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The Business of Books 2017: It's all about the consumers.

White Paper



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1. The world of books, divided

Those involved in books and publishing have never enjoyed a level playing field. But the current transformation, not only of the book industry, but of all distributed content and media, as well as social networking via digital channels, is driving the emergence of ever greater differences, thereby widening the gaps between different markets, audiences and cultures.

For a short moment, when Seattle-based Amazon looked set to redefine bookselling around the world, it seemed that the global reach of that new player would radically and uniformly reshape the way in which readers pick up books. While this has been shown to

be an overly simplistic fantasy, it nevertheless teaches us a few good lessons on how globalization has become an altogether more complicated concept.

On the one hand, Amazon has always been much more of a North American company than many critical observers would have acknowledged. In 2011, nine in ten dollars earned by Amazon internationally (in total, not only from books or media content) came from just three markets: Germany, the United Kingdom and Japan. Five years later, in 2016, the share of these top three international markets had dropped to 76 percent.

Huge investments by Amazon, especially in India and China, have started to pay off.

By 2016, revenue from “all other markets” had overtaken the respective incomes from Japan and the UK. Only in Germany did the aggressive growth curve in Amazon’s sales almost match the overall global expansion of the world’s largest online retailer.

Amazon is clearly not the only global player influencing how consumers around the world access content, enabling them to do so digitally more and more often, using their mobile phones and exchanging information about what’s new and appealing, or what might be less desirable.

Amazon revenue in international markets

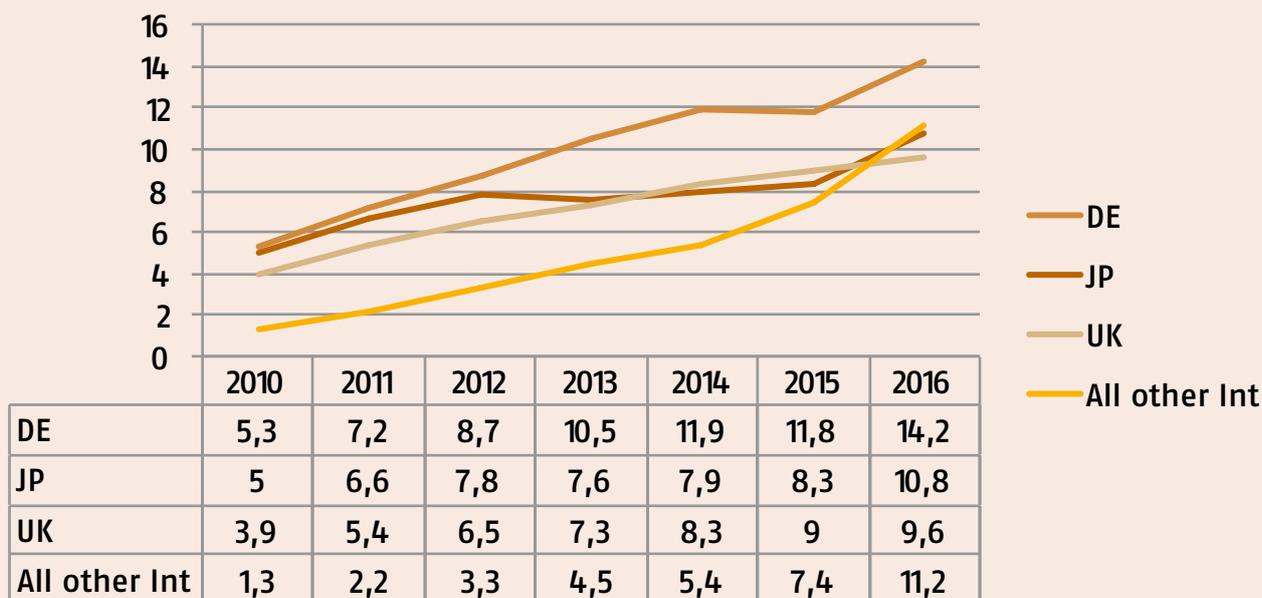
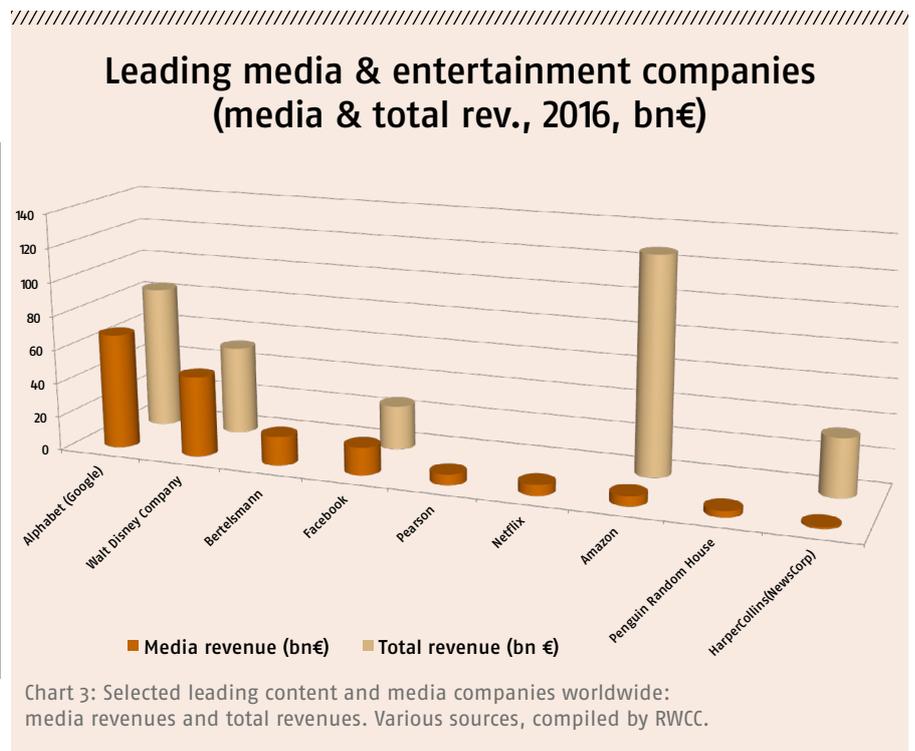
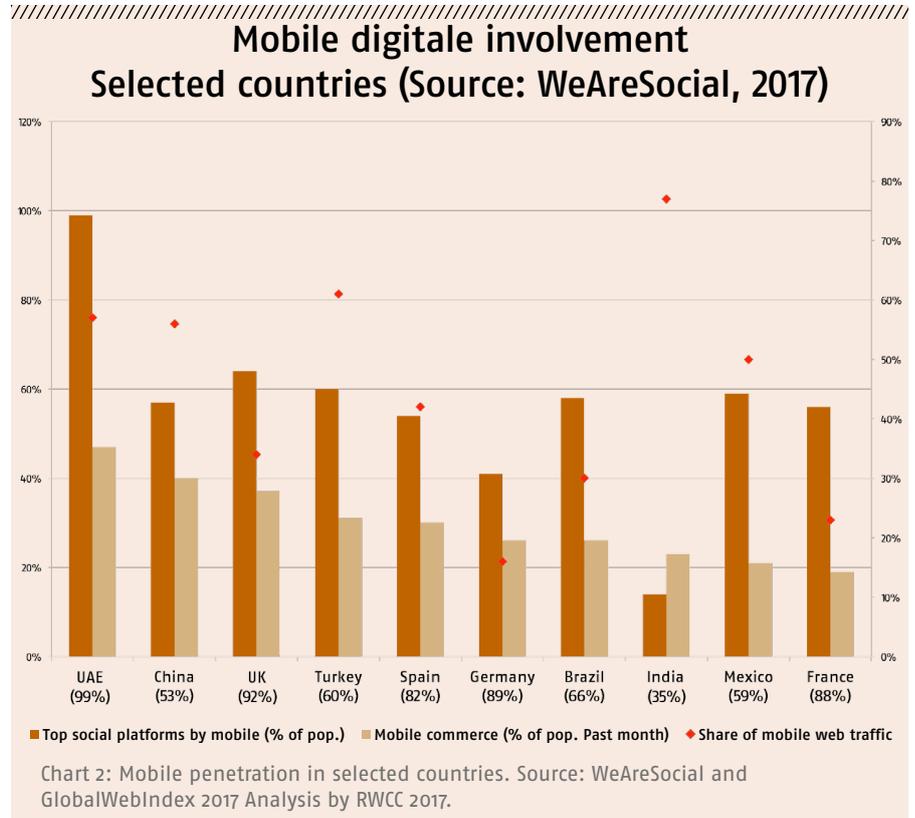


Chart 1: Total revenue from Amazon’s international markets. Data source: Amazon Inc., annual reports. Analysis by RWCC.

GAFAs are the new acronym now used to denote Google, Apple, Facebook and Amazon. This comes after Silicon Valley analyst Ben Evans already coined his catchphrase, “Mobile is eating the world”. He was emphasizing the importance of the new channels and ecosystems in terms of defining what people notice and what escapes them. Exceptions to this rule include a well-educated minority who can afford the time and the money to look for exclusive offers off the digital beaten track.

In this context, consumer book publishing finds itself competing for readers’ attention and purchasing decisions against a wide range of alternative content and format choices offered by media companies that are a lot bigger than even the largest dedicated publishing groups.

For a long time, the global publishing industry outdid many other content industries in terms of their global turnover, including music, games and even movies (revenue from box-office sales). Today, however, scale is defined differently. Led by GAFAs and similar ventures, the predominant new style of digital ecosystems control both the access to content and the social interactions between users. In this drastically more competitive environment, slow-moving content like consumer books risk being squeezed and marginalized.



2. The world's largest book markets today

With millions of book titles on sale worldwide the book industry has a well merited reputation for offering a highly diverse range of products, in terms not only of language and origin, but also of categories, topics, authorial voices and cultural vocations. There is hardly any subject that is not debated by a multitude of authors in a multitude of books. Books have attained universal appeal because their content and format are not limited to text alone, but can include pictures, musical notes, scientific formulas and, in recent e-books, even digital audio and video, and elements of virtual reality. The global book market, meanwhile, is also diverse in that books can be found anywhere, with small public libraries even in the remotest regions of the planet. Nevertheless, in terms of market size, a small number of countries dominate the book business. The six largest book markets worldwide account for two thirds of all revenue generated from books, and their share is still expanding.

At the same time, these leading markets exhibit fundamental differences in their underlying dynamic and development. China is the only major publishing market to have reported continuous growth in recent years. The two largest English-speaking countries, the USA and the United Kingdom, experienced pressure at a crucial time following to the economic crises, when the rapidly expanding digital sector ate into print sales. More recently, however, a new balance has emerged, with a slight upswing in print coinciding with a flattening, or even decline, in digital revenue. In terms of their compound annual growth rate all the major non-English-speaking European markets and Japan have seen revenues decline over the past five years (measured in local currencies for the period 2011 to 2015; 2016 figures are not yet available for all countries). A similarly complex situation is seen in the countries that, until recently, raised high expectations and attracted large invest-

ments under the promising label of 'emerging economies'. Besides China, in markets such as Brazil and Mexico the publishing industries reflected the rise of a new middle class which aspired to educate their children more broadly, and to purchase entertainment products, including books for both children and adults. When, for various reasons, these nations' economies experienced great challenges in recent years, in most cases the hoped for expansion of the book sector became derailed. Of these countries, Russia is the most dramatic example: after a short, steep surge, both the economy as a whole and the book sector in particular are now caught in a downward spiral, with some hope of stabilization only emerging since 2015.



Top 6 markets in % of World (2015)

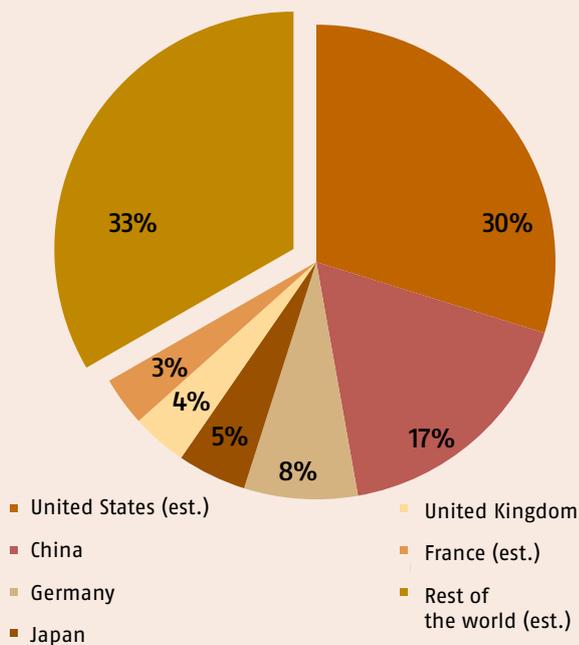
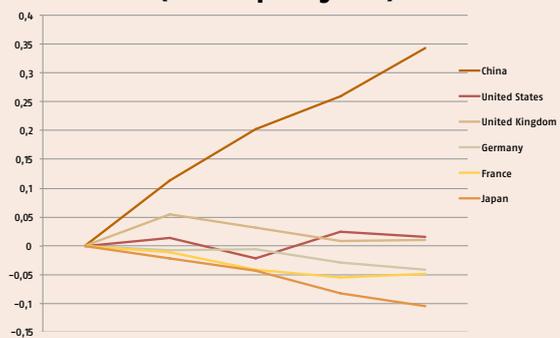


Chart 4: The top six publishing markets account for two thirds of all publishing revenue. Various sources, data compiled by RWCC.

Evolution of top 6 publishing markets (in % per year)



	2011	2012	2013	2014	2015
China	0%	11%	20%	26%	34%
United States	0%	1%	-2%	2%	2%
United Kingdom	0%	5%	3%	1%	1%
Germany	0%	-1%	-1%	-3%	-4%
France	0%	-1%	-4%	-6%	-5%
Japan	0%	-2%	-4%	-8%	-10%

Chart 5: Compound annual growth rate of the overall values of the six largest publishing markets worldwide, 2011 to 2015, as a percentage and measured in local currencies. Various data sources, analysis by RWCC.

3. The massive role of blockbuster bestsellers

When, in early 2017, trade publications reviewed the most popular books of 2016, the outstanding winners presented few surprises. Once again, as everybody expected, J. K. Rowling had found her magic touch. Young (and not so young) adult readers couldn't resist her latest tale about "Harry Potter and the Cursed Child", which had sold some 4.5 million copies by the end of the year, in the US alone. Even the fact that the book was not a novel but a theatre play – usually much less commercially attractive – did not have a noticeable influence on its appeal to the fans.

The entrepreneurial British star author was only topped in a few contexts, such as Amazon's Top 10 Kindle bestseller list for 2016, where Paula Hawkins' "The Girl on the Train" took first place, followed by Robert Bryndza's "Girl in the Ice" from the digital-only Bookouture. Here, Rowling came in at number three.

Amazon's bestseller rankings differ altogether, inasmuch as self-published – mostly digital – titles now occupy a growing number of the top slots in most of the popular categories. This shows that traditional publishers are no longer just competing among themselves for readers' attention and spending.

The book charts have become a confusing battlefield altogether, for several reasons and not only in the English-language markets.

In the UK in 2016, five authors earned 10 million pounds – the first time that occurred since Nielsen BookScan began providing such records in 1998. The list is led by J. K. Rowling, "the biggest-selling author of all time" (The Bookseller, 13 Jan 2017). Her 2016 revenue of 29 million pounds resulted not only from the "Cursed Child", but was also thanks to a resurgence in the first Harry Potter series, with sales a remarkable 52 percent higher than in the previous year adding another 9.6 million pounds. Coming in second, albeit with only half of Rowling's revenue, was Julia Donaldson, creator of the Gruffalo children's series with illustrator Axel Scheffler. Food wizard Jamie Oliver, ranked 8th, paled with a comparatively modest income of 6.2

million pounds from his books. In other large book markets, the bestseller lists do not look all that different. Alongside J.K. Rowling, Hawking's "The Girl on the Train" and other easily recognizable international brand authors, like Jojo Moyes and the Wimpey Kid's Jeff Kinney, also managed to establish a sustained presence in the charts, across languages and cultures.

However, the global stars are always accompanied by big names from their respective local market. In Germany, the former marketing specialist Sebastian Fitzek stands out clearly in the dense crowd of successful thriller writers, as do several specifically regional voices, like Rita Falk with her humorous crime stories from deep and cosy Bavaria.

In France, national pride is at stake and the media on full alert when a new comic is released featuring the ancient Gallic superheroes Asterix and Obelix, each new saga disguising a popular contemporary theme against a backdrop of Julius Caesar and classical Rome – despite the fact that one of the original creators passed away long ago and the other retired in 2011.

But the more conventional genre of "unput-downable" thrillers also has its stars in almost every national market, with Guillaume Musso in France, for instance, and Andrea Camilleri in Italy.

The art of popular crime writing is slightly different in the Nordic markets. This is where, arguably, today's variant of blood-curdling reading pleasure was crafted in the first place. Most notably in Sweden, the globalized English-language thrillers are usually put in the shade by domestic masters, including Camilla Läckberg and the couple who write under the pseudonym Lars Kepler, or the Norwegian Jo Nesbø. Alongside their books, hardly any outsiders manage to squeeze into the ranks of bestselling fiction. It is worth more than just a footnote to observe that, in recent years, the bloodthirsty Nordic literature has also acquired its antithesis: a dedicated Scandinavian feel-good genre, made famous initially by Jonas Jonasson and his "Hundred Year Old Man".

Not every craze requires a polar horizon,

though. An anonymous woman from Naples in southern Italy even made it onto Time magazine's list of the "100 most influential people on the planet" in 2016, writing under the pseudonym of Elena Ferrante. As the UK's Guardian newspaper has shown, the popularity of Ferrante's Naples trilogy, "L'amica geniale" ("My Brilliant Friend"), had been instrumental in pushing up the iconic city's tourist industry.

One of the many stand out details of "Ferrante fever" is that the books were brought to global fame by two comparatively small independent publishing houses, Edizioni e/o, which published the Italian original in 2011, and their partner venture Europa Editions in New York, which released an English translation one year later, triggering the international success story. Surprisingly, the German translation only arrived in the autumn of 2016, published by the independent house, Suhrkamp. The delay was all the more remarkable since earlier books by Ferrante had been available in German as early as 2003, though achieving little resonance. Ferrante is only the most recent example that suggests Germany has lost something of its earlier role as a trampoline for aspiring literary authors in translation.

Overall, translated fiction maintains its strong position in many markets. Of Germany's top 25 fiction bestsellers of 2016, 11 were written in other languages than German. In France, three of the six bestselling literary books of last year were translations; only Guillaume Musso with two titles and Marc Levy with one book could match the influx of Rowling, Paula Hawkins and Ferrante.

North America and the UK, which until the arrival of Swedish Stieg Larsson, both had a strong reputation for resisting things not written in English, have seen a steady increase in imported literary success stories. Nevertheless, the top echelon remains the preserve of the Anglo-Saxon "powerhouse authors" (in the words of Nielsen BookScan), who had a firm hold on the top 15 positions in 2016, led by "Harry Potter and the Cursed Child".

In recent years, a number of translations of high-brow literary fiction have found a broad readership in the USA, having been brought in mostly by independent presses. Other Press helped American readers to rediscover the troubled southern shores of the Mediterranean, with Kamel Daoud's "The Mersault Investigation"; with "Story of My Teeth", Coffee House issued an English edition of the Mexican Valeria Luiselli's philosophical explorations from Tacitus to Baudrillard; Melville House revisited the largely forgotten German, Hans Fallada, publishing his book "Every Man Dies Alone"; Thanh Nguyen of Vietnam won a Pulitzer Prize for "The Sympathizer", published by Grove Atlantic; and Europa Edition's appetite for translation didn't include just Ferrante, but began before that with French writer, Muriel Barbery's "The Elegance of the Hedgehog".

Similar success stories were also seen in other countries, most notably in Italy, with Ferrante's Edizioni e/o as one striking example, and in France. The Swiss author Joel Dicker initially published his debut "The Harry Quebert Affair" with the small Paris-based Editions de Fallois, before it became a bestseller in English in the USA, and in many other languages. Even Guillaume Musso, who has outsold all other French writers for several years in a row, has a story that fits this pattern, at least at the start. Musso's second novel and first bestseller, "Et après", was published by Edition XO in 2005. In 2006, the independent house was acquired by Editis, which today is the French arm of Spain's leading publishing group Planeta, and which continued that enterprise's series of lucky finds with high quality literary translations. According to its parent company Editis, it was able to get 273 of its around 300 titles into the bestseller charts. Today's role-model responsible for producing so many bestsellers that it has reshaped not only the book world, but the entire entertainment industry on a global scale, made its big break exactly 20 years ago – after its first steps had been rather unremarkable. In 1997, it launched a debut fan-

tasy novel by an unknown English author with a modest first print run of 500 copies. The publisher, Bloomsbury, had been founded just a decade earlier, by Nigel Newton in 1986, based "on the principle of publishing books of the highest quality – of bringing quality to the mass market." Its first smash hit, "Harry Potter and the Philosophers' Stone", and the next six volumes about the apprentice sorcerer and his friends, have thus far sold over 400 million copies.

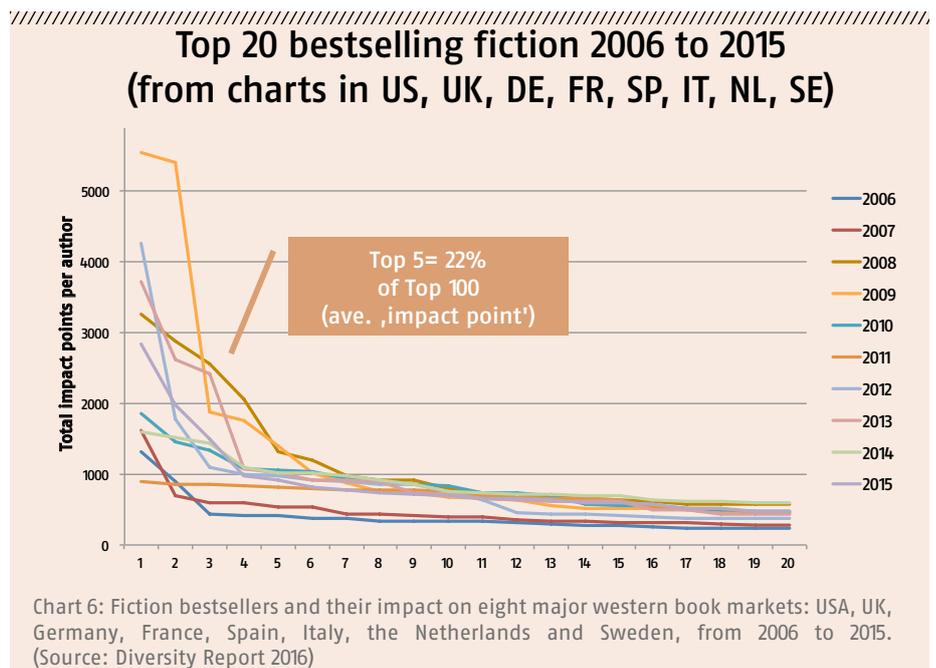
Taking their lead, a number of other, previously unlikely forms of literature have since conquered global audiences. These works have often come in series of three or more volumes, and they have not all been targeted only at young readers. Stephenie Meyer's "Twilight", Stieg Larsson's "Millennium", Suzanne Collins' "Hunger Games" and E. L. James' "Fifty Shades" were all written as trilogies.

While it is difficult to measure the extent to which the combined market share of such blockbusters has increased over the past decade, as solid the data for such a calculation is not available, the publishing industry overall has seen a brutal pattern become firmly established: year after year,

a very small number of titles and authors enthrall a huge share of the global readership, monopolizing their attention and spending. As a consequence, these blockbusters are coming more and more regularly to define the balance sheets of even the largest, globally active publishing groups.

Chart 6 shows the presence of publishers' fiction titles (excluding self-published books) in the top-10 lists of eight major book markets: USA, UK, Germany, France, Spain, Italy, the Netherlands and Sweden, over the decade from 2006 to 2015. Of the top 100 titles in the survey, each year's top five accounted, on average, for one fifth of the respective annual points total.

(Source: Diversity Report 2016)



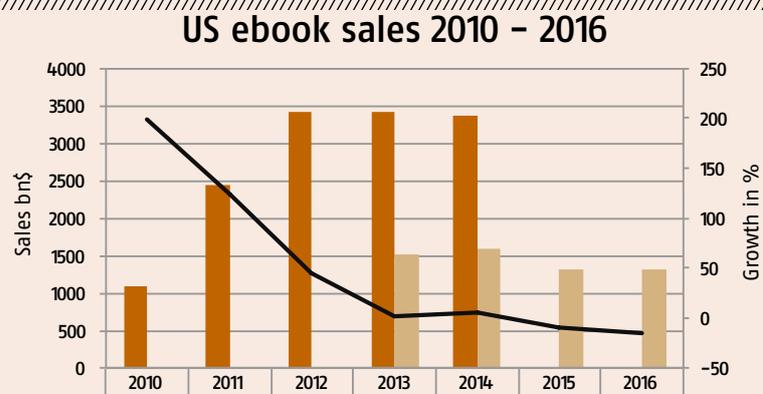
4. Digital contradictions: e-book trends in the English-speaking market and in continental Europe, and the surge in self-publishing

Amazon introduced the Kindle reading device exactly 10 years ago, after convincing the then “big six” largest US publishers to make a significant quantity of their new releases available in digital format. By 2010, it seemed that a digital revolution had been unleashed, triggering countless media pieces on the possible “death” of the printed book. Many observers within the industry, mesmerized by three-digit growth rates in e-book sales in the USA, and soon also in the UK, expected the new format to gradually win over readers around the world.

As so often happens, reality turned out to be more complicated than the forecasters had anticipated. From 2015 to 2016, according to sales monitoring firm Nielsen, e-book unit sales in the USA fell by 16 percent overall, while print unit sales increased by 3.3 percent. Hardcover unit sales even overtook those of e-books for the first time in years, as Publishers’ Weekly observed with some puzzlement (20 January 2017). Similar reversals were recorded in the United Kingdom.

“Print is back!” was the cry of many industry observers, who could also point to a recovery in the ranks of independent book stores, which had been commonly portrayed as an endangered species only a few years earlier.

Indeed, print is not being replaced by digital for the time being. Instead, in most English-language markets a balance has emerged – albeit a fragile balance perhaps – as digital has established a broad niche accounting of anywhere between 15 and 20 percent of revenues from consumer books,



	2010	2011	2012	2013	2014	2015	2016
Total ebook sales (m\$)	110	2450	3410	3420	3370	-	-
Total trade ebook sales (m\$)	-	-	-	1511	1582	1312	1313
Ebook revenue growth over previous year (in %)	199	123	44	0,7	4,7	-9,5	-16

Chart 7: US Ebook market development, 2010 to 2016, data from AAP and BISG, analysis Global e-book report 2017.

	Penguin Random House	Hachette Livre	Harper Collins	Simon & Schuster
	2016	2016	2016	2016
Group revenues from publishing (in million)	€ 3.361	€ 2.264	\$ 1.578	\$ 767
Revenues from e-books (in %)	-	-	19%	23%
Comments	Print up, e-books down in USA, UK, flat in DE, SP.	US e-books -6%; UK e-books -9%	100,000 e-titles (e-books & audio books)	-
	2015	2015	2015	2015
Group revenues from publishing (in million)	€ 3.717	€ 2.206	\$ 1.667	\$ 780
Revenues from e-books (in %)	20%	9%	22%	25%
Comments	-	22% USA; 26% UK	-	-

Table 1: Total turnover and e-book revenues at the four largest English-language consumer publishing groups. Source: company reports; analysis for the Global eBook report 2017.

with clear preferences apparent for certain genres. For the “big five” English-language consumer publishing groups, their e-book revenues have developed into a significant cushion for their overall turnover and profitability.

Above all general fiction bestsellers, but also crime fiction, romance, fantasy and science fiction are the kinds of books that consumers prefer to download to read on a screen or listen to as audio files. For the e-book trend has been complemented by a surge in demand for downloaded audio books. This has opened up an entirely new way of accessing book-related content electronically. As little as eight or 10 years ago, HarperCollins, one of the big five US consumer publishers, would only occasionally have converted a new novel to an audio format. Now, it has become routine to offer various digital editions of all new titles, including e-books in at least two formats – Mobi for Amazon’s Kindle and ePub for other devices – as well as digital audio for download.

The global audio book market produces total revenues estimated at \$3.5 billion. In 2016, just over half that turnover was earned in the USA alone, where the segment is growing by about one fifth every year. Well over half of American audio book aficionados “just listen” to downloaded audiobooks, without any other activity to distract them, and 57 percent use their smartphones to do it. (US data from the American Audio Publishers Association, APA; global figures from Good eReader)

However, readers do not necessarily buy all the e-books that are consumed legally. In 2016, digital books were rented almost 200 million times, an increase of 21 percent on 2015, according to Overdrive, the leading international e-book service provider for libraries and schools.

E-books come in a variety of guises, and traditional publishers are by far not the only actors in this game anymore. For a long time, the consumer – or trade – book market used to be seen as one, largely integrated industry, mainly based on a single business model. In this, an author would give a manuscript to a publisher, who in turn would use retailers to get the book to the readers, who bought it one copy at a

time. E-books have proven to be much more versatile, and the differences between the various e-book markets of continental Europe amply illustrate the new situation.

4.1 E-books in continental Europe: Many actors, many segments, many different audiences

Most reports on e-books compare markets by measuring the share of total trade book revenues accounted for by digital editions. This approach highlights the much lower penetration of digital consumer books in the continental European markets, compared to the United States or the UK.

In Germany, for instance, e-books accounted for 5.6 percent of all revenues in the first quarter of 2017, as compared to 5.4 percent the year before, although the absolute revenue from e-books declined by three percent. In Spain, the same figure

for 2016 was six percent, and in the Netherlands it was 6.6 percent in the fourth quarter of 2016. In the case of France, two different numbers are used simultaneously: 3.2 percent of revenue comes from e-books in a strict sense, while 6.5 percent is from digital products, including CD-ROMs and commercial data services like legal databases. (Data from Boersenverein, FGEE, CB and SNE/Baromètre, respectively)

There are two problems with these numbers. Firstly, the figures are hard to compare as there are no standard definitions of what should be measured. Secondly, and even more importantly, e-books cater to very specific market niches, with audiences dedicated to specific content areas, distribution channels and price expectations. Readers typically pick up an e-book for a quick read or to read on vacation, as e-books allow them to take a good range of books without filling up their baggage. Broadly speaking, more fiction is read in digital form than non-fiction. Publishers have high expectations of an expansion of digital comic books, since Manga are now mostly consumed on smartphones in their native Japan.

By year 10 of the consumer e-book, none of this has yet materialized (if one can apply that word to the realm of virtual reading).

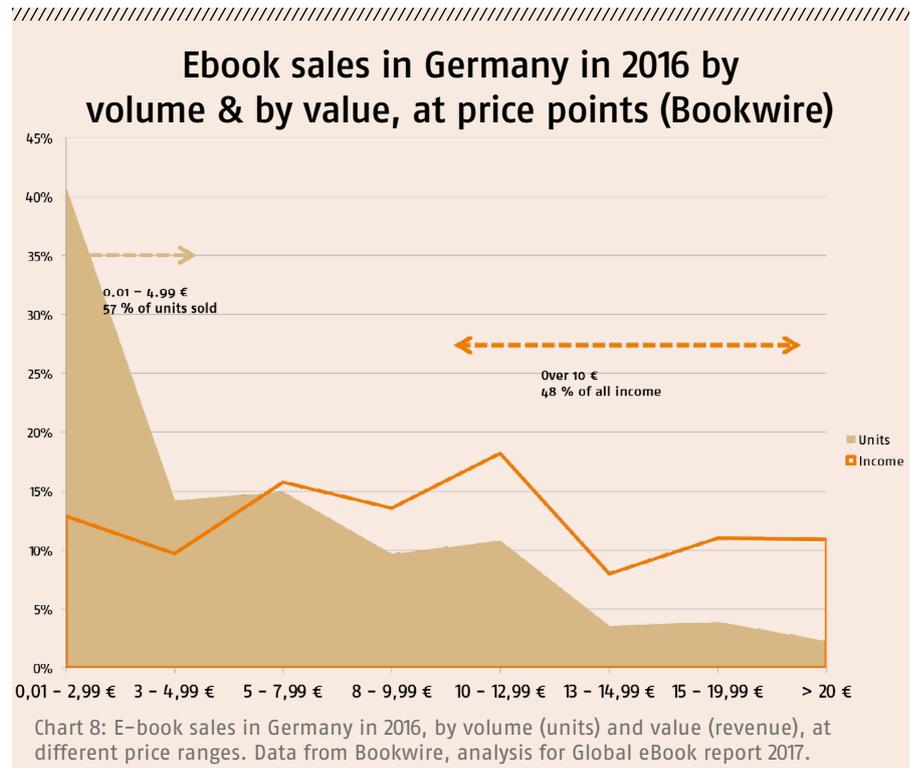


Chart 8: E-book sales in Germany in 2016, by volume (units) and value (revenue), at different price ranges. Data from Bookwire, analysis for Global eBook report 2017.

Nevertheless, anecdotal evidence suggests that publishers of various sizes – corporate, independent and digital-only – have found a significant audience, and are now generating substantial incomes from digital products, although with few statistics available.

To overcome this data bottleneck, for the Global eBook report 2017 a number of digital distributors began sharing detailed aggregate figures from their business activities in half a dozen markets of continental Europe. (For the complete report, see www.global-ebook.com.) A few clear patterns have emerged.

First and foremost, the e-book market segment is not singular in nature, but consists of at least two separate segments, separated by the average retail price. One is defined by low prices of under five euros, the other thrives on charging between 10 and 13 euros for a digitally downloaded read.

Germany is a highly priced market. Since introducing e-books into the mainstream around five years ago, publishers have been working hard to maintain their prices, discounting e-books by no more than 20 to 25 percent compared to print editions.

Comparing volume (or unit) sales with income generated shows that that both strategies can be commercially viable: betting on a high volume at low price points or on lower volumes with higher returns. The challenge is to maintain the high price segment over time.

In similar charts for Italy or Spain, both of which have suffered severely from economic turmoil over the past decade, we find much of the digital product range priced at under 10 euros.

In all the markets, the low price segment is largely filled by self-published products, as well as e-books used by publishers for special promotional campaigns. Often, an earlier volume in a serialized work is

offered at a heavy discount to draw attention to the latest book being sold at a higher price.

Despite fixed book prices in many markets of continental Europe, there is a growing sensitivity to price and an emerging willingness to find legal ways to exempt e-books from the higher pricing requirements. These new practices have often been spearheaded by Amazon, as it introduces special “deals” of the week or month, in ways that are compliant with regulations under restricted conditions in a market.

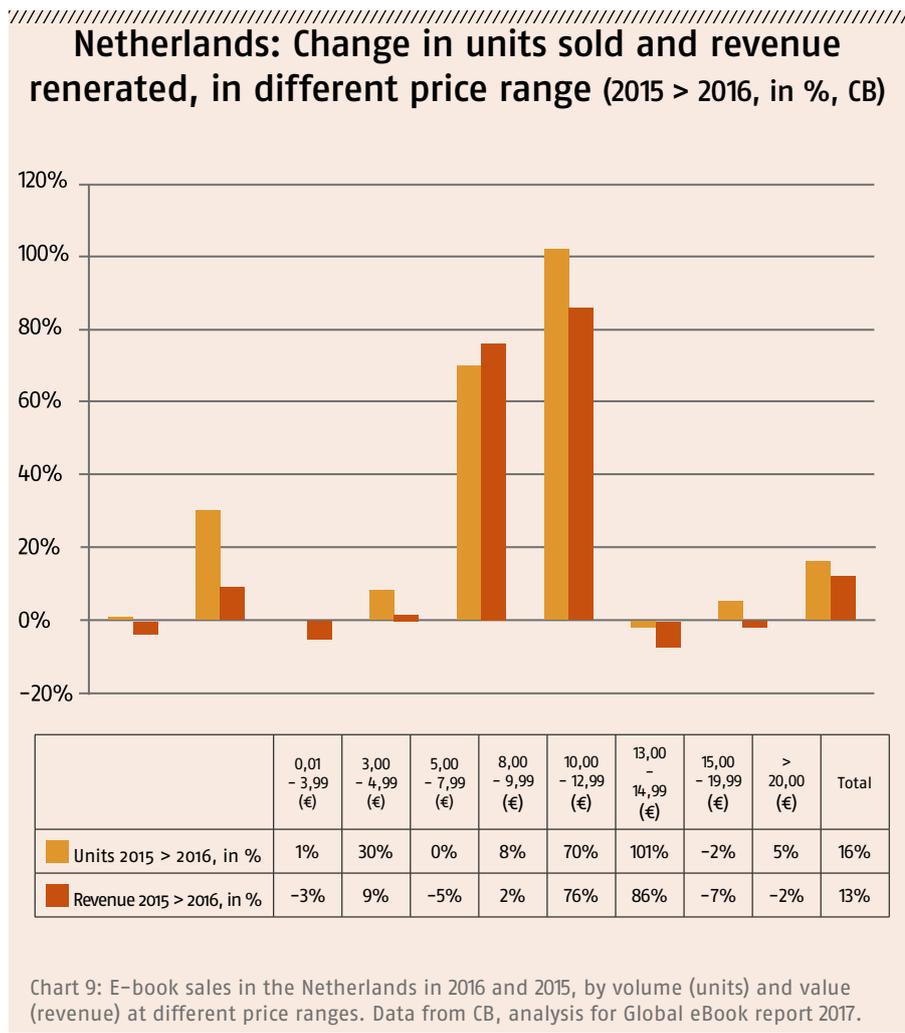
Interestingly, comparing sales and pricing trends over time does not necessarily indicate any consistent push for lower prices, as the example of the Netherlands shows.

CB (Centraal Boekhuis), the predominant distributor of e-books in Dutch, which represents consumers in Holland and Flanders, reports solid year-on-year growth for e-books overall (16 percent in units, and 13 percent in revenue), with particular emphasis on the three to five euro, and 10 to 15 euro segments.

However, price is far from the only parameter that sets e-books apart from market trends for printed books, or underscores the developments making a difference between one country and another.

Everywhere, there is a tendency for e-books not to generate much hype around the gift-buying season at the end of the year. Instead, summer reading already triggers the first strong sales in July and August.

Sales channels differ a lot between markets. Amazon is the leader more or less everywhere. It almost exclusively owns the British e-book market, but has met with solid competition in Germany, in the shape of the Tolino alliance. Most recently Japanese-Canadian Rakuten-Kobo has also become a partner in this alliance, bringing its additional international sales know-how. In Spain and in Latin America, Apple’s iBook store has also gained an important role in digital book distribution. Not all e-book markets follow the traditional book retailing model, with consumers purchasing e-books one at a time as they would with printed books. Scandinavia confused observers for some time. On the one hand, it is a region with high digital penetration in many areas, and was indeed



a pioneer of digital communication and media, first with mobile phone giant Nokia and later as the cradle from which Skype and the global leader in music streaming, Spotify, emerged. For a long time, e-books did not play a big role in the Scandinavian book markets, with the exception that libraries offered digital books for rent, which seemed to rather curtail digital sales overall. But then e-book subscription – or flat-rate offers – began to take over, first in Denmark with Mofibo and now even more broadly out of Sweden.

Storytel, founded in 2005, is an entirely new bet on how digital books might attract interest among consumers. It combines e-books and digital audio to download, with the acquisition of major regional publishers that have extensive title catalogues ready to digitize. This includes Sweden’s second largest publisher, Norstedts, which came on board in 2016. Now, in mid-2017, its service is available in over two dozen markets. (For its international presence, see www.storytel.com)

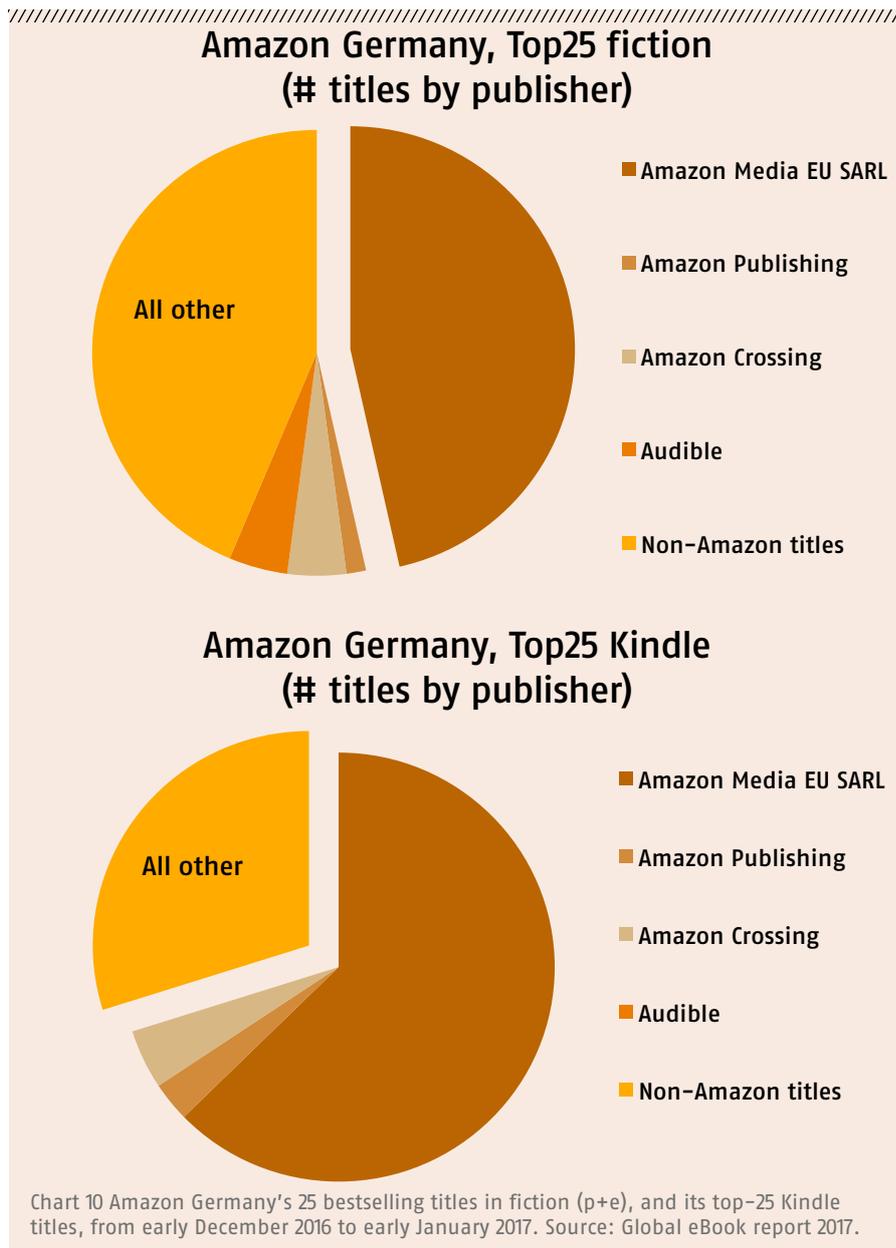
4.2 Self-publishing – the ‘other’ book market

In a much debated survey in early 2016, a report from AuthorEarnings (or AE, www.authorearnings.com) stated that self-published books had overtaken the combined market share of the big five US consumer publishers, in terms of both units and revenue.

Even as the seemingly unstoppable surge in books by authors choosing to bypass the traditional value chain of the book business has been reversed, at least for now, the core message from its development was hard to overlook: the US book market had seen the emergence of a new and dynamic market segment, in which authors connected more directly with readers than in the past.

That new segment of ‘independent’ authors, as AuthorEarnings’ initiators prefers to call them, has made a difference in many ways.

In a market dominated by Amazon and its Kindle Direct Publishing (KDP) frame-



work, authors could take advantage of professional tools not only for creating, but also for marketing and monitoring their sales like an industrial sized publishing corporation. These facilities encouraged them to experiment with their price, reach and writing styles, and most importantly to organize large, author-centric communities of readers and book buyers. Social media and the consumers’ constant interactions through their online networks opened up fantastic new opportunities for promoting new books. Authors who excelled at these processes soon began to beat the marketing teams from traditional publishers with ease. While the management of the corporate publishers spent a lot of

time fighting legal battles to regain control over the – comparatively high – pricing standards for their e-books, which resulted in the much debated “agency agreement”, Amazon was largely free to create a fully fledged ecosystem under its KDP umbrella, which was almost entirely separate from the struggles that held the publishers’ attention.

At the beginning, many international observers tended to consider self-publishing as a primarily American peculiarity. Arguably, this misinterpretation derived largely from the lack of robust data for measuring self-publishing segments elsewhere. But in spring 2016, Nielsen BookScan released the first report show-

ing self-published titles accounting for 22 percent of the British book market, up from 16 percent two years earlier. (The Bookseller, 23 March 2016)

For the continental European market, far less clarity exists as to the size and relevance of self-publishing. However, there is evidence to suggest the new independent segment is about to establish a new market for the written word, one that is new in that it connects authors and consumers directly, with the help of online ecosystems that are profoundly different from the old publisher-retailer model.

In Germany, Matthias Manning, the activist behind the Self-Publisher Bibel (www.selfpublisherbibel.de), produced an elaborate report examining the state of the two channels that dominate the market: Amazon and the Tolino alliance. The latter only opened to self-publishers in 2015, yet Manning saw that self-published e-books already account for around 20 percent of its unit sales. At Amazon's German Kindle shop, meanwhile, the figure is around twice as high, having regularly hit the 40 percent mark since 2015, although no further growth is indicated.

In terms of revenue, self-publishing accounted for well below 10 percent of Tolino's business in mid 2016, while at Amazon, independent writers are thought to account for more than one fifth of all e-book revenue. (Self-Publisher Bibel, 3 June 2016)

Not just in the USA, Amazon has now succeeded in forging a top segment for its book sales whose ever-expanding share of sales derives from the company's own production of KDP self-published authors. These sales are primarily but not exclusively digital, and also include Amazon's own new publishing imprints, branded as Amazon publishing and Amazon Crossing (the latter for translated fiction), as well as Audible for audio book production.

An aggregated one-month snapshot of the

2016 Christmas season in Germany showing both the top 25 titles in Amazon's overall fiction catalogue (print plus digital), and the top 25 Kindle titles tells a clear story.

The impact of self-published e-books and Amazon's efforts to reshape the book business is profound in that it has further accentuated the split between two largely separate market spheres.

From the consumers' perspective, the low-priced book segment is largely consistent with other digital content formats, such as music or TV series, which are also offered either at a comparatively low price or through subscription, through channels such as Spotify and Amazon (which also offers its Prime subscription service), or in rare cases in the book universe, like the Scandinavian Storytel.

The higher price segment, which many traditional publishers prefer to sustain, risks appearing as an exclusive exception that caters to a small niche of particularly literary readers of a certain age, educational background and cultural vocation.

The transformative leverage of e-books in all their forms is not just about a shift in market share from print to digital. The change derives from the switch of books and the embedding of reading into the digital mobile interactions coordinated by consumers, primarily on their smartphones, in digital ecosystems owned and defined by the likes of Google, Apple, Facebook and Amazon. Publishers or, more broadly, the traditional content companies, are limited to the role of service providers to this new consumer universe.

5. Lessons to learn by comparing consumer book publishing and educational publishing

The imminent challenges that consumer – or trade – book publishers are confronting today are less specific to their sector than it may seem. Often characterized as conservative and resisting change, the old-fashioned book trade has shown remarkable solidity over the past decade, in the face of all the transformative forces currently affecting the industry.

Such an assessment can be seen as a compliment, underlining the trade’s sound foundations. Yet it can also highlight potential risks ahead, should the profession stretch itself ever more precariously between the desires to build on its proven foundations, and to follow a new path to achievements in the future.

Comparing consumer book publishing and educational publishing might offer a valid and fairly simple way to examine some of the key drivers of the current changes, and to assess the risks involved.

These two publishing sectors are similar in size. While no authoritative numbers are available for their overall size on a global scale, it is possible to estimate this by comparing the turnover of the largest enterprises in each sector.

The largest publishing company worldwide is London-based Pearson, with an annual revenue of around five billion euros. The largest trade publisher, Penguin Random House, a division of the German Bertelsmann group, is the fifth largest, with a turnover of around 3.3 billion euros. Of the world’s 10 biggest publishers, four specialize in trade publishing (Penguin Random House, Hachette, Phoenix and Grupo Planeta), three in education (Pearson, China South and McGraw-Hill) and three others focus on professional and scientific publishing (ThomsonReuters, RELX and Wolters Kluwer). There are some significant overlaps, however, as Hachette includes a major educational division, as does the Chinese company Phoenix, while China South is also involved in trade publishing. The nine largest trade publishing groups,

each of which has a significant international portfolio, earned combined revenues of 13.6 billion euros in 2015 (up 20 percent on 2013). This compares to 14.3 billion euros earned by the eight biggest educational groups (up 12 percent on 2013).

Looking at the different companies in greater detail, however, reveals striking differences. In international consumer publishing, a number of major mergers and acquisitions have occurred in recent years. These include the acquisition by Bertelsmann’s Random House, of Penguin from Pearson, and of several Spanish houses; and HarperCollins took over the Canadian publisher Harlequin to make its own portfolio more international. Yet at the same time, no cases of bankruptcy were recorded, nor any major changes in the ownership structures.

The opposite is true in educational publishing, where all but the two Chinese players have either filed for protection under US Chapter 11 legislation (e.g. Cengage and Houghton Mifflin Harcourt), or taken private investment to support major restructuring (McGraw-Hill). Only Pearson was seen as stable, until trouble in its holdings in the US college markets led to heavy lay-offs and restructuring. It was also forced to sell off some major assets, including its trade division, Penguin, as well as its media division which included the Financial Times and a share of The Economist.

At first glance, the troubled status in educational publishing may seem paradoxical. It was preceded by the rise of the emerging economies (including the BRIC countries, Brazil, Russia, India and China) each of which added a huge new population to the global market, craving for books and especially educational materials. But it seems that the combined expense of going global, and doing so in the form of a digital transition, generated higher costs than any income that could be added.

The second source of upheaval was a decline in public spending on textbooks, especially

but not exclusively in the USA. Prices for learning materials had previously soared, triggering the emergence of alternative models, such as lending and recycling textbooks, or the on-campus distribution of copied materials, rather than each year’s intake of students buying new books.

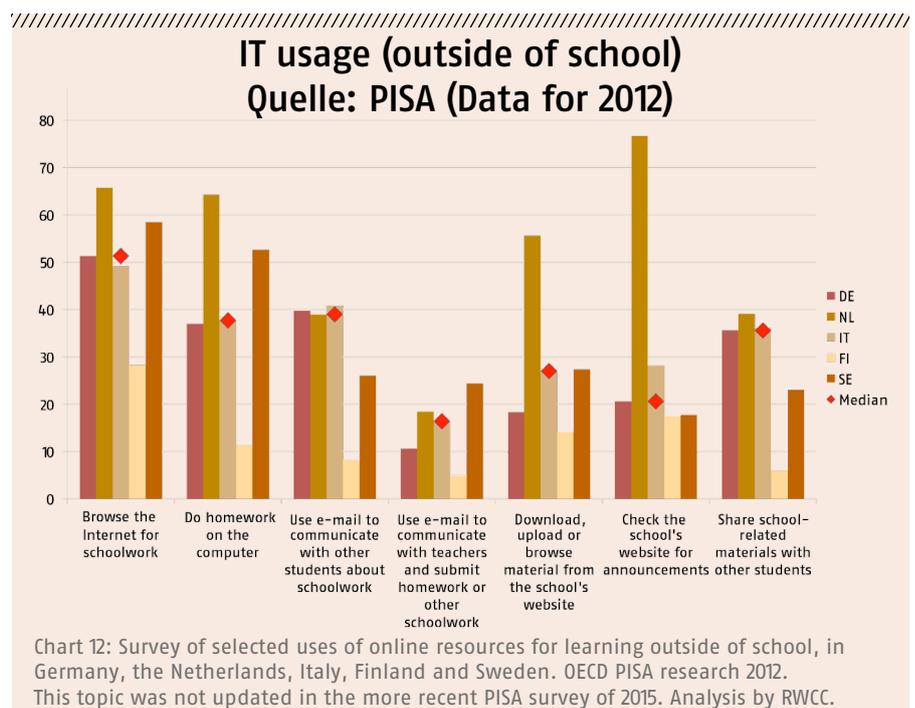
A third factor should be added, although we are only beginning to see its financial impact on the educational book market: digitisation. For a long time, the debate surrounding digitisation in the sphere of education was largely restricted to hardware – bringing laptops or tablet computers into the classroom, purchased with taxpayers’ money. Investments in infrastructure lagged behind, while fancy new content trickled in painfully slowly due to the poor internet connections in schools. This was frustrating for teachers and students alike.

Much less attention had been paid to the emergence of new entrants or the transformation of older players, who have organized platforms to provide learning content both from traditional publishing ventures and as user-generated inputs, or OER (open educational resources). Platforms like that of the 100-year-old TES (Times Educational Supplement, www.tes.com), which connects eight million teachers, or the US content distributor Ingram’s VitalSource (www.vitalsource.com), which brings together commercial content from publishers as well as free educational materials, are just two examples of transnational models which help teachers and learners to legally tap into myriad new resources – sometimes, but not always, derived from publishers. Similar interactive products, communities and networks have emerged to some extent all around the planet.

To governments facing financial constraints, such as the recently hyped emerging economies from India to Brazil, any model involving networks and well-structured user-generated content appear attractive, if they offer a sustainable alternative to verified learning materials purchased for the classrooms and

ease the pressure on ministerial budgets. The students themselves, and their parents might also be keen to experiment with these platforms for after-school learning.

These online learning platforms are the educational equivalent of the seemingly genre-specific model of self-publishing in the popular consumer books segment. They too have a rather loose attachment to traditional distinctions of what counts as valid content, and what is valuable for teaching and learning in the 21st century. For a good two centuries, the business of books was largely an exclusive domain. It was shaped by publishers and retailers, and also by the State, which defined regulatory frameworks and acquired books for learning and, to a lesser degree, for public libraries. That exclusivity is now over. Publishing is still an industry replete with opportunities - due to its vocation to make storytelling exciting and attractive, and due to its potential to bring vetted learning materials to learners and teachers. The provision today is that publishers must find a balance between sustaining their strong foundations while responding to the new behaviour of their multiple audiences - and in a context they can no longer control for themselves. In 2017, this has become the central challenge in the business of books.



About the author and the quoted materials in the Business of Books 2017



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Reports from RWCC quoted in this survey include the Global eBook report 2017 (www.global-ebook.com), and the Diversity Report 2016, co-authored with Miha Kovac. (www.wischenbart.com/diversity)

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