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Kari Paulson
ProQuest

Steve Potash
Overdrive, Inc.

Dan Tonkery
Content Strategy

Nancy Herther
University of Minnesota

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GOBI, YBP, and Overdrive: Changes in the E-Book Distribution Landscape

Kari Paulson, VP Market Development, ProQuest

Steve Potash, President and CEO, Overdrive, Inc.

Dan Tonkery, President and CEO, Content Strategy

Moderator: Nancy Herther, Sociology Librarian, University of Minnesota

The Following is a Transcript of a Live Presentation at the 2015 Charleston Library Conference.

Nancy Herther: Thank you very much and I hope you will all find places to sit here. Hopefully this is going to be a wonderful session. We've designed this so that we have wonderful people up here with great experience, but at the same time we want to know your questions. First, a note on the title. We certainly are going to be looking at all of the major sorts of changes and issues that are coming up from all of the vendors. Obviously we couldn't fit all of the vendors up here, so in planning this program I tried to put together three people that I knew could do the job, and I'm hoping that those of you out in the audience who are working with other companies that are involved with this feel free to join the conversation and the discussion. As Charles was saying, we're planning on cutting this off so that we have a minimum of 10 minutes at the end because we really want this to be a conversation, a discussion with you.

So, the plot thickens when it comes to e-books. We're hearing more and more about them. The penetration is obviously there. In the *New York Times*, however, not that there isn't controversy, just in September there was a big discussion and articles concerning the e-book sales slippage, the fact that the data is still a little bit bumpy. We're not seeing that continuous movement and just a couple days ago *Simon & Schuster* reported that their e-book sales are down and the American Booksellers Association released their information, and in their information what they found is that for some of their publications the e-book versions are not doing well. On the other hand, the American Booksellers Association has now added a "Buy Now" button for their

IndieBound series so that it's easier for people going into the database to locate books from one of the members of the Association to be able to get it right away in various versions. So, it's very difficult to be able to say anything dramatic, or I shouldn't say that—it's easy to say things that are dramatic, I guess, but conclusively about e-book sales because we really don't have good statistics on this yet. There is an awful lot of self-publishing and other things going on, and we just haven't really gotten the kind of statistical evidence that we need to feel confident about saying things. As far as other trends going on, we're not going to cover them here, they're but interesting, because there's always something going on with e-books. Both Poland and Germany are starting to advocate for the sale or resale of e-books, the development of a used e-book market, and in the EU and countries that might be a little bit easier—they have a different structure than we have here. Also, about a month ago Waterstones decided that they're not going to sell the Kindle because the sales of their print books are going up so high. The Kindle hasn't been as strong so they've decided to sort of pull that for the time being. Statistics that came out in terms of book sales for e-books find that the majority of e-books in the United States, approximately 75%, are still coming from Amazon so the end-user market is still extremely important in this area.

And lastly, I guess, I do want to mention some of the people that aren't up here. Amazon, obviously, is a major player. It would be wonderful if they would be willing to come to conferences like this but you can send them an e-mail and they don't respond. Same thing for Alibaba. They're a big, huge corporation, an important corporation moving into this area with very, very deep pockets. They're not here. I want to apologize as

far as EBSCO not being here to directly talk about YBP and the acquisition of that, but I hope if there are representatives here that you will feel happy to kind of join in our conversation. I guess one last thing that I want to point out in terms of companies, again, talking about the amazing importance of companies that don't usually attend this conference, the front page today of the *USA Today* talks about the five companies and between Amazon and Alphabet—we always know it is Google—that's well over 50% of the online market these days in terms of online dollars so there are many parts of the e-book arena that we're not able to bring to the fore here. However, I'm hoping because again picking wonderful people here who have experience and who have been here for a long time I think is going to give us that depth of experience; context based on the past but as well as give you some insight into what we all see happening. Certainly I think we are going to be seeing a lot more internationalization. I think we already are and again you'll be hearing about that.

We're going to start with Steve Potash and he is another long timer in the CD-ROM and even other sorts of areas going back to the 1980s as I do. Overdrive is definitely the leading digital content provider and has certainly not only announced a lot of global expansion back at the Frankfurt Book Show—a lot of global expansion with some of their institutional buyers—but they're now in more than 50 countries, which is pretty amazing, and they're offering content in 50 languages. So they are doing very, very well. Steve has been head of Overdrive from the beginning. He still is, and recently the big news, of course, that bodes well for the future, especially for that internationalization, is the fact that they were purchased by Rakuten which is a major Japanese firm. He will be our first speaker today, talking about what he sees for the industry and for what's happening.

I'm going to give the other introductions as well kind of starting out here rather than walking back and forth. As you can see, we only had room for three people here. And the next person who is going to be speaking is Kari Paulson, and she is also a relative newcomer from the standpoint of

some of us, but when it comes to e-books she has been around for a long time. She is a founding member of EBL and started working with e-books in 1998, back when it was in Australia, and she moved to San Francisco with the acquisition of the company by ProQuest, so she is now a vice president of market development for books with ProQuest. And ProQuest of course also has Ebrary, and they've been making some other interesting corporate announcements in the last few months that again point to a lot of not just stability but a lot of positive, optimistic options for the future, so I'm very happy that she's here to join us.

The last speaker is somebody else who's been involved in e-books going back to the floppy disk era and so on is Dan Tonkery. And Dan has been a librarian for 45 years. Most of his career involved the automation of technical services, and when he shifted to the commercial world working with the National Library of Medicine, UCLA Library, he was the AUL for technical services. He has run different companies as president or CEO, but for the last seven years he has been the president of Content Strategies and he works with a variety of different companies, individuals, firms, venture capital, and large libraries, and he is someone who has been graced with a lot of wisdom when it comes to what is happening with books and certainly with e-books and with the e-book industry. So I'm going to turn this over to Steve Potash and I hope that you remember that at the end we're going to be saving—and I'm going to be sitting in the front row to make sure that everybody stays pretty much on time here because we really want your input and your questions and your insights in terms of where the industry of e-books is going and taking us. So, thank you, and Steve, for coming.

Steve Potash: Thank you. Good morning. Thank you again, Nancy. I'm delighted to be here, and as most of you know Overdrive is best known for the success we've had listening to public librarians and delivering what they've asked for—for what your communities and what your readers want. Let me just—so I won't have to give too much background on Overdrive, who in our audience has either had experience through a public library or school with Overdrive's product? Thank you.

Okay, so we'll just go fast. What you may not know though is in addition to the 93% of the North American public libraries we serve, our fastest growth is in education. Now we tackled K-12 first because of the need and how public librarians are helping parents and teachers and their communities and, as a result of that over the last two or three years, our collection and our services and our tools and the access models are now giving us the wherewithal to start coming back into higher-ed and academic, a market which today we serve. We serve hundreds of universities and research and national libraries all over the globe and I'm excited to be here at the Charleston Conference to meet with the academic publishers and talk to some of the universities who are looking to supplement your online databases and journals with every other kind of book with one purpose in mind: go where the readers are, and mobile first. This is kind of what is driving us.

Without talking too much about what Overdrive is doing, when Nancy asked me to focus my comments on one or two areas, looking at the topic of the session, let's talk about two big trends and where the market is going. For e-books it has to be number one: a proliferation of new access models for content. Overdrive set up our B2B Marketplace for librarians and teachers and educators and corporate knowledge centers to acquire permission for copyrighted digital books, digital audiobooks, streaming video, magazines, and newspapers, and it primarily started by evangelizing to the publishers and the rights holders under our most popular model: "One Book One User." I will say we now have hundreds of publishers that permit simultaneous access. In the school model and for the school market we now have major trade educational academic publishers giving us what I call "classroom sets." So, bulk discount so every student for the quarter, for the semester, for the school year, has their own copy. We are now proliferating what we call the "book club model." So if everybody reads or a city or Mayors Book Club reads, we want low-cost simultaneous access. We also are live now with what we call CPC, cost per checkout, so it's pay as you go; we've done that with the Hollywood Studios because we have to pay on every few. We are now with patron-driven acquisition and in the

public library we call it "recommend to library" and let the librarian mediate whether they want to add these titles are not. So this is one of the most exciting trends, and I can tell you now that we've had most of the trade market, and of course the educational and the academic markets know digital books in public, and academic and school libraries increase their brand, their value proposition, which helps reinforce print sales and other content. We are now evangelizing that you should make your content available under any model the buyer wants. So it's really exciting that I have some publishers that didn't even allow library lending 5 years ago, and now some of their bestselling in prints and titles can be bought under three or four different options. We're just saying to give the customers more ways to buy your products, and you will sell more, whether it's here or abroad.

Access model is great, and by the way, just to mention we are very proud that we're learning some of the academic and research and professional markets. Three years ago we signed an agreement with LexisNexis, and Overdrive is in almost every court system, law firm, law school. I was just at Harvard Law School Library, and Overdrive has a very simple way of going forward. We ask our customers, we asked our librarians: how do you want it to work? And this is something that has kind of driven our evangelizing the flexible content models and improving the user experience, and when Nancy talked about the landscape, the big three or four that are making the markets: Google, Amazon, Apple, and who else did you mention? Microsoft! Let's throw them in for good measure. I'm proud to say because this is where people work and live and play, if you go to Bing.com and search for a book, Sycamore Road Book—above the fold because Overdrive also believes in open industry standards. We helped invent and popularize that e-pub file format; we are very big fans of HM05 and at developer.overdrive.com, your library, your institution, or your vendors can get no-cost open API's, so Microsoft, Google, Amazon, and who is the fourth? Apple! We are either partnering with them for deep integration so their users can discover and utilize library and research materials on their native devices or partnering with them

with apps and then Chromebooks as they go around the world into classrooms.

The second topic that Nancy suggested and especially as a result of the change of ownership we enjoyed earlier this year—and that wasn't the first time—five years ago Overdrive was fortunate enough to have a private equity fund invested in us, but with a private equity fund you have a kind of three or four year window, so we were in our fourth year. We were always profitable, growing great, but it was time for them to go. Don't repeat this. They're wonderful people. So when you get to a strategic partner like Rakuten, who is one of the global leaders in e-commerce, and they have a visionary founder and CEO, Mikitani Hiroshi—they have just provided us the long-term capability based on their pillars of digital content, and they own a variety of streaming video companies around the world and digital book assets—that has helped accelerate our ability to aggregate content and enter some new markets. But even before the recent transaction, we were very fortunate that we developed from day one a vision that we don't know what the business model will be. We don't know what container we will read the books from and so we will have to develop multilingual, multicurrency, open systems, and I'm proud to say that the fastest-growing areas of content for us are non-English materials in the US library. You go to the San Francisco Public Library, and they have 10,000 simultaneous release Chinese e-books for readers of all ages, and Overdrive is selling English-language material worldwide into institutions, international schools, and national libraries. It couldn't be a more exciting time to bring digital content, premium digital content, enhanced digital content with the new e-pub 3 standard now that we are doing with one click, without an app—synchronized children's book or language learning with the words highlighting and the pages turning, engaging readers who want to learn a language or for young children or supporting literacy campaigns. I can mention some of my favorites but many of them are very silly, but we do also have Superman, Avengers, and Frozen from Disney. We're excited about reading for all readers of all ages, and it's that instant access and gratification that we're excited

to bring to higher-ed and academic markets. I will also just quickly mention that Overdrive has been extraordinarily proud to be partnering with the ALA in their campaign "Libraries Transform," under the leadership of the current ALA president, Sari Feldman. She has set forth a vision and a mission for all divisions of ALA to reimagine and challenge ourselves to deliver value to our communities, value to our readers, and I'm very proud to be working directly with ALA and many of their divisions and supporting a series of vision there. I am done. I'm going to keep under budget here on my time, Nancy, and I look forward to the questions or a chance to chat afterward. Thank you.

Kari Paulson: Thank you, Steve. Hello, everyone. So, one thing—when I found out I was going to be participating on a panel with Steve Potash I thought, "Great!" because Steve and I are fellow travelers in the e-book world, and we actually were previously partners, our companies, when I worked for e-books.com, which is where EBL developed out of Australia way back when we worked with Overdrive as a wholesaler. They supplied some of the e-books we sold in the retail space, so we've sort of known each other and continue to bump into each other along the way over many, many years, and it's really interesting to be standing here right now sort of where we are today. I don't know that either one of us could have anticipated that this is where we would be at this point in time. So, it is—I was thinking about it as I was sitting here how fun it's been to sort of be involved in e-books and their nascence, and to be here today seeing the things that are happening. At ProQuest, for example, who would have ever thought that the e-book companies would be buying the print companies. It was unthinkable in the days that we were starting, and you can forget how fun it is on a daily basis but it really is exciting to be a part of this evolution.

So, I'll talk a little bit about ProQuest and our acquisitions, and I know there are many acquisitions, or not many but some recent acquisitions, that don't have to do with books; I'm not going to focus on those. My focus is really going to be on what we're doing in the book space and some of what's driving that. But I can say as

somebody who's come into ProQuest as a recently acquired business that I do understand the drivers for why ProQuest acquires the companies we do. We do have a primary mission to empower researchers and enable them to reach superior outcomes, and the primary way we do that is by focusing the institutions that serve these researchers. And we are continually scanning the landscape in our services and our products and in what libraries are asking for to identify the gaps. And that certainly has been a primary driver when it's come to books or e-books. So, in early 2011, for those of you who don't know the progression of the e-books and books acquisitions at ProQuest, ProQuest acquired Ebrary, and Ebrary at the time was one of our—as EBL—one of our primary competitors, and I remember at the time thinking, "Oh, my gosh; it's over. I'll just go home. Stop. Put our tools down. It's all going to be over." But, of course, that didn't happen. We continued to work in slightly different ways and we had different strengths. In early 2013 ProQuest then acquired EBL. One of the primary drivers for acquiring EBL—well ProQuest already had an e-book platform, Ebrary—was that we had different strengths and we had developed some different products, different access models, and different functionalities that were really complementary to each other, and by bringing them together, I think it was identified that we could have a much stronger offering for libraries. We also had some geographical differences, so as a company that had grown out of Australia, EBL certainly had strengths in North America, but we were particularly strong in Europe and the UK and Australia and the Austral-Asian market, so it really was a nice complementary fit for ProQuest to be able to expand its support and services in all the regions it was operating in. So, as a part of that acquisition we've been bringing these two products together. I can also say that the reason ProQuest bought these multiple book companies or e-book companies has not been just a market play. If it were, what you'd see is getting rid of the company that they bought and those people, just bringing those products in and then not necessarily bringing in the diversity of different functions. What we've seen instead or what we've done instead is—I as the president of EBL was

actually brought in as the GM of the e-books group at ProQuest, and my role was to help bring Ebrary and EBL together and I'm still obviously involved in that process. But we also kept the development team, the sales team, the account managers, and created roles so there wasn't a single person who left or was let go as a part of that process, and that I can say is a consistent pattern I've seen with ProQuest and the acquisitions. It really is about expanding functionality and filling those gaps.

So, in early this year, 2015, ProQuest acquired Coutts. So with Coutts, that is the print business and MyiLibrary. So now three e-book businesses and a print business, and you know to some people it may be a head scratcher as we were watching this transition from print to "e," why would an e-business buy a print business? But I think, and we've obviously seen this with some of our peers in the marketplace with EBSCO and YBP, what was the driver for this? I can tell you that the primary driver was to fill the gaps, the gaps that we were hearing from our customers, the gaps that we were feeling in terms of the solutions that we needed to provide and I think the reason why, you know there was a point in time that we used to sort of back at EBL think "Oh, wouldn't it be awesome if we could go buy a print company, wouldn't that just turn the industry on its head and be so shocking?" Of course it was really out of reach at the time, but I think as we are progressing in this transition to "e" to "p" or "p" to "e" we are hitting more of an inflection point where these gaps in workflow, really what's happened, especially in the academic library space, is e-books have kind of been rammed into a print workflow as best as they could. And being able to see what's here or there, it's gotten quite complex and complicated, and we're at a point that when we look at journals, we don't talk about e-journals and print journals so much the way we did 5 or 10 years ago—we talk about journals. I think we are starting to get to that point with books, and there is need for more consolidated acquisition, selection, discovery management workflow. That was the primary driver for the acquisition. And we've also got to a point I think where you know the print companies were previously buying the e-companies, the e-

companies are now buying the print companies because as we're, I mean at ProQuest we had on our strategic roadmap a plan to build out a number of workflow solutions that we knew were missing and needed to be filled. There was the option to do that organically and slowly over time. We did and continue to partner with other companies to build those solutions between our companies, but we found that it would be a much faster route to market to be able to acquire a company like Coutts and work together really under the covers to bring these solutions together. We also with Coutts saw it as an opportunity again to really invest in those geographical strengths that we had, especially in markets like the UK and Europe, where Coutts is a very strong print supplier.

So, back to that question of partnerships, although we have acquired multiple companies and as a part of our strategy to bring the right solutions, that isn't at the expense of our partnerships, so we are continuing and we believe that partnerships are still imperative in terms of bringing the right solutions to you as a community and as our customers. So we continue to partner with YBP, OCLC, all of the places that you are asking us to, all of the vendors and suppliers you are asking us to work with, to ensure that what you're doing in your library, you are able to still have a seamless and satisfactory workflow.

So, I think those are the primary things I wanted to cover. I know we want to have a lot of questions. One other point, and I know this has come up, is the question about, well, what about competition? There's a lot of consolidation and I know there's a lot of concern in the marketplace around the rapid nature of some of the acquisitions we've seen. We see it in publishing: publishing houses, the smaller publishers, and this was talked about by Taylor and Francis in our session yesterday. Some of the smaller publishing houses are not in a position to invest, and so they are at a point in time where they're willing to be acquired by some of the bigger publishing companies. When I look around and I see that while there is consolidation—I shouldn't even use the word consolidation, but there is some merging of companies and services—it opens the door and

it creates a gap for other companies at the edges to step in and I think we've seen that a little bit with e-books where we have JSTOR and Project Muse and some of these other companies stepping up and becoming a larger part. We're hearing more and more of libraries talking about them as platforms and solutions. So, there is a bit of an organic process involved, and I hope that more small companies continue to come in, drive some innovation, and keep it a diverse marketplace.

One final comment: sorry I said the last comment was a final one, but also as I was thinking about these "e" and "p" acquisitions, as print sales are declining and e-sales are growing there is for all of us—it's beneficial that the upside of "e" is still being invested back into the "p" workflow and support for those formats because we had primarily had our workflows driven by the print suppliers and the print workflow solutions. As print declines, the ability to invest in building out increasing amount of workflow solutions for electronic becomes more difficult. So, with the combination of "e" and "p," under the same company we are able to continue to invest that upside back into a more holistic workflow across books in general. Thank you.

Dan Tonkery: Well, good morning. My presentation is perhaps a little different. I'm not going to tell you about the great features of the company that I have or anything like that. I'm going to talk a little more about numbers. So, if you don't like numbers you can go ahead and fall asleep right now and it will not disturb me. I've been in this business for 45 years, and for 15 of those years I was a librarian. I was a real card-carrying librarian. I worked 10 years in the National Library of Medicine. I worked at UCLA, and then I fell off the wagon and I went to the dark side, and the last 30 years of my career has gotten darker and darker and darker and there is a group of people I don't know—and none of you probably know any of these people who work in the shadows of our industry. They're the people who buy and sell the companies for the companies that we're talking to, and they don't get up at a meeting and I've seen probably 10 of them at this meeting. They're the people who are

running around talking in the corners. They're the people who are having private meetings in rooms. You never see them. You don't know who they are, but that's the group that somehow I have fallen in with, you know. The thieves, horse traders—anything you want to call them is probably fine just as long as you don't ever mention their names. And so consolidation in the book industry or any serial publishing has gone on for many years. The historical trend was subscription agents bought other subscription agents. Book vendors bought books vendors and publishers bought publishers, and that's the way we've operated for the last 30 or 40 years, and then there's been a change in our community and I think that change is the one that many of you may not even recognize or what's going on. You may have heard their names and I think that the consolidation now that you see out there is not being driven by the market. It is being driven by a group, a very select group, of venture firms. This is venture plays. This is not, you know—I can tell you almost with certainty that EBSCO didn't wake up one morning and say, "Oh, we should buy Yankee today!" You know, it didn't happen that way, okay? You know what happened—Baker & Taylor in 2006 was bought by Castle Harlem partners, and they paid \$455 million in 2006. They expected great things. Baker & Taylor had been owned by four other venture firms, so they keep—a hundred million dollars sells to one group for two hundred, and then the two hundred sells—anyhow, Castle Harlem and their great wisdom paid \$455 million for something that didn't even have the lipstick on the pit bull, you know? They sort of looked at the tail and thought, "Oh, that's a nice ass." So, they paid \$466 million for something that probably wasn't worth half that. So, what do you do? Okay. For 2 years they took this pony around and tried to sell it. I mean, they dressed it up, put new coloring; they colored in some of the dark spots hoping that they could find a buyer for this thing called Yankee, and there were multiple people bidding and sure enough EBSCO won the bid. Now why would EBSCO pay a shit-load of money, in my world, for something that probably wasn't quite worth all of that? They bought that because, believe it or not, Yankee holds, and I'm talking about the academic market not the school and public library—forget that

market, that's not a market that I pay attention to—84% of the US market, academic market, is controlled by Yankee. Good deal. So, but in the end of the day, Yankee generates a significant amount of money and pays back half of the investment that Castle Harlem has paid. So, okay, they are feeling a whole lot better now because now they only have a couple hundred million invested in Baker & Taylor instead of half a billion, so that works well. Well, as soon as that happens, ProQuest is not dead, yet. They decide that, "Oh, Coutts would be a good fit for us. Oh man, that's really good." Well, it only has about 15% of the market. I'm not sure what you can do with that one way or another. I mean, and the people at Ingram in Nashville, when they put that on the loading dock and shut the door and held their breath hoping, "Someone take it off our hands!" it was exciting.

So anyhow, we get into the e-book world and we've been talking about the big players, the big players—nobody says 75% of the e-book revenue in the United States is controlled directly by the publishers. Not Ebrary, not Yankee, not anybody else. Just understand that 75%, in some cases it's higher than that, of the total e-book sales are controlled directly by the publisher, and that number seems to be increasing. Part of the reason I think is number one: better price, and number two: often DRM free. So, I thought, you know "Gee!" I surveyed 15 of the large STM publishers to get their numbers, and it actually went from 60% to 85% so 75%—sort of a ballpark number but, you know, you talk to a Springer sales rep. Or you talk to an Elsevier sales rep. And you say, "What are you selling today?" and they'll say, "Well, everybody has the journals. But we're selling a lot of e-books." And I said, "Well, how are you selling those?" "Well, direct." That is a direct sale, direct sale, direct sale. So, all of these other companies, and you worry about the big three or whatever it is, are dealing with less than 20% of the market, and then you'll find out that if you talk to some of the big science publishers, they don't even make their entire list available to aggregators and it's like you have to call the publisher and say, "Okay, I want these books." "Okay, you can have these books, but these three you have to buy through an aggregator." So it's a

little crazy but everybody is fighting over this very tiny portion of the market, and I'm not sure that that's going to change. Except to have more stuff go to the publishers and so then what you also see is that Amazon is not asleep at the wheel and so Amazon is gradually ranking up their library sales and you'll see that if you talk to the university presses, 40% of the University presses' sales today are through Amazon, and their largest e-book format is Kindle. So, there's a tremendous amount of, you know, several of the large presses, and I'm not talking about Oxford or Cambridge because those are really not university presses and what we consider a university press. I'm talking about places like California or Michigan or Rutgers or whoever else—40% of the sales through Amazon with an increasing; I mean, it's almost to the point where academic libraries are no longer the principal sales channel for a University Press. Okay?

So, anyhow, as I said, I'm more about the numbers and I think that from my standpoint, I'll just end it by saying that I think that many of the

recent acquisitions that the venture guys have sold, and it's the venture guys selling, you know, Baker & Taylor never saw a dime of the money for Yankee. It went right to the venture guys and it's the same thing with many of the others. The prices are just outlandish. I mean, they are really crazy prices and whether it's Ex Libris and the \$500 million or whether it's the other companies, I think that the venture guys are driving up the numbers to the point that there's not going to be money for development, and the library community is the one that's going to suffer from that because if you've been bought by the venture firm there are certain expectations and they expect a certain delivery of numbers or they change people like people change underwear. I mean it's like you're gone if you don't hit your numbers. And so it's a very ruthless business and the money for development is what you're trying, it's what you need as the library community—that money gets strangle-held, and so because you paid too much you can't put money into development and it ends up making your life worse.