SMALL BUSINESS | CONVERSATIONS

Surviving Battle With Amazon, Entrepreneur Picks New Fight

By IAN MOUNT SEPT. 3, 2014

Alan Martin, the founder and chief executive of Sidewalk, in the company's warehouse in Ogden, Utah.
Jeffrey D. Allred for The New York Times

In 2007, Alan Martin was attending Webster University, pursuing a master's degree in procurement and acquisitions at a campus in Utah, when he realized he was able to sell his used textbooks for about the same price he had paid for them.

From this observation came Mr. Martin's start-up CampusBookRentals. It was based in Syracuse, Utah, and it grew quickly, reaching No. 17 on Inc. magazine's list of the fastest-growing private companies, with $21 million in revenue in 2011. People took notice, including some of the people supplying Mr. Martin with textbooks.

Mr. Martin's biggest source of textbooks was Amazon — until it decided to stop supplying him in 2010, which forced Mr. Martin to change course. He continued to rent out textbooks, but he renamed his company Sidewalk and redirected its energy and money into developing software for campus bookstores. The company's fast growth slowed, but Sidewalk says it made a $2.8 million profit on $40 million in revenue last year.

In a conversation that has been condensed and edited, Mr. Martin, 35, talked about how he had survived the fight with Amazon, why he is still at war with much of the publishing industry and why a company created to disrupt the industry now thinks that campus bookstores are the place to be.

Q. *How did you finance the original business?*

A. Before the financial collapse, credit cards were still readily available. Me and three friends started to collect credit card offers and submit them. We raised a little over $250,000.

Q. *How long did it take you to pay off that debt?*

A. We technically didn't pay that off until 2011. All the offers came in the spring of 2008, and most were interest-free for a year and then 10 percent. So we weren't getting destroyed.

Q. *Where did you get the books to rent out?*

A. Early on, we were buying books from students on Half.com and Amazon and basically any open marketplace. We built the entire thing on a just-in-time model. We knew every book that we could acquire and the price, but we didn't place the order until a consumer ordered it.

Q. *So Amazon and Half.com delivered the books in their own packaging?*

A. Yes. For two to three years, only 30 percent shipped from our own warehouse. To mitigate confusion, we sent a bright pink return mailer to every customer so they could drop it in and send it back.

Q. *Did you have problems being so dependent on third-party suppliers?*

A. We certainly did. We were competing for the same customer. Some marketplaces turned us off, canceled thousands upon thousands of orders in a really bad way.

Q. *Who cut you off?*

A. It was really just Amazon.

Q. *So you had promised books to students starting courses and suddenly you had no books. What did you tell the students?*

A. We were totally honest but we never exposed Amazon because they just made a decision that made sense for them. We said we made a really big mistake and we're sorry, and we offered a very nice coupon to come back to the site. Like 40 percent off.

Q. *What did you do to make sure it wouldn't happen again?*

A. We put real contractual relationships in place with a lot of marketplaces. And we diversified. We had every book in six or seven places.

Q. *But Amazon is still one of your suppliers.*

A. Everything is a lot more contractual now.

Q. *How do you figure out rental prices?*

A. It's just a big math formula that says, How long do we think the book will be alive and At what point do we think we want to sell it. And then all we do is say, How much is it going to cost and How many times do we have to rent it to hit our margin over that time? A book lives on average three years.

Q. *What margin do you look for?*

A. We're about a 40 percent gross margin business. That gives us space to consume our costs and be profitable, which we've been since 2009.

Q. *Why did you start working with campus bookstores?*

A. We saw that bookstores were a phenomenal distribution channel. They were convenient. They had accurate product. The only reason they were losing market share was that they were overpriced. We thought we could drive more value if we tuned the existing machine. When we made the transition from CampusBookRentals to Sidewalk, it was largely because we thought local was good. You can't walk off the street to Amazon.

Q. *What do you do for the campus stores?*

A. First, we offered them rental. We brought in touch-screen kiosks. Students could pick up a book, check out and then walk away with a rented book in hand. Which made the stores dramatically more competitive. Their prices were less than buying a used book online.

Q. *Who owns the book?*

A. The store, initially. The moment the book rents, we own it. We buy it from the store at retail price.

Q. *What happens to the books when the student is done?*

A. After the rental, the student just brings it back to the bookstore and never knows that we're involved. The bookstore makes the decision to keep it and put it back in inventory or send it back to our warehouse.

Q. *What if the bookstores end up with used books they don't need?*

A. Wholesalers have never allowed the parties to talk to each other because it would remove the wholesaler from the equation. So we launched a product called Marketplace that allows bookstores to trade inventory among themselves instead of having to buy from wholesalers or publishers. Marketplace was launched at the end of 2013. In the first six months, over 230 stores signed up and we did $1.5 million in trade.

Q. *I assume you get a commission?*

A. We get a 9 percent commission. On average, stores using Marketplace are saving 35 percent over what they would normally pay, and that translates right to the student.

Q. *So who hates you now?*

A. Anything that extends life for a used book is bad for publishers because they don't play in used books. Also, folks like Amazon, because we're making the campus bookstore far more viable than it was. And there is Barnes & Noble, which leases 700 college stores today. They said they want to run 1,000 in five years, but our technology makes the stores independent and not need Barnes & Noble. Vassar College was a Barnes & Noble store and they kicked out Barnes & Noble and implemented Sidewalk technology.

Q. *Are paper textbooks going away?*

A. Digital did come to trade, but in textbooks there's been very little movement. We are deploying technology into as many campuses as we possibly can on the back of physical books. When the time comes, we will flip the relationship from physical to digital distributorship. This is the first year, this summer, that we've launched digital products. Now students can come into stores and buy new or used, rent new or used, or buy digital.

Q. *Could your technology work in other industries?*

A. We do see this jumping the walls outside campus retail. Our technology ties the stores together — imagine a bike shop in Utah and one in Northern California. These people aren't competing with each other; they're all competing with Amazon or REI or whoever. So why not leverage their strength? But we're so concentrated on what we're doing right now.

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