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Searching for Motives in Random House Ouster

By DAVID D. KIRKPATRICK

At 9 a.m. Thursday, Peter Olson, chief executive of Bertelsmann's Random House book publishing division, arrived at the Park Avenue office of its namesake Random House Trade Group for a regular weekly meeting with its president, Ann Godoff.

Ms. Godoff was not worried. She knew that her group's profits, about \$2 million last year, had fallen short of Mr. Olson's target of \$6 million, her associates said. But her group had also placed 12 books on the hardcover best-seller lists, more than any other house in the company. And her contract had been renewed over the summer, effective Jan. 1, her associates said.

Mr. Olson surprised her. He said that he was firing her for her group's consistently poor performance and that he planned to fold her prestigious Random House group into Ballantine Books, a house better known for mass-market romances and thrillers. He left within 10 minutes, one person in the company said, and a human resources executive was standing by to hand her a news release calling her group the only unit in the division "to consistently fall short of their profitability targets" — a harsh break with the decorum of the clubby book business.

Why did Mr. Olson act so abruptly? He fired Ms. Godoff on the heels of a dismal holiday season for book sales, in the same week that he attended a Bertelsmann board meeting in New York and at a time when her political underpinnings at the company were particularly weak because she had alienated some of her most powerful peers. Irwyn Applebaum, the powerful president of Bantam Dell, the largest and most profitable group within the larger Random House, had twice complained at company sales conferences that others in the company were being forced to carry Ms. Godoff's lagging group. Mr. Applebaum declined to comment.

There was also tension between Ms. Godoff and Gina Centrello, the president of Ballantine Books, who will now lead the combined Random-Ballantine group.

Others at the company noted that Mr. Olson had his own targets to meet. Bertelsmann, a private conglomerate, compensates its division chiefs like Mr. Olson based on their success in meeting annual targets each year rather than with stock, as at a public company. The company is particularly eager to show growth as it anticipates a possible public offering of stock. Mr. Olson was also laying plans to meet his goals for this year, as unsold books returned from the last one.

Asked about the timing, Stuart Applebaum, a company spokesman and the brother of Irwyn Applebaum, said only, "We are beginning a new fiscal year, and Mr. Olson wanted to begin the new organizational alignment with its new leadership now." He said the decision was unrelated to the Bertelsmann board meeting, holiday sales or the planned public offering.

Mr. Olson's motives are a matter of great consequence in the book business, where Bertelsmann's Random House division is the largest consumer publisher in the world. He said his public condemnation of Ms. Godoff's performance simply reflected honesty about a ruthless devotion to the bottom line: publishers who repeatedly fail to meet financial goals must go.

"It is simply consistent with the message we give all our people in public and in private," Mr. Olson said on Thursday. "I felt it would be disingenuous not to explain the real reasons and to engage in euphemisms."

Over the weekend, Ms. Godoff said that she was sad to leave, in part because she had hoped for greater profits ahead from a new paperback line started last year. She hoped it would help retain the long-term profits from the group's hardcover books — a long-standing gap in the division.

"I would have liked to have had more time to have developed this list with this group of people because it would have been precisely the profitable enterprise that Peter Olson and I both conceived when we sat down and talked about it," she said. "But a year is not enough time."

Mr. Olson, however, also knew that Ms. Godoff had few stalwart defenders among her rival division chiefs.

She had made her name as a canny publisher with the rare publishing hat trick of editing three books by unknown authors that became major best-sellers in a single year in 1994: "Midnight in the Garden of Good and Evil," by John Berendt; "The Alienist," by Caleb Carr; and "Makes Me Wanna Holler," by Nathan McCall. In 1999, she published the best-seller "Greatest Generation," by Tom Brokaw. Bertelsmann executives credited her with improving the results of a money-losing division.

But Ms. Godoff's rise had also snubbed some fellow publishers. The president of a group that was the historic home to William Faulkner, Robert Penn Warren and Truman Capote, she let literary agents and her staff know she considered her unit's books above the merely commercial popular fiction published by other divisions. She candidly told associates that she felt little personal interest or affinity for commercial romances, thrillers and other page-turners — the meat and potatoes of much of the publishing business.

Her attitude seemed arrogant to her colleagues at the more mass-market-oriented divisions. People who worked with Mr. Applebaum of Bantam Dell said he considered Ms. Godoff a snob, and Bantam Dell seldom collaborated with Random House to buy the paperback rights to its hardcover books. Ms. Centrello, Mr. Applebaum's longtime protégée from a previous post at Simon & Schuster's Pocket Books, worked more often with Ms. Godoff but came to share his view, people who worked with both of them said.

Despite its storied literary history, the Random House Trade Group had lagged behind its other divisions for decades, in part because it had fallen behind the boom in paperback book sales. Most other publishing houses had expanded to publish both hardcover and paperback books, enabling them to balance the inevitably risky business of betting on new books with steady income from an archive of previously published works. But the Random House Trade Group had given up its control of Vintage paperbacks in 1989 to Sonny Mehta, the president of the prestigious Knopf, who turned it into the most lucrative upscale paperback line in the industry.

Without it, the Random House trade group was mainly dependent on the expensive and risky new hardcover books. To bid for a major author, Random House needed to cooperate with another paperback publisher to pay for the advance — typically the Vintage or Ballantine imprints of its sister divisions. But most of the profits from publishing paperbacks, especially classics like the works of William Faulkner, tended to flow to the paperback publishers. Ms. Godoff protested internally that the results unfairly penalized her division.

Ms. Godoff's efforts to repair this gap in her house further strained her relations with the other publishers. In 2000, she persuaded Mr. Olson to let her start a new paperback line of her own, competing directly with Mr. Mehta's Vintage division. The competition escalated simmering tensions between them, but last week parent company executives said that while some other division chiefs had criticized Ms. Godoff to Mr. Olson, Mr. Mehta had never done that.

Speaking over the weekend, Ms. Godoff singled out Mr. Mehta for praise. "Sonny and I often compete, but our relationship is good," Ms. Godoff said. A spokesman for Mr. Mehta said he admired Ms. Godoff.

But there were conflicts with other houses. Ms. Godoff tried to keep or take back from other sister divisions the paperback rights to books Random House published in hardcover. Conflicts arose. When Ms. Godoff approached Ms. Centrello of Ballantine about taking back the paperback rights to the best-seller "Seabiscuit," by Laura Hillenbrand, Ms. Centrello refused.

When Ballantine approached Ms. Godoff's house for help promoting a new edition tied to a coming film version, the Ballantine executives complained internally that they felt brushed off. Ms. Centrello told colleagues that Ms. Godoff looked down on her and had excluded her from meetings with authors and agents.

At the same time, Ms. Godoff ran into some bad luck with hardcovers. She had teamed up to bid with Ms. Centrello's Ballantine division for the rights to "Black House," a planned sequel to a previous horror novel by the writers Stephen King and Peter Straub. With Mr. Olson's approval, as required for all major advances, Ms. Godoff's division paid an advance of well more than \$10 million.

But the book was released to stores on Sept. 17, 2001, shortly after the terrorist attacks, when no one wanted a horror story. Its dismal hardcover sales led to a multi-million dollar loss for the Random House trade group, enough to erase much of its meager profits in other years. Although her group had more best sellers last year than other divisions, they did not spend as much time on the best-seller list.

Last week, Random House executives said that over the last five years, Ms. Godoff's unit had lost more money than it had made. And other publishers questioned some of its advances.

Ms. Godoff's associates argued that she was being judged against unfair standards because of the risky nature of hardcover publishing. They contended that profits from her unit's paperbacks could have made up the difference. They also noted that Mr. Olson had approved all her major decisions. But Random House executives said these factors had been taken into account.

Random House executives conceded that combining the units provided a chance to cut costs but said that was not a motive for the dismissal. Mr. Applebaum, the company spokesman, said Mr. Olson was confident that Random House authors would soon be glad to be published by Ms. Centrello.