

WC-BEM2012

The role of e-books in reshaping the publishing industry

Andrei Maxim^{a*}, Alexandru Maxim^b

^a"Alexandru Ioan Cuza" University – Faculty of Economics and Business Administration, 22 Carol I Blvd., Iasi 700505, Romania

^b"Alexandru Ioan Cuza" University – The Doctoral School of Economics, 22 Carol I Blvd., Iasi 700505, Romania

Abstract

This paper examines the impact that e-books and ecommerce have on the current and future evolution of the book industry, by focusing on its various stakeholders: authors, publishers, online and traditional distributors, and readers. This is an exploratory research, based mainly on qualitative methods and analysis of secondary data. The developments in the US and several European markets are examined in order to generate hypotheses about the changing roles of the various actors. Brick-and-mortar bookstores are affected as their customers increasingly prefer to shop online for both regular and electronic books. The publisher-author relationship is also transformed, as the writers are now able to publish their works directly to the website of a distributor. Although printed books will probably continue to exist, publishers and bookstores need to investigate the changing preferences of their target market and revise the way they produce and deliver content to their customers.

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Keywords: publishing industry, books distribution, e-books, e-reader.

1. Background

In the past decade, several industries, such as music and film, were transformed by the fast developing information and communication technologies. The once booming sales of audio cassettes and CDs started to decline at the beginning of the century as people embraced the idea of sharing digital MP3 files using services such as Napster or Kazaa. Although the major record companies went to long lengths in their effort to stop these practices they had limited success. A similar situation can be observed in the film industry. Content distribution relies heavily on DVDs and the relatively new Blu-ray Discs, but sales are affected by downloads through Peer-to-Peer (P2P) networks or by the use of video streaming sites.

In both cases, a major drive for consumers is the fact that the music or movies they want are available almost free of charge. But the digital format also offers other important benefits: files are immediately accessible, portable, and easy to store and organize into libraries. Several companies realized that a new business model was needed in order to capitalize on these advantages people were looking for. In 2003, Apple Inc. launched its online iTunes Music Store. It offered the possibility to purchase individual songs, rather than entire albums, and all singles had the same price of 0.99 USD, regardless of the artist or record label. This model proved very successful and Apple is nowadays the market leader in digital music distribution. According to The Nielsen Company & Billboard's 2011 Music Industry Report, last year, for the first time, digital music sales were larger than physical sales, accounting for 50.3% of all music purchases (Nielsen, 2012). Film distribution is following a similar development. Although Blu-ray Disc

*Andrei Maxim. Tel.: +40-232-201-435

E-mail address: andrei.maxim@feaa.uaic.ro

remains the only medium that allows the delivery of high quality video to consumers, there is a continuous growth in the Video on Demand (VOD) market. In the United States, services such as Netflix, Amazon Instant Video or Apple iTunes provide online rental and buying of movies or television programs, at a low price. Numerous providers exist in Europe as well. A GfK Retail & Technology report suggests that in the Netherlands, in 2012, paid VOD will surpass sales and rentals of physical discs (Briel, 2011).

For the publishing industry, the impact of the advance of the internet and the related technologies was generally limited to new distribution and promotion channels. The product itself and the business model remained virtually unchanged. However, the recent increase in popularity of e-books and reading devices is likely to drive more profound changes in the sector, comparable to those observed in the cases of music and films.

The idea of using books in a digital format is not new. Project Gutenberg, which was initiated by Michael Hart in 1971 at the University of Illinois, is considered one of the first steps in this direction. During the 1990s, several companies began selling books on CDs, but they had limited success as CD-ROM drives were not very common in that time. In 2000, Stephen King became the first important writer to launch a novella exclusively in electronic format. This e-book registered hundreds of thousands of downloads via Amazon and Barnes & Noble (Laudon and Traver, 2008). Yet, the real boom of e-books came in 2007 when Amazon and Sony launched devices specially designed for reading this type of content. The Amazon Kindle and the Sony eReader were similar in shape and size to present day tablets, but used a special display with e-ink technology. This display is not back-illuminated as a typical LCD and therefore puts less strain on the eyes, uses less power and is readable in bright sunlight. On the downside, it can show black and different shades of gray but no colors. Since 2007, many other companies, such as Barnes & Noble or Kobo, joined the market, offering an ever-growing number of e-book titles and reading devices. Four years after the launch of Kindle, in May 2011, Amazon, the market leader, reported that in the US it was selling 105 e-books for every 100 print books (Gabbatt, 2011).

2. Research scope and methodology

The scope of this study is to generate hypotheses about the changing roles of the various actors in the publishing industry, such as authors, publishers, online and traditional distributors, and readers, by examining the developments in the US and several European markets. The research is focused on the following aspects:

- investigating the readers' views towards e-book products and reading devices;
- determining the type of books that are more appropriate for either electronic or print format;
- identifying the threats and opportunities that the digital format brings for authors, publishers and distributors in terms of pricing, distribution and promotion.

This is an exploratory research, based mainly on qualitative methods and analysis of secondary data. Book readers' opinions and expectations were investigated by running four focus groups which included third year students from the "Al. I. Cuza" University of Iasi, Romania. Each group had between seven and ten participants and lasted for one hour. Other data was collected by analyzing various quantitative studies, statistics on market development and press interviews with industry experts.

3. Results and discussion

3.1. Book readers

For readers worldwide, the e-commerce seems to bring many benefits. The development of online bookstores has increased the international availability of a wider range of works. The introduction of e-books added the advantages of instant delivery and lower prices. Books can be downloaded in seconds to an e-reader, a computer, a tablet or a smartphone, using Wi-Fi or 3G networks. The buyer can access them from any of these devices he or she might own. Some retailers also offer the possibility to synchronize notes, bookmarks and other information between devices. The growing competition within the e-book readers market has led to a rapid decline in prices, combined with a refinement of the technology as well as improved and enhanced services. The latest versions of Kindle and

Nook (the e-reader of Barnes & Noble) can store thousands of titles and feature touchscreens, illumination for night reading and social networks connectivity for sharing impressions or favorite passages. The decline in the number of intermediaries and the reduced production costs of e-books has resulted in a 40% - 70% decrease in prices, with some classical literary works being available for free.

A field in which e-books can generate significant benefits is education. School books, especially those intended for technical subjects such as chemistry, mathematics or physics can now use the new EPUB 3 file format to include, in addition to the current text and illustrations, animated graphs and figures, media overlays, videos with messages from professionals or technicians, sounds and images of chemical reactions, as well as many other forms of communication. In January 2012, Apple inaugurated a new bookstore for its iPad tablets, along with a free publishing tool to help authors create interactive instructional materials and a new application for its "iTunes U" service for sharing university courses (Edgecliffe, 2012). A number of universities and high-schools in the US are already testing the idea of replacing all printed textbooks with e-books and tablets (Sanders, 2012).

To gain more insight related to the attitudes and expectations of books readers we organized four focus groups with students. In the beginning of each focus group, participants were asked if they knew what an e-book was and if they had ever used one. All of them mentioned the use of books, articles or other documents in PDF or Microsoft Word formats, mainly for academic purposes. Just one or two individuals in each group mentioned the existence, but not the actual use of reading devices. Then they discussed about the advantages and disadvantages that an e-book had compared to a traditional printed book. Some of the most frequently mentioned ideas were the ability to search for a specific term within the document, the low or inexistent price, and the portability. However, for actual studying, many said they preferred printing the text. The main arguments were that a printed page was easier to read (less tiring than a computer screen) and allowed for simpler highlighting and annotating.

In the second part of the focus group, a Kindle was handed to the participants and an Amazon video clip showing the key characteristics and benefits of the product was screened. Students were particularly impressed by the appearance of the e-ink display but, at the same time, criticized its lack of colors. The process of buying and having a book delivered to the device was considered fast, straightforward and therefore appealing. When asked what kind of books they would prefer reading on Kindle, participants mentioned novels, practical guides, travel guides and dictionaries. Digital versions of textbooks were considered useful for quick reference but not for actual learning, for the same reasons mentioned before. Moreover, they argued that a reading device's or a tablet's ability to display only one page of one book at a time was an important limitation for studying. About a third of each group said they would consider buying a reading device. The main concern of those not interested was the limited available content in Romanian language. In the end, almost everyone agreed that e-books offer many advantages but some expressed regret that in the future people might not enjoy the smell of a new book and bookshelves will no longer be a common part of a house's furniture.

Some of these findings are in line with those of a large sample quantitative survey conducted in the US. Respondents considered that printed books were better when reading with a child or for sharing with other people. E-books were preferred when the purpose was to get a book quickly, to read while travelling or commuting and to have a wide selection of books to choose from (Rainie et al., 2012).

3.2. The authors-publishers relationship

For authors, the growing popularity of e-books provides a good opportunity for success. It offers them the chance to publish their work independently, without having to go through the sometimes too strict selection process specific to traditional editors. There have been several cases of unknown writers who resorted to e-book distribution platforms and were very successful. Kerry Wilkinson became the bestselling e-book author on Amazon.co.uk for the last three months of 2011. In the US, two other independent writers, John Locke and Amanda Hocking, sold more than one million books on the Kindle (Flood, 2012). Although this new model is appealing for unknown writers and might represent a threat for the industry, the importance of publishers cannot be ignored. After their success with Amazon, these three authors went on to sign deals with important publishing houses. Such companies offer professional editing and marketing services that enhance the quality of the works and can boost sales. The absence

of editorial filtering means that any author can try to sell any book even if it is of poor quality and is not worth buying. In order for the rating and recommendation system of online platforms to work, some people still need to make the purchase, with the risk of being disappointed with their product afterwards.

To achieve sustainable long term growth, traditional publishing houses should re-envision the “book” concept. This would no longer mean a set of pages printed with text and images, grouped together in a volume. When using file types such as EPUB or MOBI, the text can be reshaped and reformatted using different font styles and sizes. In addition, images and graphs are no longer the single means available for illustrating a concept, a process or a set of circumstances. With the EPUB 3 standard the text may be intertwined with sounds, videos as well as other means of expressing content. Authors are unlikely to manage this technical complexity on their own and therefore, this could be an opportunity for publishers to offer new services.

Among the advantages that publishers can have if they decide to approach the e-book sector, there are those related to the stock and sales volume. Having books only in electronic format means that there is no longer a need to estimate and plan for the necessary print volume. Thus, the publisher will not have leftover stocks and will be able to deliver the books almost instantaneously to readers or distributors. With regard to the sales volume, recent years have shown that people who read e-books may even tend to make their acquisition an impulse purchase. The reduced price, the large number of choices and the simplicity of the buying process encourage readers to acquire more books than in the case of printed editions. Moreover, due to the reduced production costs, publishers may be able to gain higher margins through the sale of e-books. According to a survey by Pew Internet, 30% of those who read e-content say they now spend more time reading, and owners of tablets and e-book readers particularly stand out as reading more now. Device owners are also more likely to buy books; 61% of them said they purchased the most recent book they read, compared with 48% of all readers (Rainie et al., 2012).

Both authors and companies which decide to embrace the new technology face many challenges. Piracy is a threat that needs to be taken into consideration before establishing a medium or long term strategy. During the focus groups, several students mentioned that there are numerous websites offering pirated e-books free of charge. The phenomena is well known and according to Gottfried Honnefelder, a top representative of German publishers and booksellers, 60% of e-book downloads in Germany are pirated through file sharing websites (Associated Press, 2011). Digital Rights Management (DRM) systems, such as Adobe DRM, have been put in place by bookstores but their efficiency is marginal. Software aimed at stripping e-books of their DRM protection is available and easy to use. Low prices and ease of access had positive effects in the case of the music industry. A similar strategy might work in for e-books as well.

But for the moment, e-book price setting and revenue sharing are difficult issues. In the absence of physical printing and distribution, prices should be significantly lower than in the case of traditional books. Yet some in the industry fear this would affect the perceived value of the products. Amazon’s 2009 decision to price many newly released and best-selling e-books at 9.99 USD was not welcomed by publishers. Over the past two years, five of the major US publishers tried to impose the agency pricing model, in which they established the final price of the product. In April 2012, the US Department of Justice sued them and Apple, as their distributor, for conspiring to raise e-book prices (Catan et al., 2012). The situation is also complicated in terms of revenue sharing. Authors that sell their work directly through Amazon may receive up to 80% of the sum charged, much more than any publisher would be able to offer them.

3.3. Bookstores and libraries

Traditional bookstores seem to have been significantly affected by the growth of e-commerce within their industry. They began to lose market share as customers turned to online retailers for buying printed books. The development of e-books will probably put even more pressure on their business. Amazon reported that they sold five times as many Kindle e-books in the UK in Q4 2011 versus Q4 2010 (Hoffelder, 2012). In the first 11 months of 2011, e-book sales in the US increased by 123.4% compared the same period of 2010. This represented approximately 17% of the total market, a significant increase over the 7% share of the previous year (Owen, 2012). All this would explain the financial troubles of Borders (the second largest book distributor in the US), as well as the

interest shown by Barnes & Noble (the largest traditional book distributor in the US) for expansion into the digital sector through their Nook e-book reader.

US libraries are adapting to the new trends and many allow their subscribers to borrow e-books. In 2011, the OverDrive digital distribution service, which was available in more than 11,000 US libraries, became compatible with Kindle.

4. Conclusions and future research

Since the launch of Amazon Kindle in 2007, e-books commerce grew significantly year after year. The most important changes can be observed in the United States and United Kingdom. In other countries, e-books represent a very small percentage of the total book market. This can be primarily explained by the wide availability of content in English. However, other European markets will probably see a similar evolution once content in their languages becomes accessible. People prefer digital versions because they are easy to buy, portable and offer integration with other services and sources of information. However, e-books are not suitable for all purposes. An issue that requires further investigation is the impact of e-books on the educational process. Reading habits related to types of books and preferred devices could also be studied by means of quantitative measures.

Writers, publishers and distributors need to adapt their business strategies to this new environment. They will have to rethink the book concept and establish new pricing policies. As traditional bookstores now attract fewer buyers; alternative means of promoting the products are also needed. Social networks and readers' interactions may prove useful.

For the moment, the Amazon model seems to be the most successful. It combines a very large variety of titles, low prices, free and instant delivery and a cheap dedicated reading device. Another model is that of Barnes & Noble, a company that managed to combine its traditional bookstore business with an online store and a reading device, by offering integrated services for the two channels.

Future developments of the market are difficult to predict at this point. But a close observation of what occurs in the US publishing industry is essential for the sector stakeholders from the European countries.

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