Virtual Publishing Groups

Harnessing the power of the audience in publishing

By Daniel Conover

Summary: *Proposes an enterprise that helps readers form internet communities (virtual publishing groups, or VPGs) that select and publish new books. The original "core enterprise" profits by providing a menu of basic services to these virtual publishing groups. A VPG is an online community of readers who invest their own money and sweat equity and then vote on the group's business decisions. Individual members of VPGs reap a share of any profits from the books they publish. All of their business decisions are executed via the core enterprise, which bills the VPG based on the type and extent of the services rendered. Therefore the core enterprise takes its money regardless of the sales performance of the individual title, but everyone profits from the success of the VPG's list. This document also suggests that the VPG model could prove unusually adept at publicizing new books and, if provided with properly conceived rules, might provide the core enterprise with competitive advantages, growth potential and reduced risk.*

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California's Zoetrope Virtual Studio operates on an interesting idea: Writers who wish to submit their short stories must first agree to review stories by other writers. They earn the right to be reviewed with their labor.

The approach revolutionizes the old slush pile system, but it also succeeds by making full use of the internet's natural strengths. A submitter can track his short story's progress online and read feedback from peer reviewers as it works its way through the process. A select few are published online, and – at least in theory – the best stories may be submitted to Zoetrope: All Story, one of the country's most respected literary journals.

Regardless of what happens to their submissions, the writers all receive something of value (meaningful feedback), while Zoetrope reaps a steady stream of high quality stories at practically no cost.

It's a great 21st century idea, but it has a couple of flaws as a business plan: It self-selects the wrong audience for the material (writers, not readers); and it fails to link financial risk and reward to the decision-making process.

This is where the virtual publishing group concept begins.

THE VIRTUAL PUBLISHING HOUSE CONCEPT

The foundation of this new approach begins where the old system often falls apart: the slush pile. Unsolicited manuscripts seldom wind up producing profitable books, yet reading through them is labor-intensive. That's a lousy equation.

Plus there are other drawbacks. There's scant opportunity for quality-control. Writers get little or no feedback. The whole process is slow, opaque and unpleasant.

The VPG concept comes at the slush pile from a completely different direction: Rather than hiring editors to evaluate manuscripts, encourage a group of people who actually buy such books to do it – for free.

But a virtual publishing group is much more than a cost-effective slush-pile gimmick. It's a new way of organizing a particular kind of capitalism.

- The original investors create a core enterprise that aids in the creation of virtual publishing groups, yet the core enterprise *shares none of the risk involved in putting out each title*. It makes more money when the VPGs it spawns are successful, but it generates revenue regardless of how any individual book sells.
- VPGs organize around common interests. They are not unlike moderated focus groups that form, reform and change shape over time.
- The VPGs are self-run, operating on their members' labor and capital. Their decisions may be based on whatever they choose to value, but whatever they choose will be tempered by their own financial self-interest. Profitable choices are rewarded, non-profitable choices punished, yet profit is not the sole motivator.
- While a VPG is an economic unit, it is comprised of people who share a common passion for a particular genre of literature. Hence, a mutual desire for quality is programmed into the DNA of every VPG. Since individual investments can be very small, most members will participate more as a hobby than as a livelihood.
- Because the decision-makers are also the audience, their tastes will tend to reflect those of the market. VPGs that make good decisions will attract additional reader/investors and grow. VPGs that routinely choose poorly will disappear.
- By conducting its business in a largely public arena, VPGs would generate "buzz" for a new book before it is published. What's more, the buzz would be genuine, the interest in the book sincere.

Now, what might such a thing look like?

Imagine a website that offers the best and most entertaining information on your particular area of interest in fiction: news, reviews, happenings, interviews, inside scoops, message boards and chats, online sessions with writers and editors.

Anyone could surf the site, but now imagine that it offers a deeper level of participation: partnership. Readers who fill out a simple form can read manuscripts submitted by writers seeking either representation or publication. Reviewers can invest a small amount of money and become stakeholders in the group, voting on decisions and earning a share of all profits.

There is a basic concept at work here: *Given the opportunity, people will choose to align themselves with communities and companies that share their interests, respect their talents and value their contributions.*

People form groups around common interests all the time, but there are barriers to the creation of business groups, and without someone to lay the groundwork, such spontaneous generation is unlikely. Even if such a group were to form, executing its decisions in the real world would be a daunting task.

Hence, the "core enterprise," the original business that serves as the central hub through which VPGs are created, sustained and empowered.

The core enterprise launches the website. It writes the rules for group formation and recruits and invites and attracts stakeholders. It resolves disputes. It develops and maintains the web-based programs that keep information flowing in, out and through the VPGs.

And eventually, when the VPGs begin do their job – identifying promising new books and writers – the core enterprise begins fulfilling its mission: making money.

It makes money every time a VPG decides to publish a book. It makes money every time it connects a VPG-selected writer with a literary agent. When that writer signs a deal, the core enterprise gets a cut, and when the royalties come through, the core enterprise gets a check. The core enterprise is the interface between the virtual world and the business world. It executes the decisions of the VPGs, makes money off of every transaction, and stays extremely liquid while doing so.

The initial mission of the core enterprise in the VPG model is to encourage the creation of such groups and to provide robust, simple rules that will shape emerging groups while allowing them the flexibility to evolve as conditions change. For the purposes of clarity in this discussion, investors in this core enterprise will be referred to as investors. Readers, who join and invest in the virtual publishing groups (VPGs) created by the core enterprise, will be referred to as stakeholders.

To recap: The core enterprise creates a web site and works to spawn VPGs. The VPGs make publishing decisions. The core enterprise executes those decisions. VPGs are in the publishing business. The core enterprise is in the business of what could be called "publishing support."

Hypothetical: Spawning the first "Sci-Fi VPG"

Imagine this:

At start-up, the core enterprise assembles a staff of publishing, editing, marketing and internet professionals. Some of these hires will be full-time; others will probably be little more than freelancers on retainer.

With a staff in place, the core enterprise develops and launches an internet site catering to passionate readers. This site's first goal is to attract the kind of person who would be interested in participating in a VPG, and it does so by providing high-quality exclusive content and first-rate interactivity. Subdivisions of the site will focus on the interests of different genres, from Romance to Science Fiction.

Once the site is established and a baseline of participation has been set, the core enterprise would begin marketing its VPG concept via both on-site and off-site advertising, to include e-mail and targeted recruitment appeals.

Having attracted dedicated readers who are willing to invest their free time and small increments of money, the core enterprise would provide incentives and assistance to the first startup VPGs and begin advertising for freelance submissions.

For the sake of example, let's say a science fiction VPG is the first group to form, and that writer John Doe submits the first two chapters of a novel called "The Stamp Mage."

With its first members on board, the group begins reviewing freelance submissions according to rules suggested by the core enterprise. In this case, the VPG rules require that stakeholders qualify by investing $10 and "covering" three submissions (what constitutes "a submission" is a matter of the VPG bylaws). After reviewing a submission, stakeholders grade it by filling out an electronic form and posting his or her comments.

Doe, tracking his submission at home, sees that “The Stamp Mage” has received entry-level qualifying scores from its first three reviewers and that it is the highest-ranked of the 15 submissions currently under first-round review. A ranking on the Sci-Fi VPG homepage shows his composite score, as well as the scores of the other competitors. With a mouse click, Doe goes to a comments page and finds out exactly what each of the three reviewers thought of his work. Another click takes him to a stakeholder profile page and shows him the grades and comments his reviewers have made on other submissions.

Curious, he clicks on the reviewer comment board and finds that two of the reviewers have had an online conversation about his chapters. Other stakeholders have chimed in with questions and optimistic comments.

At the end of the week, “The Stamp Mage” has collected its fifth qualifying review and has the necessary composite score to advance to the next level of consideration. Doe gets an e-mail asking him to attach the full text of his manuscript and fill out a new legal form.

Over the next three months, Doe watches online as his novel makes its way through a new set of reviewers, stakeholders who are satisfying their membership requirements by covering manuscripts. His grades are good, but not as good as before, and the comments are much more mixed.

As he nears his final review, Doe’s novel is hovering just below a “recommend for publication” grade. Checking the message boards, he sees that there is some debate within the stakeholders about the fate of the book, and that dozens of stakeholders have read at least parts of his manuscript in anticipation of a vote. He reads their reviewer profiles and studies their peer ratings (everything in a VPG involves ratings, a system not unlike the one used at eBay). Several stakeholders have posted critical comments on the profile of his most critical reviewer, suggesting that the man’s critique on “The Stamp Mage” may be less than reliable.

Hopeful, Doe clicks on the profile of the final reviewer who about to turn in her coverage: It’s good, suggesting this reviewer has an excellent reputation and will be taken seriously.

Then his final grade is posted: It is barely above the threshold of the “recommend for publication” grade. Up next: A vote of all stakeholders on what to do with the manuscript.

The stakeholders actually have several options: They can vote to publish the book, reject it, send it back for revision -- or even decide to reject the book but recommend Doe to a literary agent for representation (taking a cut of the agent’s 15 percent on future sales as a referral fee). Seconds after the vote is finalized, Doe gets the news by e-mail: The stakeholders have voted to return the manuscript to him for revisions.

Doe is disappointed, but encouraged by the close vote. He makes the suggested revisions and resubmits “The Stamp Mage” a month later. After spirited debate on the VPG’s message boards, Doe receives an e-mail informing him that “The Stamp Mage” has been selected for publication.

The next day, Doe receives a phone call from Joe Schmo, a member of the core enterprise business office who is acting as the real-world representative of the VPG.

Schmo congratulates him, explains what will happen next, and answers his questions. Soon a standard book contract arrives in the mail. Doe signs it and “The Stamp Mage” is on its way.

After being professionally edited by a freelance science fiction editor contracted through the core enterprise, “The Stamp Mage” is marketed, printed and distributed. VPG stakeholders vote on a simplified menu of choices (budgets for various levels of marketing, types of bindings, choice of cover illustrator/designer). The core enterprise sets the basic options and the makes the connections.

Later, the core enterprise business office tracks sales and records transactions, all of which are available for online stakeholder review. The Sci-Fi VPG collects its earnings, monitors the success of “The Stamp Mage,” and then decides what to do with its profits. Individual stakeholders track the value of their share.

Such a system, if established with good rules and operated with good business practices at the core enterprise, offers great flexibility. At some point sub-genres might spin off smaller VPGs from the original group to publish books the larger group had rejected. The group could join forces with the Fantasy VPG to publish a book with crossover appeal. Any group could vote to dissolve and cash out, and individual stakeholders are always free to take the value of their share and cease to participate.

The core enterprise could always increase its profit by raising the price of its services, but it too has an incentive to be cooperative: If fees become prohibitive, VPGs might cut back on their activities. The core enterprise doesn’t risk its capital on any individual book’s success, but it stands to increase its profits as VPGs become increasingly successful. The core enterprise succeeds by fostering healthy VPGs.

Setting up house

The scenario just described occurs with little or no involvement by the core enterprise – its role occurred long before the first manuscript was downloaded.

It began when one or more investors put down the start-up money and began developing the systems that made the Fantasy VPG possible.

Next came the hiring phase, the building of a small staff. The core enterprise’s staff consists of a web department, a legal department, a business office and one or more literary agents. Before launch, the legal, web and business portions of the enterprise established the rules of the virtual company, created the website and vetted all legal arrangements. After launch, the company would work to evolve the enterprise from a passive website to a string of active VPGs: attracting and recruiting participants, readers investors and potential VPG leaders.

As the community grows, the company would encourage specific interest groups – for the sake of example, we’ll stick with our group of fantasy readers – to create their own VPG based on the rules of the company.

Core enterprise encouragement of start-up VPGs could come in a variety of forms. The core enterprise could recruit experienced editors, critics and writers to participate, offering them shares in the VPG as incentive to participate. Web ads on related websites could attract future stakeholders. As mentioned before, the core enterprise could even set aside an amount – let’s say $5,000 of capital – that would be granted to each start-up VPG once its pool of stakeholder investment matches the amount. Whatever they are, these incentives would be aimed at launching VPGs, not subsidizing them long-term.

VPGs would form within the domain of the original website, but each would elect its own leaders and moderators. These leaders would work with the core enterprise during the startup, refining the group's own rules and standards within the framework established by the company. Once a year, all stakeholders in a VPG would be invited to take part in an annual meeting to revise rules, adopt new ones, elect officers. Each vote would be calculated on the weighted system devised and maintained by the core enterprise. The accounts of each VPG would be maintained by the core enterprise's business staff in trust to the VPG.

When our hypothetical Fantasy VPG reaches the stage where it is mature enough to begin accepting manuscripts, its homepage begins advertising for submissions. The first qualifying scores are tallied, and for the purposes of this example, the group elects to sign the writer, but not to self-publish the book.

After the vote, the writer's information is passed to the core enterprise and the writer is paired with a literary agent. This agent could be either a member of the core enterprise staff or a contract worker. Once the agent contacts the writer, the writer has the choice of either signing a standard contract for representation or passing.

At this point, the agent does what standard literary agents do: She goes out and contacts publishers and tries to get the writer's work published.

When the agent gets that sale, 15 percent of the deal comes back in agent's fees. But all of that money doesn't go into the agent's pockets – it's divided up right down the line: the agent gets a cut, the core enterprise gets a cut, and the remainder goes back to the VPG. The net worth of the VPG increases, and the value of each stakeholder's share goes up.

From a certain perspective, this seems like a bad deal for the agent: instead of 15 percent, the agent gets only 5. Yet there is something significantly different: the agent's overhead has been greatly reduced. There's no slush pile to plow through. The agent has only to represent the writer – the rest of the job has already been done.

Over time, an agent contracted with the core enterprise will receive a steady stream of talented new writers from multiple VPGs – a growing stable that will become increasingly profitable. Cooperation works for the agent.

It works for the writer, too: In short order, she has seen her work reviewed, selected and moved rapidly to an agent. She has a standard publishing contract, and knows that she has been treated fairly.

The VPG benefits, and it hasn't even spent a dime yet. In theory, a conservative VPG could do nothing but recommend writers for representation, taking 5 percent of various resulting book deals. In practice, however, such decisions – while building the group's capital incrementally – are low-risk, low-return. A VPG's ultimate goal is to find profitable books and publish them.

And what of the core enterprise – the visionary investors who started the whole machine in motion? With the first sale of a book identified by one of its VPGs, the original investors are now on their way towards building a network of cash-generating transactions.

Taking care of stakeholders

Understanding and rewarding stakeholders is key to the success of the VPG model, and it's a subject worth pausing to explore in more depth.

Readers – particularly avid readers – are a curious subculture. Their interests tend to be varied, yet many become fans of a particular genre. Those that do tend to read deeply in that genre, developing distinct tastes and broad knowledge.

Those who become committed to a writer or a genre seem to develop an interest in expressing something about their knowledge – a phenomenon that can be witnessed by calling up any book on Amazon.com and reading the reader reviews. Readers without any professional or academic standing take the time to review books online without any hope of compensation or opportunity. From a purely economic standpoint, such behavior makes no sense. Only when viewed through a filter that recognizes the value of passion does the true pattern begin to emerge.

The VPG model harnesses that passion and puts it to work. But the concept will fail if it does not recognize and respect the contributions of these reader stakeholders.

Begin with the nature of the involvement: At first, stakeholders are simply individuals who volunteer to read unpublished books and rate them. If this experience teaches them that they are a valued asset to a company that truly seeks to empower their decisions, then these fledgling stakeholders will be willing to cross the next threshold: investing. On the other hand, if the experience teaches that they are patsies for someone else's money-making scheme, they will not return. Ever.

Respecting their contributions begins with compiling fair and meaningful reviewer ratings: a compilation that scores their timeliness, relevance and level of commitment. Developing a "top reviewer" score should be viewed as an achievement and stakeholders who earn high marks should be celebrated. Following the lead of online booksellers, optional reviewer profiles should be a routine offering to stakeholders.

Sweat equity and reviewer ratings should figure into the computed weight of each stakeholder's share of the VPG, but involvement without investment would have a limited ceiling. To truly become a member of the VPG, stakeholders should be given every opportunity and incentive to invest. The way to accomplish this is to make investing easy while placing limits on investments to ensure that a VPG remains a broad-based democracy.

Case in point: A stakeholder could have the option of investing in increments as small as $5. A secure debit-card transaction would handle the investment. An equally accessible transaction would allow a stakeholder to cash-out his share, or transfer that investment to another VPG, with no penalty.

Small investments actually serve the interest of the VPG, since its strength lies in the group decision-making power of a large set of readers. This is why the model limits investments only to those stakeholders who qualify by taking on a reading assignment first – the goal is to attract committed fans of a particular type of book, not to maximize the capitalization of a group that ceases to represent the very market it hopes to serve.

But what if a wealthy stakeholder came in and plopped down an investment that doubled the value of the existing VPG? Using the weighted voting system, such a stakeholder could conceivably acquire 51 percent of the shares, exercising dictatorial control. Such a situation would destroy the value of the VPG as a book and writer selecting enterprise.

Hence, respecting the value of the individual stakeholder would require rules that limit the maximum voting weight – but not the total investment – of each member. A program that tracks the total value of the investment in a VPG and calculates the weighted value of each stakeholder's vote could also list several figures, which would be updated daily: total value of investments in the VPG; the individual stakeholder's share; the individual stakeholder's voting weight; and the maximum investment that could be applied to voting weight.

This would prevent John Grisham from joining the Legal Thriller VPG, investing a million dollars and owning a permanent one-man majority in all votes. Grisham and his million dollars would still be welcomed, but every dollar above some capped percentage of the total VPG value would not be calculated in Mr. Grisham's voting weight.

If the formula is kept simple enough, every stakeholder would be able to tell, at a glance, the value of her share, the weight of her vote, and the additional amount of investment she could make before her vote weight would be capped.

As the size of the VPG grows, so too would the amount of additional investment allowed before the cap kicks in.

Using such a system would recognize varying degrees of involvement, while still maintaining the value of a diverse group of decision-makers.

Finally, it is important to understand the nature of investing in a VPG. It is unlikely that any stakeholder will earn all of his income from his VPG investment. Stakeholders will simply be doing what they do now, except the game will be a bit more interesting and there will be some money involved. To risk using a demeaning word, VPG membership is very much like a hobby.

Accordingly, financial incentives are important, but they are not likely to overshadow the intangible benefits of stakeholding.

Publishing?

Lets look more closely at what happens when a sufficiently capitalized VPG votes to publish a book.

To enact its decision, the VPG pays a fee to the core enterprise: it covers the editing, design, printing, marketing and distribution of the book. The core enterprise makes the book happen – but the VPG takes the risk.

The important point to bear in mind is this: Despite the fact that the core enterprise will make some money off the book regardless of its sales, *everyone has a financial stake in the book's success.* If the core enterprise does its tasks poorly and the book flops, there are no royalties to divide. More significantly, the core enterprise profits from viable, active VPGs, and if a VPG continually sinks its capital into books that don't'sell, that VPG will soon fold. While this does not represent a direct loss to the core enterprise, VPGs that fail aren't making any money for the company.

The core enterprise's fee is based on the decision of the VPG. If a VPG decides to start small – let's say a trade paperback with an initial run of 5,000 copies, then the fee would be smaller than what the core enterprise would charge for a hardcover run of 20,000. In essence, the core enterprise would establish a menu of fees: VPG members would mix and match the services it wants (i.e., more marketing, fewer copies, etc.). The core enterprise then executes those decisions.

Therefore, it is in the interest of the core enterprise to negotiate the best deals it can find. If its fees to the VPGs cover printing at a unit cost of $3.50, a competing bid of $3.25 puts an extra profit of 25 cents per copy in the core enterprise's pocket. The core enterprise is the ultimate middleman, concerned with making good deals and working out various agreements with publishers, agents, printers, ad companies, etc. Its leverage is clear: the larger it becomes, the better the deals it can negotiate.

At some point the core enterprise might decide to go into the printing business, but this is not necessary, and it is certainly not necessary at the beginning. There is no shortage of printing facilities in today's world – and for that matter, no shortage of marketing, advertising, PR and distribution firms. Just-in-time digital presses, e-books – all the latest innovations make publishing available to the masses. What isn't available to the self-published author today are these other services. But a deal-making core enterprise that negotiates those deals for multiple writers with other people's money is capable of generating economies of scale while remaining extremely liquid.

There is another role for the core enterprise, and it's a lucrative one: subsidiary rights.

Once a VPG elects to publish a title and pays its fees to the core enterprise, the VPG goes back to what it does best – finding more books and writers. The core enterprise either handles the task of putting out the book in-house, contracts the jobs out to other firms, or enters into a joint agreement with an established publishing house. But once those tasks are accomplished, the core enterprise is now free to seek additional deals: books club contracts; foreign language rights; audio tapes; movie rights, merchandising. No matter what the deal, the writer will receive an industry-standard percentage of the contract. Some portion of the proceeds would go back to the VPG. But perhaps the lion's share of subsidiary profits would stay in the core enterprise's accounts.

This is as it should be: The writer writes. The VPG finds the talent and backs it. The core enterprise makes deals. Everyone profits at each step, and each step adds value to the product.

It's probably worth emphasizing this point again, because it is central to the philosophy behind the venture: The beauty of such an arrangement is that there is no requirement in such a system for any portion of the venture to become bogged down by significant overhead. VPGs might at some point choose to hire their own staff, but they don't have to and can be profitable without doing so. The same holds true – to a lesser extent – for the core enterprise: Editors and designers can be hired freelance, without benefits and long-term commitments.

The core enterprise could hire literary agents, or it could contract with them.

And ultimately, every task described here could be handled through joint agreement with existing publishing houses that already have the infrastructure to handle such jobs. There is no need to pay for a staff of editors or sink millions of dollars into printing facilities – one need only to negotiate profitable agreements.

For instance, it might be possible to establish a joint publishing agreement with TOR through which the company takes its share while contracting the entire production process to the established house: TOR would receive a title with no development costs, and perhaps participate in some of the risk and reward. The core enterprise and the VPG together would receive the benefit of the publisher's brand and its distribution networks, etc.

It’s all about The Buzz

Traditional book marketing relies on advertising, print reviews and positive publicity in mainstream media. Yet everyone would agree that the ultimate marketing tool for any book is word-of-mouth recommendations. This is how most of us learn about new writers – a well-read friend mentions the author, and we go looking for his or her work. Such informal marketing – the talk that surrounds a title or a writer – is the Holy Grail of publicity: The Buzz.

E-mail, websites and newsgroups have changed forever the nature of Buzz. Readers now share their enthusiasm not only with their friends at school or work, but with thousands of like-minded readers around the globe. A good recommendation moves at cyber-speed now, leaping boundaries of groups and friends. It makes sense, then, that a new publishing venture should do whatever it can to make use of this free source of advertising, for it is simply the most immediate and effective.

Consider, then, the relationship between virtual publishing communities and Buzz.

Our hypothetical first novel, “The Stamp Mage,” will have gone through months of discussion and debate before the vote on whether to invest money in it. Hundreds of people may have read all or significant parts of it. Readers will disagree on its merits, and factions will emerge. The natural human tendency toward drama will turn the rise of this book into “The Big Story” within the group. And that will filter beyond the VPG and across the Web.

Before the first dime is spent on “The Stamp Mage,” this unpublished book is already creating Buzz.

The old paradigm has just been turned on its head. In traditional publishing, decisions are made in closed meetings and books are published. Next come the reviews and ads and publicity campaigns, often at great expense.

In a virtual publishing community, the business of making decisions means that great Buzz gets generated *before* the initial decision is even made. Once a book is selected or a writer is represented, everyone with a stake in the enterprise has a natural interest in spreading the word to the people they know.

By the time “The Stamp Mage” hits the shelves six months later – let’s say it’s a joint publishing venture between the company and Del Rey – anticipation of the launch has spread across the Internet simply because people have a reason to talk about it. Again, a reversal: *In traditional publishing, public relations and marketing teams work to get people interested in something they know nothing about. In the VPG model, public relations and marketing merely augments the excitement and interest generated by the process of thousands of people working together to publish a book.*

SPINNING OFF

The schism between traditionalists and modernists in the preceding example illustrates another strength of the VPG model: *With limited overhead at each stage of the process, a VPG system is designed for optimal flexibility and adaptability.* A traditional publishing house must constantly struggle to anticipate the changing tastes of the market, but it must do so *with the same decision-makers in place*. At some point, a traditional house will find itself out of step with its market and lacking the resources and vision to adapt to the change. It may transform itself and its decision-making, but there are huge risks involved. And as in all institutional systems, such an organization will eventually become risk-averse.

Now consider the VPG. It is a cooperative venture, a virtual community in which all interests are held in common. Yet it remains a truly voluntary community: Stakeholders may cash-out at any time they choose. They have money at stake, but their livelihoods do not depend on the outcome. They may also choose to move their investments to another VPG (losing interest in fantasy fiction? Perhaps you'd rather devote yourself to the profitable sci-fi VPG). They may even choose to start a new VPG – around any interest, at any time.

In another business model, such a lack of stability could be a fatal flaw. In this one, it represents an essential strength. By trusting participants to follow their own interests, moving their investments in accordance with their changing tastes, the VPG system never falls out of step.

Consider: The Fantasy VPG is now five years old and includes thousands of stakeholders. It is well-capitalized, and boasts dozens of best-selling titles and newly famous authors. But there is dissent in the ranks – one sub-group wants to see a greater emphasis on escapist sword-and-sorcery novels.

Someone suggests that these traditionalists should split off together and form their own VPG. This is discussed on the boards, and it becomes clear over time that there is enough capital among the dissenters to form a viable VPG. Because it's a financial decision, it is discussed carefully: Abandoning the larger Fantasy VPG means opting out of its future profits from existing titles.

But if the dissenters feel that their smaller group can be more profitable by focusing on titles that appeal to a larger audience, they can vote with their money – and spin off.

If they're right, then they'll make money. If they're wrong and they lose money – well, it's their money. From the perspective of the core enterprise, the failed spin-off VPG is simply an experiment that didn't work.

Such dramas would play out repeatedly as VPGs form, splinter, merge – and sometimes simply change direction and tastes as their memberships evolve. VPGs that become dogmatic or are poorly run would either self-correct or die. Well-run, dynamic VPGs would flourish.

In short, the market and the marketplace of ideas would select the winners and losers, all without the core enterprise having to risk its money on the decision-making process. A bad decision by a VPG doesn't mean thousands of layoffs.

For the core enterprise, the key will be writing rules that encourage healthy change and limit destructive behavior by VPG members. Other than that, its role will be to make good business deals and expand the reach of the growing cooperative venture.

Traditional houses simply will not be able match the performance of such a flexible, decentralized system.

FUTURE OPPORTUNITIES

The system described here is based on book publishing, specifically fiction book publishing. But how many other fields could benefit from such a system?

Music, certainly.

Screenplays? Why not? The studio/producer system of identifying quality screenplays is, if anything, the only system on the planet more inefficient than the modern way of publishing books.

The gaming industry is now larger than the movie industry. While it represents a significantly different animal than the publishing industry, the VPG model could be adapted to search out good ideas for electronic games developers.

Essentially, any creative endeavor that inspires passion in the public is suitable for adaptation of the VPG model. Designing and launching those adaptations is the business of the core enterprise. In theory, the core enterprise could pursue any of these targets, expanding its scope until it encompasses each industry (Ironically, the one area in which the VPG may never replace the traditional system is in non-fiction publishing).

But that's only one form of expansion.

The other form is perhaps less obvious, but more profound: *The natural evolution of the VPG model is to replace – not compete with – the traditional system of publishing fiction.* There is reason to believe that the pace of this evolution could be stunning.

Publishing in this country is in bad shape. It is often out-of-step with its market, and it is top-heavy with writers whose best works are behind them. New writers are abused, neglected, and – even when published – often left to fend for themselves. Small presses are disappearing, large presses are choking out new growth, and the overflow is going to vanity-presses that will never be able to compete under the current circumstances. Bookseller mega-chains and online outlets are turning books into commodities, determining winners and losers often before the first copies are even printed.

New opportunities – on-site digital printing, e-books, new media – are proliferating, yet none have become viable alternatives.

The VPG model, by solving the slush-pile dilemma, would begin its business life as the vibrant source for new talent and Buzz. At first it would be a curiosity.

But in short order, it would become the preferred method for all new writers. Writers hate the current system: given a better alternative, budding authors would abandon the obsolete agent/publisher system overnight. The challenge for the VPG system, in the first few years, would be keeping up with the volume of submissions.

Agents would feel the pressure first: For them, alignment with the core enterprise would be a matter of survival. Those that get on board early will thrive. Those that are slow to adapt will soon find themselves struggling to survive with only pre-VPG clients.

In short order, however, publishing houses will be in the same boat. To remain profitable, each will have to negotiate deals with the core enterprise. Publishers need new content. All new content will flow through the core enterprise.

The history of capitalism is clear on this point: The best idea wins, so long as it has a practical application. When outmoded systems are faced with revolutionary change, their collapse tends to be sudden.

In this case, the old system of editorial control is not adaptable. Publishers that wish to control access to print through their editorial staffs will no longer be competitive, and it is not possible to create a hybrid version of a VPG. Random House's only alternative would be to create a competing VPG system, but if it is slow to recognize this fact it will be too late – the original will have gained too much power in the marketplace.

And the core enterprise will be able to dictate terms.

The irony in all of this that such a consolidation of power would not result in the centralization of decision-making – perhaps a first in the history of human economics. The VPG model is about decentralizing power, and the core enterprise is simply a method to make that system profitable and feasible. Rupert Murdoch might choose to come in with a huge buyout offer, but even if he bought the core enterprise, Rupert would be incapable of controlling the decision-making power of the VPGs. If he chose to tamper with this power – to make the system less fair or accountable – he would destroy it.

By destroying it, he would merely create room for new VPGs and core enterprises to emerge.

In other words, by democratizing publishing, we will be letting a very powerful genie out of a bottle. And once that genie is out, he will not be put back in.

Nuts and bolts

Starting such an enterprise requires some knowledge, expertise and attention, but it is also comes with lower initial costs and less risk than starting a traditional publishing house.

Investors would need to identify and hire a core team and establish that team in some kind of headquarters. Yet there is no need to build a physical plant or hire a full squad of editors and support staff. A business office and a web team are the main start-up costs.

The company launches with the web site, and the first task is establishing that site as a presence in both the fan and writer communities. The target audience is easy to identify and reach: These are the people who are already online, participating in various established websites and groups. They can be attracted with contests, web-ads on established sites, various bandwidth freebies (free reader profiles on the domain, etc.) and direct marketing via e-mail. The first task is getting people to the site. The primary task is making the site exciting and unique so that people come back.

If the website doesn't serve and interest its audience, the community will form slowly or not at all.

So some attention and care must go to the content and design of the site immediately. It must find the proper balance between general-interest content and interactivity. It must engage the surfer and draw people into the community by offering them a place to meet like-minded people and express themselves.

The option of deeper involvement should be clearly expressed and easily available. The web team effort needs to feature real people to respond to e-mails and a sense that the company is truly interested in allowing its communities to make publishing decisions.

Such an enterprise would put serious demands on bandwidth, and great care should be taken in providing adequate server space and power to meet those demands.

Media placement should come later rather than earlier. If a PR campaign begins before the communities begin to evolve, then the coverage may be unnecessarily skeptical. Better to engage the press after the initial communities are up and running and the first decisions are drawing near. Reporters with an interest in writing about new innovations feel like they're getting a scoop when they find something that's actually functioning – but the same reporters are suspicious of flimflam when given breathless press releases about unproven concepts.

In order to get these communities up and running, an early recruitment campaign might be in order: Identify individuals who might be good moderators and discussion leaders and offer them equity in the VPG or the core enterprise in exchange for putting in some start-up labor. Candidates for recruitment could include established writers, editors, agents, academics, critics, etc. Wise readers should be sought out and brought on board early as well.

Management, accounting and business practices should be standard. The innovation here lies in giving the existing audience the opportunity to turn their interest/hobby into an investment while the original investors take a percentage off every transaction. That's innovation enough. The business side of the operation should emphasize established, proven best-practices while stressing open, ethical policies. In a democratic business plan, such adherence to openness and credibility is simply a cost of doing business.

As for the literary side of the operation, the start-up company would need to hire some veteran agents/editors, but would not initially be required to hire a full staff – as previously mentioned, outsourcing tasks is probably the better option in most cases. Keeping overhead low is a key aspect of this business plan, so that costs are built into each transaction at a profitable level. The decision to outsource or expand would be a decision made by the core enterprise, not the VPGs.

Finally, opportunities to partner with existing online booksellers in various ways should be explored at the outset.

Getting started

Such an investment is not for anyone. While such an enterprise features a low start-up cost, it must be sufficiently capitalized to weather whatever storms arise at its launch. More importantly, the proper investors in such a 21st century venture would have some understanding of both technology and publishing. Early decisions – such as the hiring of top executives – will be key.

Yet the proper investor would benefit from a low-risk, high-return enterprise that would generate an extremely visible media profile. Once proven in the field of book publishing, the concept is applicable to everything from pop music to screenwriting.

The virtual publishing group represents a logical step in the evolution of media. The investor who can harness the concept stands not only to profit from the idea, but to seize a position at the table where the future will be determined.

I look forward to discussing this concept with you at your convenience.

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