

CHAPTER 1

A Look at Wants and Needs

Will E-Books Be Real Page-Turners?

Gemstar hopes best-selling authors will make the difference

by Tom Lowry, with Neil Gross, in New York

When Stephen King released his 66-page novella *Riding The Bullet* exclusively in digital form last March, an estimated 400,000 computer users downloaded copies. At the same time, though, cumulative sales of paperback-sized gizmos known as e-books barely numbered in the thousands. It was a sad contrast for the ragtag contingent of companies that has been trying to kick start the e-book business since 1998. But industry leader Gemstar-TV Guide International Inc. learned an important lesson: Authors sell books, whizbang formats don't.

So, in the most sweeping gesture of e-book confidence to date, Gemstar has lined up five publishers willing to launch books by some of their best-selling fiction writers exclusively for e-book download. Bound books, from Patricia D. Cornwell's *The Last Precinct* to James Patterson's *Roses Are Red*, won't be available to ink-and-paper readers until days or even weeks after e-readers get the electronic copy.

NEW MODELS. Publishers say that, rather than undermine their regular sales, the early offering in the e-book format provides their authors with added exposure. "This period of exclusivity allows the authors the visibility of the unique launch," says Hilary Liftin, director of electronic business development at iPublish.com, the e-books division of Time Warner Inc. Books by Warner authors Patterson and Brad Meltzer will be sold for \$14.95, a 44% discount off the bound books.

The new books are being made available through an agreement with Gemstar and Thomson Multimedia. On Oct. 12, the companies rolled out two new portable e-book devices, to be sold for \$299 (black and white) and \$599 (color) at consumer electronics outlets starting in late October. Henry C. Yuen, chairman of Gemstar, says e-books will prosper because they are cheaper to produce, eliminating

escalating environmental, warehousing, and shipping costs. "Here is an industry hobbled by problems, all of which can be eliminated by e-books," says Yuen. Gemstar is a technology and media company best known for its TV programming guides, now 42% owned by Rupert Murdoch's News Corp.

Still, loads of questions remain unanswered. Will consumers take to reading books on liquid crystal display screens? How will copyrighted work be protected from piracy? And a more immediate question at this early stage: Will consumers pony up \$300 for a reading device even knowing they can get discounts on subsequent downloads? "It's going to be a tough sell," says Billy Pidgeon, an analyst at Jupiter Research. "They are going to need to figure out how to lower the price and offer more than just text if they want to compete with laptops and PDAs." Pidgeon predicts only 1.9 million e-book devices will be shipped by 2005. Gemstar and Thomson Multimedia declined to offer sales projections for their e-book models.

How does an e-book work? Using a phone line, a user can dial up a number and download a book into the device for a credit-card charge. To prevent piracy, encryption is built into each gizmo so the book can only be readable in that unit, says Lou Lenzi, vice-president of new media at Thomson, which manufactures RCA electronics. Thomson has a licensing agreement with Gemstar for the technology and will help it develop new generations of the devices. The new models are actually second generations of NuvoMedia Inc.'s Rocket eBook, an 18-ounce handheld with a 5.5-in. screen, and the two-pound SoftBook Reader, with a leather cover and an 8.5-in. color screen. Gemstar bought the two companies earlier this year.

New as it is, the e-book market isn't Gemstar's and Thomson's alone. Microsoft Corp. offers free Microsoft Reader software that can download digital books from such outlets as barnesandnoble.com into its PocketPCs. One million people have downloaded the software since its Aug. 8 debut, says Microsoft. Holiday shoppers will soon give early signs of whether e-books can knock some paperbacks off the shelves.

Reprinted with permission from BusinessWeek, 10/23/00.