined, and which they were still making from printed books. Now, many publishers are kicking themselves.

Callaway said he had been waiting for the devices like the iPad and Amazon Kindle for nearly 40 years, ever since a renowned computer researcher at Xerox Palo Alto Research Center wrote about a device called the DynaBook.

In 1972, pioneering Xerox PARC computer researcher Alan Kay published a paper called “A Personal Computer for Children of All Ages,” which described a tablet computer so easy to use it was child’s play. The device was to have a plasma screen, no moving parts, a contrast ratio approaching that of a book and the ability to buy, transfer and download files instantly. It had a target price of \$500.

Kay wrote that the DynaBook would “provide us with a better ‘book,’ one which is active (like the child) rather than passive. It may be something with the attention grabbing power of TV, but controllable by the child rather than the networks. It can be like a piano: (a product of technology, yes), but one which can be a tool, a toy, a medium of expression, a source of unending pleasure and delight.”

Kay’s DynaBook concept is the basis of the “One Laptop per Child” program which is making \$100 nearly indestructible computers for poor children the world over. His 1972 diagrams show a device which looks remarkably like an iPad/Kindle hybrid. It even shows how novels could be displayed on such a device and how they could be downloaded electronically from public libraries.

## Nemo, Grover And Martha

It may have taken 40 years for devices like the iPad and the Kindle to make the transition from research paper to consumer products, but the impact they have had on publishing has been dramatic and fast.

Callaway was invited to Cupertino to complete the development of his first app there and “Miss Spider” was among the first apps available when the iPad was released to the public in April, 2010.

“This was the transformational moment in the history of media,” Callaway said.

The numbers seem to bear out Callaway’s hyperbole as the popularity of apps has taken off with lightning speed. By late January, Apple said it had sold more than 10 billion copies of 350,000 apps in the two and a half years since its App Store opened. Seven billion of those downloads were in the past year. Enhanced, interactive book apps are a small percentage of those apps, which also include everything from popular games such as Angry Birds to software allowing users to stream Netflix.

A year after the iPad was released, first among the Top 10 paid book apps is Disney’s “Finding Nemo: My Puzzle Book.” At No. 6 is a Sesame Street title produced by Callaway, “The Monster at the End of This Book ...” That app updates a beloved 1971 book and was published on January 7 with a price of \$3.99. USA Today called it “hilarious,” saying what makes it special is that kids feel as if Grover interacts directly with them. Another Callaway app, “Martha Stewart Makes Cookies,” has also sold well. All told, Callaway produced more than 20 apps from August through the end of 2010. Callaway declines to say how many copies of each app he has sold and Apple does not publish such data. But making professional, interactive apps is expensive, costing anywhere from \$80,000 to \$600,000 depending on their complexity.

The number of potential customers for apps looks set to increase exponentially in the next few years. Research firm Forrester estimates by 2015, 82.1 million Americans will have a tablet computer, up from 10.3 million in 2010, and that most tablet owners will not be voracious readers of the traditional, text only, books so popular with Kindle owners.

## When is a Book Not A Book?

Publishing has long had a reputation as stuffy and slow. It’s a business where lunches are long, with short summer Fridays so New York editors can recharge on Hamptons beaches, a business where it takes months to respond to manuscripts and more than a year to publish a book.

But in the past year, publishers have made rapid changes. They have fought with authors and agents for digital rights, negotiated with Amazon and Apple over their sales commission and are fighting libraries on the number of times e-books can be loaned.

As publishers wonder how fast they must change to remain profitable and viable, they need look no further

than the music business. As music went digital in the late 1990s, the big recording companies chose to battle file-sharing upstarts like Napster in court rather than embrace the opportunity of new technology. Now, a little more than a decade later, music is commonly downloaded for free on the Internet, Apple's iTunes dominates retailing and music is typically sold by the song, not by the album.

For his part, Callaway believes publishers are fiddling while Rome burns. He has taken more drastic action. After 30 years, he has stopped publishing books. Instead, he now licenses his titles to publishers so he no longer has to print the books and be responsible for shipping and returns. He has sold his consumer products business which was selling everything from backpacks to watering cans. And now when he signs new authors it is with the notion that they will develop an interactive app first, not an old-fashioned book, and work together as partners as he did with Kirk on "Miss Spider."

He says major publishers have yet to understand the changes afoot. "They are still thinking these are books in one form or another. They are not. They may originate ... with a text book, but the finished product is not a book," he said.

Callaway is not alone in such views. Forrester analyst James McQuivey predicts that e-ink readers like the Kindle will become less important as more and more manufacturers bring out tablet computers, and that once that shift happens, books will have to become more interactive if they are to remain vital.

McQuivey said publishers will have to ask themselves, "Why are you a book publisher? You are a story creator, an experience creator. That sounds a little dreamy ... but if they don't get themselves to that place, eventually someone else will."

The void could be filled by app makers or game makers if publishers fail to adjust to changing tastes and produce apps featuring everything from videos to puzzles, McQuivey said. That dynamic leaves publishers in a bind.

"If you are a book publisher, you are asking, 'Where do I get the money to fund that? I don't have developers on staff and if I have to hire them I have to charge more for books, not less.' So, in their current business model, they don't see themselves as being in a position to change the book, so they don't want to," McQuivey said.

Like Callaway, McQuivey sees tough times ahead for publishers. "I'm not sure that most of the publishers will survive. None of them will in their existing format," he said.

McQuivey believes publishers must take three steps to survive:

- Get rid of their Dickensian costs; warehouses, distribution, shipping to stores in bulk and then taking returns and having to keep inventory straight. McQuivey estimates those costs can amount to 25-40 percent of a publisher's revenues.
- Develop a deeper understanding and relationship with customers.
- Experiment with new forms of storytelling.

## Learning From Silicon Valley

Having decided to go full-steam ahead producing apps, Callaway renamed his company Callaway Digital Arts in August of 2010, taking the job of chairman and chief creative officer. Crucially, he secured a \$7 million investment from top venture capital firm Kleiner, Perkins, Caufield, and Byers, which was an early backer of Google ([GOOGO](#)).

Integral to Callaway's vision is the belief that in the age of the tablet computer, reading text alone will no longer be enough to keep the attention of readers and that the reading experience must become more interactive.

A company that shares that philosophy is DMC Worldwide, a privately held New York firm with four decades of history in successful startups. Their latest venture is Copia Interactive, which is billed as the first social e-reading experience.

"We think there is space around the book for community to grow," says Seth Kaufman, Copia's vice president of marketing and merchandising, as he shows off the company's e-commerce platform at his Madison Avenue office.

At the website, [www.thecopia.com](http://www.thecopia.com), which is still in beta, users can buy books but they can also interact with each other and annotate books, publishing their comments and reactions. For example, one reader of a cookbook might suggest that a recipe would benefit from less onions and more garlic, an academic who has written a book on Japan's economy could update her book to reflect recent developments and students could share study notes.

When Kaufman explains Copia to publishers, he likes to tell them, "There are many friends I have who would never buy a Sarah Palin book, but if Jon Stewart annotated Sarah Palin's book they might buy that book."

The company has recently signed a deal to build a web store for The Collegiate Retail Alliance, a coalition of more than 50 U.S. independent college stores, and will also partner with mom and pop bookstores to build online stores for them.

Copia is among the companies hoping to take advantage of a possible cultural backlash against the firms which



dominate the digital media landscape — Google, Apple, Microsoft and Amazon. “We are the anti-Amazon,” Kaufman said.

## Show Me The Money

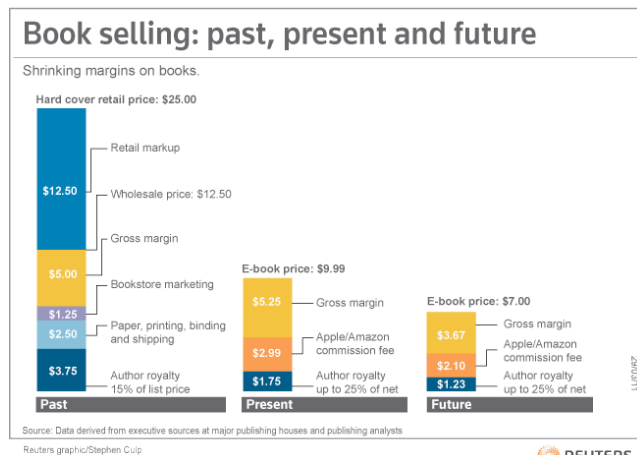
Writers too are experimenting in ways that challenge the traditional importance of the big publishers.

In January, top author Jodi Picoult’s “Leaving Home” was released as a Kindle Single, a brief 43-page book of three short pieces, published by her literary agent. Others such as paranormal romance author Amanda Hocking have made millions on Amazon selling self-published short e-books at low prices without a publisher.

All this comes as sales have largely shifted from brick and mortar stores to online stores, forever changing the economic assumptions of publishing. Forrester’s McQuivey forecasts e-books will fall to a price of about \$7, down from \$10-13. The price and the profit margin are increasingly important since e-books now sell more than hard covers.

In January, monthly e-book sales more than doubled from the same month a year earlier, rising 116 percent to \$69.9 million, according to the Association of American Publishers. That topped sales of hardcover books, which fell 11 percent from January 2010 to \$49.1 million. Overall book sales were down slightly, notching monthly sales of \$805.7 million, a 1.9 percent fall from a year earlier.

If McQuivey is right and e-book prices settle around \$7, that will cut publishers’ gross margin per book by roughly 30 percent compared to what they have been used to.



Despite publishers charging higher prices for top titles, such as the \$12.99 price on Keith Richards’ memoir “Life,” the laws of supply and demand will pressure prices as more authors self-publish and smaller producers slash prices to compete.

## Either/Or Choice

That leaves publishers with a tough choice. They only have enough money to pay for their old-fashioned book distribution infrastructure or to develop enhanced content — enough to keep up the old business or develop the new business.

Trying to do both could be a recipe for failure.

Making matters worse, publishers have long enjoyed a steady profit from their academic textbook business. But, McQuivey said, once that business goes digital too in the coming years, “It will mean billions of dollars of destruction.”

Walking through Callaway’s office shows he is no longer trying to do the old and the new. Indeed, two large areas of his offices have plenty of empty desks where some old-fashioned book editors and the people who once ran his “Sunny Patch” consumer product line used to sit. He intends to fill those desks in the coming months with more app developers.

Callaway says now his new authors will all start out with creating enhanced, interactive book apps. Paper books, movies and other things can come later if the app is a hit. In his office, employees are working on apps for home guru Martha Stewart — one on Cocktails, another on Smoothies and a third on Power Foods. Others are making apps for Thomas the Tank Engine and Angelina Ballerina — favorites among the preschool set. He said other deals are in the works.

Despite his small staff — about 30 youthful employees in New York and plans to add that same number in Silicon Valley by year end — he is not worried that the big publishing houses will eat his lunch.

“They don’t understand the new medium, they don’t have the rights, they don’t know how to create the product and they don’t know how to get it out to the world,” he said, laughing. “Is there anything else?”

Some publishers, however, have shown an awareness of the need to adapt. Many have made some key hires from outside of traditional publishing. Bertelsmann’s Random House, the world’s No. 1 publisher, hired Markus Dohle in 2008 as chairman and chief executive. The German national is more businessman than editor and had a background in printing. Leading independent publisher W.W. Norton, known for its stable of strong editors, last summer hired a former MTV executive, Peter Kay, as head of digital marketing and strategy. And when you ask media executives which company is doing well in digital publishing, they often mention HarperCollins which has a chief digital officer, Charlie Redmayne. He got his start running a British Internet site for teenagers.

## The Big Boys

Hiring Redmayne was part of a deliberate effort at HarperCollins to innovate in the digital medium. The publisher, owned by Rupert Murdoch's media behemoth News Corporation ([NWSAO](#)), is home to authors ranging from Charles Dickens to Agatha Christie, C.S. Lewis, J.R.R. Tolkien and Sarah Palin as well as children's books such as "Fancy Nancy."

"As we go forward a higher and higher proportion of sales will be digital," Redmayne said in an interview at his midtown Manhattan office.

HarperCollins has been strong in the digital shift. One high-profile example was the huge hit it had with e-book sales of "Sh\*t My Dad Says," by down-on-his-luck comedy writer Justin Halpern, which began as a Twitter feed and became a network TV sitcom.

Redmayne said his team is experimenting as they find their way both with content and marketing. One sales trick is to release older titles by midlist authors as free e-books ahead of publishing a new title to build a loyal audience. He said fiction has been selling very well on Amazon's Kindle, a device favoured by heavy book readers, while non-fiction has fared better in the iBook store where books are bought by [iPad](#) users, who more typically are male and rediscovering reading.

Like Callaway, he expects the medium to change.

"Where we are with e-books is using the old media in the new medium," Redmayne said. "We are now beginning to see the next stage which is reading experiences that are truly different."

Redmayne said the challenge is to create enhanced content for which he can charge higher prices. For example, on a political book HarperCollins could add video footage from Fox or on a children's book you can add games and videos.

Fiction, he said, is more challenging because the form itself is about "the skill of the author to create this imaginary world in your mind's eye." Adult fiction, however, accounts for only around three in 10 of the books sold in the United States, and most other genres have potential for app treatment.

Redmayne gets fired up when he opens his [iPad](#) to show off his app collection. He brings up Oliver Jeffers' "Heart and the Bottle," narrated by Helena Bonham Carter, moving the characters about the screen as if he were a kid. He said the "SAS Survival Guide" was a great success, noting the \$6.99 survivalist app updated a more-than-20-year-old book and has sold more than 150,000 units. Opening a \$4.99 cookbook app by Irish chef Rachel Allen, he showed how a baker following a recipe with flour on his hands could turn the page by simply clapping. While such apps are expensive to develop, he

said, once he has a template made for one cookbook he can drop in content from another chef such as Gordon Ramsay, thereby spreading his costs over multiple titles.

For Redmayne, the shift means publishers have more products to sell in more venues. But he cautioned that with profit margins on e-books likely to drop below what was the margin on hard covers, the only way for publishers to thrive is to develop content that encourages customers to spend more money.

"We do that by taking the functionality that these new devices give us to create a more rounded experience than just a book, a book-plus. We have to increase value," he said.

## David Helps Goliath

Redmayne said that much of the development work to create the best apps is being done with smaller app makers who will share in the revenue of the projects they work on. He doesn't see the coming change so much as a David vs. Goliath confrontation, but rather a David helps Goliath collaboration.

One such collaborative app is the Good News Bible, published by HarperCollins and made by Indian developer Trellisys. It has features such as pen pix of key biblical figures, a who's who, timelines, maps of what happened where and a dial that will take the reader to any verse. The app has a lite \$1.99 version and a full \$6.99 edition. The text was produced by HarperCollins editors in Manhattan, the software code written in Bangalore.

As publishers wake up to having to develop relationships with app makers, Callaway says most weeks he is approached by prospective buyers who want to take over his company. He said he tells them all the same thing: "We are not interested at this point in selling."

So who are the best app makers?

Without missing a beat, Redmayne opens a favourite app on his iPad. "This one was done by a guy called Nick Callaway," he said. "This is called 'Miss Spider's Tea Party' and it is a really beautiful proposition."

As the industry rapidly changes, Redmayne said the losers will be the publishers who don't hire the right people and develop strong relationships with app makers.

And who will be the winners? "You will see people like us doing it, I think we are doing it well and we will do it better," Redmayne said, closing his iPad cover. "And then you will see a tiny little packager like Nick Callaway doing it really well."

If Callaway does build his company into a big player, he would not be the first in his family to do so. His late father, Ely Reeves Callaway Jr., started Callaway Golf in 1982, an outfit now known worldwide for its Big Bertha

driver. “He taught me to always try and look at things from a new, unconventional perspective,” Callaway said.

And if his father’s wisdom counts, the hard work may already be behind Callaway.

“I believe that the heart of a successful business is the creation of improved products — that’s the hard part,” Ely Callaway said in a 1991 interview. (Editing by [Claudia Parsons](#))