Statistical, Ecosystems and Competitiveness Analysis of the Media and Content Industries:

The Book Publishing Industry

Author: Jean Paul Simon, Giuditta de Prato

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Preface

Media and Content Industries (MCI) carry out an array of heterogeneous economic activities, which encompass publishing (including music), sound, motion picture and video/TV production, programming, distribution and broadcasting industries, as well as diverse information services.

The common thread in these activities is that they are all conducted by establishments primarily engaged in the creation and dissemination of information and cultural products. Also, the last decade witnessed a progressive intertwining of these activities amongst themselves and with the ICT sector, which increasingly provides the means for disseminating MCI products. At the same time, there was rapid change in the way these establishments worked and their business models (production and distribution processes, key players, organisation, etc.). Last, but not least, there was a substantial increase in the overall weight of MCI in the EU economy.

While understanding and mastering the descriptive quantitative tools that we have to hand is important, it is even more essential to grasp the current dynamics in the various industries in the Media and Content sector, possibly in relation with those in the ICT sector, in order to adapt our metrics and analysis to the current and emerging transformations of these sectors.

Therefore in 2009, IPTS launched a research project on the "Statistical, ecosystems and competitiveness analysis of the Media and Content Industries". This research initially included the preparation of a statistical report, a historical report and three subsector case studies, each supported by a dataset and technical annex. In 2010, IPTS decided to complement the initial case studies (cinema, music and newspaper) with two additional subsectors (book publishing and broadcasting) in order to provide a comprehensive view of the sector. In 2010, IPTS had already released a case study of the video games industry,\(^1\) a fast growing segment of the sector.

This set of studies has two objectives:

1. To offer a quantitative statistical approach to the Media and Content Industries, including their extension or blurring boundaries due to: offline and online activities; innovative activities deriving from recently developed technological applications (i.e. P2P, WEB 2.0, social computing or other related current or emerging trends and technologies); specific sub-industries, companies or products that would not readily fit existing taxonomies.

The above dynamics were reflected in a wide-ranging revision of both taxonomies and classifications. Indeed, the definition itself of the MCI sector stems from a long standing process of standards revision guided by the OECD. This led to the profiling of the digital economy, and the conceptual identification of the MCI and ICT sectors as the two components of the Information Economy domain (OECD 2007, 2009). Similarly,

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statistical, ecosystems and competitiveness analysis of the media and content industries

the recently completed revisions of international classifications of economic activities (UNSD 2006, Eurostat 2008) led to the creation of a specific section (the highest rank in classifications) for Information and Communication activities, which includes both MCI and ICT services.

This represented a significant departure from tradition, in that it brought together industries, previously seen as belonging to very diverse sectors of the economy, in an attempt to better reflect current reality. During the last decade, the industrial environment related to activities such as information archiving, processing or transmission, content creation and exchange, etc. has undergone a series of changes, which make it less and less advisable to analyse the sector, or any of its industries or companies, as a autonomous and separate entity that would simply integrate new technologies for the purposes of straightforward modernisation or expansion. Borders have blurred, roles have changed, and business models have adapted: the ecosystems have evolved radically.

2. To offer an industrial and economic analysis of the Media and Content Industries, and their dynamics. The case studies investigate the past and current ecosystems of these industries, looking beyond value chains or major actors to those aspects that are relevant to the understanding of the transformations themselves: emerging challengers, past and new threats and ways of responding, new business models, major investments, major failures or successes and their causes, technological changes affecting the industry, radical innovations if any, etc.

The analysis in the cinema, music and newspaper case studies follows the framework sketched out by IBBT-SMIT and TNO (2011) in collaboration with IPTS. They consider the interplay between:

- Technological change and innovation, especially ICT and digitisation, as a major driver of industrial and economic change;
- Market developments;
- Industrial structural change, including analyses of concentration and consolidation, integration, diversification and new entries;
- The competitive position of European industry players in a European and global context;
- Impact of digitisation in different parts of the value network (production, aggregation, distribution, consumption of content), new business models, new positions in the value chain, piracy and the role of users;
- The role of policy, i.e. not a full analysis of policy impact on the subsectors, but the main policy issues and trends as important contextual factors.

In the video games, TV and book publishing industry case studies, the framework presents a slightly different pattern, but aims to achieve similar objectives through its analysis.

The video games report documented a series of core insights into the video games industry that allow us to understand the market, its industrial structure including the main actors and activities, the aspects that determine the major tensions and power relations among actors, and also the potential disruptions.

The TV case study follows the same track but explores the relationships between these changes and new TV formats. It adopts a “product” approach to the analysis of the industry,
giving special consideration to how European television series, game shows and sports are being produced, distributed and viewed/consumed in the new media ecosystem.

Similarly, the book publishing report considers the redistribution of the components of the book "chain" and the shifting role of various industry players with the development of e-books.

The reports are based on a review and synthesis of the available literature and (official and unofficial) data of the MCI sector, desk research, and several workshops. The results were reviewed by experts and at dedicated workshops.

The reports aim to offer a reliable set of data and analysis, and also to contribute significantly to the debate about the economic health and development conditions that will support the future competitiveness of the European Media and Content Industries.
Acknowledgements

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The research was presented and discussed for validation at an international expert workshop attended by representatives from the European Commission and industry experts, all of whom offered many valuable comments and viewpoints.

Finally, the skilful checking and editing of the text by Patricia Farrer (IPTS) is gratefully acknowledged.

Although these contributions were substantial, the responsibility of this final version clearly remains with the author.

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Project leaders: Andra Leurdijk, Silvain de Munck

Partners: IBBT-SMIT

Project leaders: Peter Ballon, Sven Lindmark

IBBT-SMIT research team: Sophie de Vinck, Nils Walravens

IPTS MCI research team: Giuditta de Prato, Esteve Sanz, Jean Paul Simon

Checking and editing of the text by Patricia Farrer (IPTS) is gratefully acknowledged.
Executive Summary

The book subsector is the “oldest” if not the “original” sector of the media and content industries. Books and texts are much more emblematic of the digitalisation process, as we are dealing not only with existing/available contents but also novel ways of extending, or improving text, like those the printing press provided centuries ago. Clearly, though digitalisation opens up new avenues for the publishing sector, it also poses some threats. It triggers changes within the value chain as new industry players emerge and roles of existing players shift. This transition is likely to take some time some time to unfold, as did the transition brought about by the invention of the printing press. The printed book as a “new media” initially tried to replicate as much as possible the patterns of the earlier format, the codex.

Leading EU companies

In the media and entertainment markets, the book market is the only one where EU companies (Bertelsman, Hachette, Pearson, Wolters Kluwer) lead. In 2009, global book market revenue was US $ 109 billion. Of this, the EU market accounted for 44 billion or 40% of the total (PWC, 2011) v. 33 US $ billion for the US (30%). Germany is the largest market (almost 10 billion euros in 2010) in the EU. The US market is highly concentrated with leading firms like McGraw Hill, Random House, Penguin or Scholastic. Random House is owned by the German media group Bertelsman and Penguin by the UK publishing house, Pearson. Three of the first five US publishing firms were owned by EU companies, with the Hachette Book Group (Lagardère, France) ranking fifth.

However, the US dominates the electronic book market, with 57% of the global spending in 2010 (PWC 2011). 77 million digital general books were sold in the US in 2010, amounting to 9% of the market for general books in terms of copies sold (academic and professional e-books were not included) and 6% of the value of the entire book market (revenues of around 759 million US $) (AAP quoted by Poort et al, 2012: 41). Amazon, the market leader, sells 65% of e-books reaching consumers. Nevertheless, the growth of this digital segment does not offset the losses of revenues over a longer period of time.

Book publishing is a significant market in the EU, with a turnover of 23 billion euros in 2009 according to the Federation of European Publishers. Figure 1 introduces the core data for turnover, number of titles and level of employment and Figure 2 the data for distribution across categories. These figures show a relative stability, though employment level has decreased and numbers of published titles have increased. The revenues of the different categories also remain stable: trade is the largest segment (over 50% in 2009).

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2 Total size of the media and entertainment market in 2009 according to PWC was 1 357 US $ billion. Media and entertainment includes: internet access fees, internet advertising, TV fees, TV advertising, recorded music, filmed entertainment, video games, consumer magazine publishing, newspaper publishing, radio, book publishing, business-to-business publishing.
Figure 1: Turnover (billion euros), number of titles (thousand) and employment (thousand), 2004-2009.

Source: FEP, 2011.

Figure 2: Turnover broken down by categories 2006-2009

Source: FEP, 2011.
The EU27 publishing industry has a higher number of firms than the other major markets (Table 1), but a much lower number of employees per firm (less than seven on average) compared to the US for instance (over a hundred). The value added of the EU sector appears stable (10 826 million euros) and its productivity - 53 000 euros per employee - is much higher than the EU average of 19 800 euros.

<table>
<thead>
<tr>
<th>Region/ country</th>
<th>Number of firms</th>
<th>Number of employees</th>
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<tbody>
<tr>
<td>EU27 (2007)</td>
<td>31 813</td>
<td>201 100</td>
</tr>
<tr>
<td>United States (2001)</td>
<td>5 409</td>
<td>547 196</td>
</tr>
<tr>
<td>Japan (2001)</td>
<td>1 628</td>
<td>63 772</td>
</tr>
<tr>
<td>China (2001)</td>
<td>190</td>
<td>121 000</td>
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<tr>
<td>India (2001)</td>
<td>172</td>
<td>41 132</td>
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</tbody>
</table>


The main EU markets

Germany

In 2010, the German book market reached 9.7 billion euros (based on retail sales) growing by 0.4% (Börsenverein des Deutschen Buchhandels, 2011). Retailers ("bricks and mortar") made 50.6% of total book sales (over 4.9 billion euros). Direct sales to end users followed with 18.5% of sales in 2010 (1.8 billion euros). Mail-order book trading, including online sales, at nearly 1.7 billion euros accounted for 17.1% of estimated revenues. Department stores accounted for 2.1% (0.21 billion euros), book clubs for 2.3% (0.22 billion euros), and other outlets for 9.4% (0.91 billion euros).

22% of sales are concentrated in 5 large retail chains: Thalia Holding, DBH, Mayersche Buchhandlung, Pustet and Wittwer. The market is dominated by large groups. Springerverlag is the world’s second largest publishing group, with 2,000 scientific journals (Benhamou, 2010). Nevertheless, the book retail landscape in Germany is varied with around 3,800 points of sale nationwide, ranging from small town bookstores to highly specialized stores with various departments (for instance: legal, business and taxes).

France

In 2009, the French book market brought in over 5 billion euros in sales. 74 800 titles were published, and 609.3 million copies printed by 224 publishing houses, 64 of which issue over 200 titles annually (90%). The French Ministry of Culture sees book publishing as the most important cultural industry because of its revenues and the fact that it employs one fifth of the workforce of the ‘cultural’ sector (over 80 000 employees out of 430 000, less than 0.4 of the working population).

Internet sales amount to around 10% (both in value and quantity) of total sales, which is still lower than the percentage sales from mail orders and clubs. As much as 45% of book sales (or 43% of the total market value) are made through superstores: specialised stores.

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5 Value added at factor costs divided by number of employees.
6 [http://www.boersenverein.de/de/158446/Wirtschaftszahlen/158286](http://www.boersenverein.de/de/158446/Wirtschaftszahlen/158286)
like FNAC or Virgin had around 400 points of sale in 2007, and supermarkets had between 20,000 and 25,000, 15,000 operating on a regular basis (Gaymard, 2009). The market structure is oligopolistic with some fringe competition: 4.3% of the firms bring in 65.3% of the revenues (Busson, 2011), 12 publishers account for 80%.

**Italy**

According to the Association of Italian Editors (Associazione Italian degli Editori, AIE), in 2011, the total publishing market in Italy reached 3.408 billion euros.

The impact of the first Italian Kindle store is still expected to become visible in the coming months. In August 2011, according to the AIE, a growth in relative terms of the digital book market was expected, but a very low penetration in absolute numbers: the eBook market was estimated having grown from 0.04% of publishing market to a 0.1% in 2011. A few months later the same source estimated the share of eBook at the end of 2011 around 1.5%, with 10,000 eBooks to be released that year, against a total of 58,829 titles published in 2010.

Forecast by Edigita pushes to 3% the share of eBook market in 2012; and between 5 and 7% in 2015. In terms of revenues, AGCOM in its yearly report records an increase of nearly 13% between 2009 and 2010 for the electronic publishing, representing some 11% of the whole revenues from publishing.

The strategies to boost the Italian market seem to be twofold: on one side, by increasing the choice and reducing the unit price of eBook readers (e.g. with the Kindle 4), on the other side, by introducing initiatives like distributing new titles in electronic version at half the price of the printed one, and by enlarging the available catalogue (now about 20,000 books, from only 1.619 in 2009).

**Spain**

In 2010, the revenue from book sales was 2,890 billion euros, down from 3,100 billion in 2009 (Federacion de Gremios de Editores de España, FGEE, 2011). The Spanish book industry brought in 457 million euros from exports in the same year. 2,994 private sector publishers (3,032 in 2009) and an additional 529 public entities were active. However, 19 publishers (the first five being: Editorial Mad, Anaya, Editorial CEP, Oxford University Press España, Susaeta Ediciones) accounted for 30% of the titles released, each of them
publishing more than 700 books per year. 1,617 publishers release four or fewer books per year.14

The “Confederación Española de Gremios y Asociaciones de Libreros” (Cegal) counted 1432 bookshops in 2010 (Sistema de Indicadores Estadísticos y de Gestión de la Librería en España, 2010):15 281 were classified as big or very big (with turnovers of over 600 000 euros), 370 medium (in the 300 000 - 600 000 bracket), and 781 small to medium (150 000 - 300 000). In 2010, only 16.5% of the bookshops were selling e-readers and only 14.7% were selling e-books. However, these overall percentages conceal strong variations linked to the size of the enterprise: 52.6% of the very big, down to 8% for small retailers sell e-readers and e-books. Bookshops remain the first channel for sales of books in Spain.

United Kingdom

In 2009, UK publishers sold an estimated 763 million books, with an invoiced value of £3,053 million.16 Unit sales were 9% lower than in 2008, while value stayed level. However, sales of digital products were estimated at just over £150 million, up 20% on 2008 (PA Statistics Yearbook 2009, The Publishers Association 2010). The value of the UK book market in 2009, at end purchaser prices, was estimated to have been £3.4 billion. The total number of new and revised titles published in the UK was 133 224 in 2009, up 3.2% on 2008, and the highest single year figure for the last fifteen years.

The UK follows the US in sales of e-books with a fast growing share of sales in the new format. A total of 3.7 million general e-books were sold in 2010 (1.5% of the total market), generating a turnover of £31 million. The e-market share is expected to increase to between 13 and 14% of the total market in 2014. If one adds academic and professional titles which make up a substantial portion of digital turnover (72%), the digital turnover in 2010 reached some £180 million (6% of the total market) (Poort et al: 46).

Major technological developments: on the way to digitization

This industry went through various technological developments. The first commercial application of e-paper (also referred to as ‘e-ink’) was launched in Japan in 2004. Audio books began to be developed and distributed by retailers in the late 80s, though spoken word albums existed before the age of videocassettes, DVD’s, and compact discs. In October 2004, at the Frankfurt book fair, Google launched its “Google print” project, which later became Google books (12 million references).

Sony's e-reader was made available in the United States in September 2006. Amazon launched its e-reader Kindle late in 2007.17 The arrival of the Apple iPad in 2010, just like the launch of the iPhone in the mobile sector some years earlier, changed the rules as the

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14 For a not too optimistic outlook of the Spanish market, see: Winston Manrique Saboqual, “Una tormenta perfecta azota el mundo del libro”: http://cultura.elpais.com/cultura/2012/03/14/actualidad/1331733685_617428.html
16 In 2010, the combined sales (£2 386 million) of the 23 distributors/publishers participating in the survey carried out by PA Sales Monitor (PASM: administered by BML) were estimated to account for over 75% of total UK publisher sales, and were deemed to be fairly representative of the industry as a whole in terms of category breakdown.
17 A 6 inch electrophoretic display.
IT company set up its own sales platform iBooks (following the model of its iTunes) and proposed a different agency model to the publishers. It was followed by other IT manufacturers like Samsung and HTC (using Google’s Android software) which tried to make inroads into the sector and to offer device-centric distribution models. PWC considers that 2010 was the turning point as regards penetration by e-readers into mainstream markets: e-reader prices declined and spending rose by 51% (PWC 2011).

Table 2: Global sales of e-readers (thousand units) 2009-2014

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<tr>
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<th>2008</th>
<th>2009</th>
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<tr>
<td>North America</td>
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<tr>
<td>USA</td>
<td>556</td>
<td>3 580</td>
<td>7187</td>
<td>8 425</td>
<td>10 046</td>
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<tr>
<td>Canada</td>
<td>471</td>
<td>3 400</td>
<td>6 900</td>
<td>8 073</td>
<td>9 602</td>
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<tr>
<td>Japan</td>
<td>1</td>
<td>15</td>
<td>45</td>
<td>99</td>
<td>283</td>
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<td>EU5</td>
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<tr>
<td>Germany</td>
<td>52</td>
<td>164</td>
<td>337</td>
<td>636</td>
<td>1 423</td>
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<tr>
<td>France</td>
<td>12</td>
<td>38</td>
<td>89</td>
<td>171</td>
<td>469</td>
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<tr>
<td>Italy</td>
<td>8</td>
<td>26</td>
<td>57</td>
<td>103</td>
<td>297</td>
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<tr>
<td>Spain</td>
<td>4</td>
<td>17</td>
<td>29</td>
<td>51</td>
<td>127</td>
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<tr>
<td>United Kingdom</td>
<td>11</td>
<td>27</td>
<td>34</td>
<td>66</td>
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<tr>
<td>Total</td>
<td>608</td>
<td>3 759</td>
<td>7 568</td>
<td>9 159</td>
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</table>

Source: Idate, Digiworld Yearbook 2011.

The publishing value chain

Content is supplied by the author, who provides the work directly to the publisher or indirectly through an agent. A major feature of this creative workforce is that it is not usually supported directly, at least on a regular basis, by its main customers the publishers, a feature shared by other creative industries. The author’s position is that of a supplier who works under various contractual arrangements.

Publishers are at the core of the business. Their functions include the aggregation, presentation (reading, editing, and designing), pricing and marketing of books and dealing with other parties in the value chain, including the technical intermediaries (printers, phototypesetting, binders...) and specialised workforce in-house or outsourced (proofreading). They are also responsible for the “quality” of the edited product. In this particular case, they may not have to finance the initial content creation but their funding role nevertheless grants them a pivotal position.

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18 There seems to be consensus within the industry about this year as acknowledged, for instance by the French trade association SNE on their website under ‘numérique’: [http://www.sne.fr/dossiers-et-enjeux/numerique.html](http://www.sne.fr/dossiers-et-enjeux/numerique.html)

19 Under critical skills for publishers, FEP (2006) lists the following: editorial (commissioning and acquisition, copy-editing, proof reading, index making, copyright fees), production (typesetting, layout and design, printing and binding, insurance and shipping), sales and marketing (representation and generation of orders, marketing plans and promotions, advertising), fulfilment and distribution (order processing and servicing, fulfilment and delivery, IT Systems, warehouse management), financial (authors’ royalties, especially advance payments, management accounts, creditors and debtors).
One of the business models for the development of specific content is based on publishers’ advances to authors (usually bestsellers) in exchange for the property rights over content (including, in some cases, future works). Once the advance is recouped from sales of the product, content creators start receiving royalties, usually a share of the revenue per unit of content sold. The revenues from the sales are shared between the different players.

Publishers have become all the more central as other segments have been considerably weakened: e.g. printers, retailers (especially the smaller bookshops) and also, in the case of the US markets, the large retail chains that used to dominate the market (Borders, the second largest bookstore chain filed for bankruptcy protection in February 2011). Now with the rapid development of online distribution, distributors are also under threat.

**Going virtual**

New channels of distribution (Internet) are bringing cheaper and more efficient vehicles and a strong pressure to get rid of intermediaries while, at the same time, new aggregators/distributors are appearing. This process of disintermediation/re-intermediation is common to other subsectors and has a strong impact on the structure of the market. The introduction of online distribution illustrates this process. Created in 1995, Amazon.com has come to dominate the online book sales market. It has had one of the fastest growths in the Internet’s history, even as compared to eBay and Google. Amazon has since become an e-commerce platform for others, thanks to its pioneering retail e-commerce/e-shopping business in many product categories, not just books.

The growth of e-books has gathered new momentum over the last few years. The French publishing house Hachette is now getting 9% of its US revenues from e-books, up from only 3% in 2008 and 15% is forecast for 2015. The market took off only recently. Digital technologies were introduced in the publishing value chain upstream, but not used for the final product. The players appeared reluctant to opt for this direction. Revenues derived from this new channel are also lower than those from printed material, unless new services and products are generated. The trade segment is still lagging behind though scientific, technical and medical (STM) publishing is already in digital format (90%). This segment was involved earlier in a transformation that is now almost complete, and “paper” output has become marginal in the data-based sales and services provided by the largest companies.

Some major digital platforms, bringing together several national companies, were launched in 2010: in Italy (Edigita by RCS, Mauri Spagnol and Feltrinelli), France (Eden by Flammarion, Gallimard and La Martinière) and Spain (Libranda by Planeta; Santillana and Random House Mondadori). In Germany, Bertelsman is preparing a platform in cooperation with the other German publisher Holtzbrinck. This evolution may help speed up the switch to digital.

IDATE (Digiworld Yearbook, 2011) foresees that on a global scale, the sales of e-books will compensate for the decline of physical books with the notable exception of Japan, where the book market has been declining since 1999. For the EU5 markets, Table 3 presents the data.

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Table 3: The e-book markets in the EU5, 2008-2014 (billion euros)

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<th>2008</th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
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</thead>
<tbody>
<tr>
<td>PRINT</td>
<td>17.6</td>
<td>17.5</td>
<td>17.2</td>
<td>16.9</td>
<td>16.5</td>
<td>16.2</td>
<td>16.0</td>
</tr>
<tr>
<td>eBook</td>
<td>0.1</td>
<td>0.2</td>
<td>0.4</td>
<td>0.6</td>
<td>1.0</td>
<td>1.3</td>
<td>1.6</td>
</tr>
</tbody>
</table>

Source: Idate, 2011.

Up until now, the European e-book market has been fragmented and diversified, as fast expanding markets and initiatives exist alongside very underdeveloped ones. Idate (2011) predicts that revenues from e-books for the period 2008 – 2014 will go from less than 1% of the total book market to around 17% in the US, from 2% to around 8% in Japan, and from less than 1% to nearly 9% in the EU5. The FEP sees this increase as difficult to gauge as it varies across sectors, and the data are not always consistent: however, it could be between 8 and 10% of the market. According to the same source, despite very high rates of growth in the developed markets, the overall size of electronic publishing is still very small compared to the printed book market, ranging from less than 1% to a maximum of 5% of the total book market.

Figure 3: The evolution of the top EU markets, 2008-2015


Source: Idate (2011).

Digitization alters the legacy cost structure. Some costs disappear (printing, physical transportation, storage), some remain unaffected (creation, authors’ advances, editorial process, marketing and sales), some are shifted (e.g. promotion, with the coming of blogs and other tools) and some new ones also appear - mostly on the software side of the equation (computer programmes, file conversion, cataloguing and permitting search of text and metadata, storing, security, right management...). The latter are, by and large, an unknown quantity, thereby making a proper assessment of the cost differential between the two formats very difficult to predict. It appears that consumer willingness to pay is

21 According to industry sources (FEP), printing, storage and physical distribution accounted traditionally for less than one sixth of the total.
linked to this reduction in price according to a survey (between 2% and 15%, depending on the kind of books\textsuperscript{22}).

The (new) players are following various strategies. Some are ‘pure players’ serving niche markets or communities. They usually strike favourable deals with authors (in France, Publie.net: grants 30% to the author). Others aim to achieve vertical integration and lock-in. Within this category, the strategy varies. Apple, under a mandate or agency contract, grants 70% of the revenues to the publisher and leaves the publisher free to set the retail price. Apple then treats the book as ‘\textit{just another application}’. Amazon initially sold new titles at a loss and imposed a 50/50 split of subsequent revenues on publishers. Pressure from the publishers, however, has resulted in a subsequent move to an agency contract like Apple’s.

\textbf{Public policies and government interventions
}

There is an ongoing debate about fixed prices for books and the extension of this system to e-books. A fixed retail price for a book was introduced in France in 1981 (single uniform price, discount capped at 5%) and then adopted by several other Member States\textsuperscript{23}. This was meant to ensure the persistence of networks of independent bookshops throughout the countries, and to maintain/protection equal access for reading and the quality of authorship/editorial guarantee. Nevertheless, opponents to this measure, for example the Swedish publishers and booksellers, argue that any regulatory interference artificially increases the price of books. In Sweden, the fixed book price system was abolished some 35 years ago, at the instigation of the Swedish competition authority.\textsuperscript{24} In Finland, it was suppressed in 1991. In the UK, the “Net Book Price Agreement” was abolished in 1995. The French law, however, was extended to cover e-books in May 2011.\textsuperscript{25} As fixed prices may impede both freedom of establishment and freedom to provide services, two notifications were sent to the French government by the European Commission.\textsuperscript{26}

Publishers have concerns about piracy.\textsuperscript{27} In the case of books, as emphasized by the French observatory “\textit{Le MOTif}”\textsuperscript{28} in 2009, there are few studies on digital book piracy.\textsuperscript{29} In 2009, it appeared to be a highly marginal market compared to the music, film or video games

\begin{thebibliography}{99}
\item[22] IPSOS-CNL (March 2010). Source: http://www.centrenationaldulivre.fr/?Le-livre-sera-t-il-numerique
\item[23] Austria (adopted in 2000), Denmark (2001), Germany (de facto since 1887, but legally since 2002), Greece (1997), Italy (2005), Luxembourg, the Netherlands (2005), Norway, Portugal (1996), Spain (1975).
\item[26] The text of the notifications (2010/616/F and 2010/710/F) by the European Commission can be found in: Sénat, Rapport au nom de la commission de la culture, de l'éducation et de la communication sur la proposition de loi, modifiée par l'assemblée nationale, relative au prix du livre numérique, no. 339, dated 9 March 2011.
\item[27] E. Turrin’s presentation at the first IPTS MCI workshop, FEP’s view at the publishers round table with DG INFOSO.
\item[29] The International Intellectual Property Alliance released a short report in 2008: available at http://www.iipa.com/2008_SPEC301_TOC.htm. It concentrates mostly on what they call “\textit{priority watch list}” of infringing countries such as China, Mexico or Egypt, most of the time there are no data available for books. For China, the estimated level of piracy for the period was 52 million US $ for books but nearly 2.5 billion for software. http://www.iipa.com/pdf/2008SPEC301LOSSLEVEL.pdf. There are no data available on the IPA website.
\end{thebibliography}
markets. The second round of the eBookZ study, released 18 months later in March 2011, yielded similar results (science fiction and comics are the top ranking categories). Piracy still did not appear massive but was tending to speed up nevertheless, new titles being pirated more quickly. The study concluded by asking what makes this illegal offer attractive, and how it meets consumer demand. In other words, are these pirated books filling an unmet demand?

Rates of value added tax (VAT) on e-books vary widely and are usually much higher on e-books (classified under "software") than on print books. In March 2010, the IPA launched its first annual global survey on VAT on books and e-publications. 88 countries have been surveyed. As far as e-publications are concerned, a small number of countries have already adopted a real non-discriminatory, consistent tax regime. Some Member States, like France Luxemburg, and Spain passed legislation to align the VAT treatments for the two formats. Indeed, Spain recently tried to harmonize the two VATs, bringing VAT on e-books down from 18% to 4% but this attempt triggered an action from the Commission. On July 2012, the European Commission sent a formal notice to the governments of France and Luxemburg.

Strengths and weaknesses

The trends presented are raising a lot of unanswered questions: about the profitability of the business models, about an adequate proprietary rights regime, about ways to foster industrial investments. In the past, players introduced IT into their work processes first and foremost to upgrade their production, and on the whole this did not alter the established relationships between the players (example: phototypesetting and the offset press), though some of them may have shifted in some ways. It improved the processes and reduced some costs. Existing players were, however, reluctant to introduce IT into the ways they related with their customers, their demands and patterns of consumption. This would have affected how they managed their assets and leveraged their core competencies in an existing book chain, taking into account the demand and consumption side. The complex existing relationships and interactions are not easy to modify.

It is not surprising therefore that the main changes were made by external players, first by e-merchants like Amazon, then search-engines providers (Google, Microsoft, Yahoo) and eventually Apple. IT companies are not trying to improve/ change the subsector, they are simply trying to extend their scope by adding any attractive “applications” and thereby increasing their portfolio.

However, the book sector, at least its publishing segment, seems to be enjoying a rather good economic position, with leading global firms. This may leave some room for more balanced negotiations. US publishers have just (in 2011) won their legal case against Google. This landmark decision from the US Supreme Court will probably affect relationships and may send a signal of moderation to other IT players. As shown by research on innovation (Flichy, 2003), there is a need to create a network of cooperation between the different players, as mandating its own ecosystem regardless of other forms of cooperation (Apple) may not be sustainable in the long run. New forms of “co-opetition” are likely to emerge between vertical ecosystems.

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Introduction

This subsector is the "oldest" if not the "original" sector of the media and content industries as it can be dated back to the introduction of the format used for modern books (the codex: block of wood, book)\(^{32}\) around the 1st-century,\(^{33}\) a bound book with pages. The codex gradually replaced the scroll (roll of papyrus, parchment, or paper). This new format/technology allowed random access, as scrolls could only be accessed sequentially. This is considered as the most important "technological change" before the invention of printing.

In 1440, Johannes Gutenberg introduced a printing press based on the use of the first metal movable types. In fact, the first movable types were made in China in 1045 AD but were made of baked clay, the first practical wooden movable was developed as well in China around 1300, and the first metal movable in Korea, the "jikji",\(^{34}\) in the 13th century (Macioti, 1989).\(^{35}\)

![Jikji or "Selected Teachings of Buddhist Sages and Seon Masters", (1377)](source)

As Marshall Mc Luhan (1962), in his celebrated "Gutenberg Galaxy" put it: "The invention of typography confirmed and extended the new visual stress of applied knowledge, providing the first uniformly repeatable commodity, the first assembly line, and the first mass production". As the seminal work of Elizabeth Eisenstein (1980) on the printing press as an agent of change has shown, it had a profound effect on society when Europe was transitioning away from medieval to the modern world.\(^{36}\) Her thesis is well known, the

---

\(^{32}\) Latin caudex for "trunk of a tree". In 2010, a consortium of Swiss firms (Edipresse, Ringier, Swiscomm...) was testing an e-reader under the name code 'codex': eReadingpilot.ch.

\(^{33}\) Source: Wikipedia "Codex".


\(^{35}\) Macioti (1989), "Innovation and Diffusion of Technology: an Example of the Printing Press".

printing press helped bringing down the power of the Catholic Church aiding the progress of Protestant Reformation and paved the way to the scientific revolution, a revolution born with printing, according to her.

She stressed that a cultural change of that magnitude took quite some time to unfold, as the effects were not seen clearly for more than a hundred years, in other words if the technological change spread quickly the cultural changes did not. As she points out: “the first century of printing produced a bookish culture that was not very different from that produced by scribes”. Among the consequence of this shift from script to print, she noticed new forms not only of transmission of knowledge but of learning moving away from both scribal but oral culture dominated by the “art of the memory” to quote the title of another seminal work from F. A. Yates (1966). It opened new avenues to preserve, update, disseminate, retrieve, and acquire knowledge.

E. Eisenstein compared this invention with the advent of computers, stating: “until the recent advent of computers, has there been any other invention which saved so many man-hours for learned men”. She showed that the printing press did not create the book but contributed to redefine it. Along these lines, some authors are claiming that the parallels between the printing press era and today’s technological breakthrough in communications are compelling (Dewar, 1998) and that most likely the future of this information age will be dominated by unintended consequences, however the full effect may take some time to unveil. C. Frugoni claims that the printing press, not only brought changes in the format of the book but to the mentality, echoing E. Eisenstein; and that a similar process will happen with the computer revolution (Frugoni, 2011).

A change like the shift from the scroll to the codex brought a redistribution of the kind of supporting activities needed to produce such books; papyrus or parchment producers were bound to disappear and new papers producers replacing them. In other words, the entire value chain is modified, this is also what H.S. Becker described as “art worlds” (Becker, 1982) for creative industries where the production is organised around the “artist” but emphasizing the collective activity and kind of collaboration required to that end. Digitisation is triggering such changes within the value chain with the emergence and the shifting role of various industry players.

The invention of the printing press took place with and among other changes that happened before within the “book” world. For instance, the creation of universities (studium) allows teaching to become a real work with the appropriate tools (books: Frugoni, 2011 at 54-55). The book business could thrive with the use of copied of the official “examplar” used for a
course, copies were multiple and costs dropped as opposed to the high cost of the codex (Frugoni on p. 60).

This invention was also made possible through an earlier invention that paved the way: the invention of paper that preceded by some centuries (Spain 1150 according to Frugoni, medieval Italy was well known for the quality of its paper). Like in the case of the printing press, China was producing paper as early as the second century B.C (paper was also produced in Korea and Japan around the 6th century A.C) (Frugoni, on p. 80).

The printed book as a “new media” initially tried to replicate as much as possible the patterns of the codex and the graphs of the copyist. Therefore, the first bible printed by Gutenberg in 1450 was deeply influenced my medieval habits, not only gothic characters were used but Gutenberg left room for ornaments and colours. Some more time was needed to use new more appropriate fonts. The change took place in Italy, in Venetia, where Aldo Manuzio introduced the new letters inspired by the “litera antiqua” (he also created the “italic”). Manuzio also left the legacy format to introduce a much smaller one (one fourth) to make books easily available. The components of the book “chain” were in place. The book industry started to grow as well as the paper industry and other technical industries (Rome for instance was a booming market between 1467 and 1477 printing 160 000 books).

From a more modest viewpoint, the report highlights some of the changes taking place within the industry and its “book chain”. This report offers an in-depth analysis of the major economic developments in the book publishing industry. The study is based on a review and synthesis of the available literature and reports. The analysis integrates data from the statistical report of the research project on the media and content industries (Leurdjik et al, 2012). It also relies on data from consulting firms like PWC, as well as from the national trade associations (for France, Germany, Italy, Spain, the UK and the US) which supply more recent data that the official ones. These data were complemented with some interviews with experts in the EU and the US.

The report is divided into four major parts. Following an introduction (Chapter 1) putting the sector into an historical perspective, Chapter 2 introduces the markets at a global, regional level and describes some of the major EU markets (France, Germany, Italy, Spain and the United Kingdom). Chapter 3 analyses the value network of the European book publishing industry, identifying the transformations taking place in the value network and in business model as a result of the on-going digitalisation process first in the distribution of physical goods then the move toward digital books. Chapter 4 reviews the policy issues specific to this sector such as fixed prices or VAT issues.

42 C. Frugoni is more cautious about this attribution of the invention of the printing to Gutenberg around 1450 (Frugoni on p.82).
Within the media and entertainment markets, is it worth noting that this is the only market where EU companies (Bertelsman, Hachette, Pearson, Wolters Kluwer) are leading (see Table 4). Out of a global revenue of US $ billion 109 for 2009, the EU market reached 44 US $ billion and accounts for 40% of the total (PWC, 2011) v. 33 billion for the US (30%). Germany is the largest market (with almost 10 billion Euros as of 2010) in the EU. This feature holds in terms of net publisher revenues; the European Federation of Publishers (FEP) estimated net publisher revenues in the EU (with Norway) of 23.3 billion euros for 2010 and 21.1 billion euros for the US. This gap remained stable since 2004. As underlined by FEP (2006), "the world’s three major international book fairs – Frankfurt, London and Bologna – are held in Europe".

1.1 The global market: the size of the market

With revenues of 109 billion US $ in 2009 (see Figure 4), the publishing sector accounts for less than 8% of the total revenues of the entertainment and media industries. It is a mature market and appears as almost stable compared to the negative trends observed, for instance, in the recorded music industry sector where the decline on physical spending is dramatic. The consultancy PricewaterhouseCoopers (PWC) foresees a global growth rate of 1.9 for the period 2011-2015 (v. respectively 7% for TV subscriptions and licences fees and 8.2% for video games, the main engine of growth for the sector). Some countries like

---

43 Books are defined, according to UNESCO, as "Non-periodical printed publication of at least 49 pages excluding covers".
44 Total size of the media and entertainment market in 2009 according to PWC: 1 357 US $ billion. Media & Entertainment includes: internet access fees, internet advertising, TV fees, TV advertising, Recorded music, Filmed entertainment, Video games, Consumer magazine publishing, Newspaper publishing, Radio, Book publishing, Business-to-business publishing.
45 Communication from E. Turrin, FEP.
46 FEP started measuring in 2004.
India have a strong print market and the newspaper market is still growing. South Korea boasts to be the world’s 8th largest publishing industry.\(^{48}\) Table 4 shows the 10 leading publishing companies.

**Table 4: World leading publishing companies by turnover (2010, million Euros)**

<table>
<thead>
<tr>
<th>Rank</th>
<th>Company</th>
<th>Country</th>
<th>Ownership</th>
<th>Country of ownership</th>
<th>Revenues</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Pearson</td>
<td>UK</td>
<td>Pearson (corp.)</td>
<td>UK</td>
<td>6 102.09</td>
</tr>
<tr>
<td>2</td>
<td>Reed Elsevier</td>
<td>UK/NL/US</td>
<td>Reed Elsevier (corp)</td>
<td>UK/NL/US</td>
<td>5 387.47</td>
</tr>
<tr>
<td>3</td>
<td>Pearson Education</td>
<td>UK</td>
<td>Pearson</td>
<td>UK</td>
<td>4 880.51</td>
</tr>
<tr>
<td>4</td>
<td>Thomson Reuters</td>
<td>US</td>
<td>The Woodbridge Company Ltd</td>
<td>NL</td>
<td>4 297.93</td>
</tr>
<tr>
<td>5</td>
<td>Wolters Kluwer</td>
<td>NL</td>
<td>Wolters Kluwer</td>
<td>NL</td>
<td>3 556.00</td>
</tr>
<tr>
<td>6</td>
<td>Lexis Nexis</td>
<td>NL</td>
<td>Reed Elsevier</td>
<td>UK/NL/US</td>
<td>3 073.12</td>
</tr>
<tr>
<td>7</td>
<td>Bertelsman</td>
<td>Germany</td>
<td>Bertelsman AG</td>
<td>Germany</td>
<td>2 897.00</td>
</tr>
<tr>
<td>8</td>
<td>Elsevier Science</td>
<td>UK/NL/US</td>
<td>Reed Elsevier</td>
<td>UK/NL/US</td>
<td>2 350.35</td>
</tr>
<tr>
<td>9</td>
<td>Hachette Livre</td>
<td>France</td>
<td>Lagardère</td>
<td>France</td>
<td>2 165.00</td>
</tr>
<tr>
<td>11</td>
<td>Grupo Planeta</td>
<td>Spain</td>
<td>Grupo Planeta</td>
<td>Spain</td>
<td>1 829.00</td>
</tr>
<tr>
<td>12</td>
<td>Random House</td>
<td>US</td>
<td>Bertelsman AG</td>
<td>Germany</td>
<td>1 828</td>
</tr>
</tbody>
</table>

*Source: Livres Hebdo n°870, 2011.\(^{49}\)*

The new major players for book publishing are companies from China, Brazil and South Korea specialised in educational books. It accounts for the stronger growth and relative strength of this segment as well as its expected growth (see Table 5). In China, Higher Education Press was merged into China Education\(^{50}\) to create a 320 million Euro company. In Brazil, the leading firms Abril Educação,\(^{51}\) Saraiva and Editora FTD are educational books companies (Piault, 2011). However if these firms are quickly climbing up in the global ranking of publishing firms, the first South Korean company Daekyo Publishing (a subsidiary of the cultural and education group Daekyo Network) ranks only 30, the first Chinese company Higher Education 40, and the first Brazilian company 46 (Piault, 2011).\(^{52}\)

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\(^{48}\) IPA, 2011.

\(^{49}\) Livres Hebdo does not rank the subsidiaries of group already classified in the ranking, for instance neither Pearson Education does not appear as n°3 as in this table as it already appears as one, same with Lexis Nexis a subsidiary of Reed Elsevier. Therefore Cengage (US) ranks 9, Scholastic (US) ranks 10, Holtzbrink (Germany) 11 and De Agostini Editore (Italy) 12.

\(^{50}\) A public company run by the Chinese Ministry of Education.

\(^{51}\) A subsidiary of the Grubo Abril involved in newspaper, audiovisual and e-commerce. The company launched a portal for educational contents.

\(^{52}\) Livres Hebdo published the yearly (since 2006) global ranking together with Buchreport (Germany), Publishers Weekly (US) and The Bookseller (UK). This is done with the German company Rüdiger Wischenbart Content and Consulting, www.wischenbart.com.
Figure 4: The global market: global consumer and educational book publishing market 2006-2015 (forecast 2011-15) (US $ million)

Source: PWC, 2011.

One should add to these data, the revenues from the professional books sub-segment. PWC classifies this segment under “business-to-business” (148 billion US $) but does not break down the data by region for each of the sub segments.\(^{53}\) The data are only available in this report under a country by country basis (Table 5) but as forecasts for 2015; as they are major variations among countries (some are highly specialised in that field) adding an average revenue to the size of the global "consumer and educational" market is likely to be meaningless. As examples, PWC forecasts over US $ 7 billion (consumer/end user spending) out of US $ 86 billion for the entire “business-to-business segment”, in 2015 in the US, 2.2 out of 8.1 for China, 4 billion US $ for Germany out of 16.5 billion US $.

Table 5: The professional book market by country (US $ million)

<table>
<thead>
<tr>
<th>country</th>
<th>US</th>
<th>Germany</th>
<th>UK</th>
<th>France</th>
<th>China</th>
<th>India</th>
<th>Brazil</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>7.3</td>
<td>4</td>
<td>0.84</td>
<td>1.2</td>
<td>2.2</td>
<td>0.2</td>
<td>0.3</td>
</tr>
</tbody>
</table>

1.2 Regional markets

As illustrated by Figure 2 and Table 1, the EU market is the largest market. The three major EU markets (Germany, France, the UK) account for over 50% of the total. The two other leading regions have markets of comparable size. The US market is highly concentrated (see Table 4) with leading firms like McGraw Hill, Random House, Penguin or Scholastic. It should be noted that Random House is owned by the German media group Bertelsman and Penguin by the UK publishing house, Pearson. Out of the first five ranking US publishing

\(^{53}\) Trade magazines, professional books, business information, directory advertising.
firms, three indeed were owned by EU companies, with the Hachette Book Group (Lagardère, France) ranking five. As stressed by the FEP (2006): “In no other comparable industry does Europe outrank the United States”.

Table 6: Market by regions: 2009 and 2015 (forecast) (US $ billion)

<table>
<thead>
<tr>
<th>Region</th>
<th>2009</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>North America</td>
<td>32.7</td>
<td>36.9</td>
</tr>
<tr>
<td>EMEA</td>
<td>43.4</td>
<td>46.0</td>
</tr>
<tr>
<td>Germany</td>
<td>10.3</td>
<td></td>
</tr>
<tr>
<td>France</td>
<td>7.8</td>
<td></td>
</tr>
<tr>
<td>UK</td>
<td>4.8</td>
<td></td>
</tr>
<tr>
<td>Asia Pacific</td>
<td>29.4</td>
<td>32.6</td>
</tr>
<tr>
<td>Japan</td>
<td>10.8</td>
<td></td>
</tr>
<tr>
<td>China</td>
<td>12</td>
<td></td>
</tr>
<tr>
<td>India</td>
<td>2.7</td>
<td></td>
</tr>
<tr>
<td>Latin America</td>
<td>2.7</td>
<td>3.6</td>
</tr>
<tr>
<td>Brazil</td>
<td></td>
<td>2.1</td>
</tr>
</tbody>
</table>

Source: PWC, 2011.

Figure 5: Consumer and Educational Book Market by regions, 2009 & 2015 (forecast), (US $ billion) (PWC 2011)

Source: PWC, 2011.

However, the US dominates the electronic book market with 57% of the global spending in 2010 (PWC 2011). 77 million digital general books were sold in the US in 2010, accounting for 9% of the market for general books in terms of copies sold (market for academic and professional e-books not included) and 6% of the value of the entire book market.

---

(revenues around $759 million) (AAP\textsuperscript{55} quoted by Poort et al, 2012: 41). Amazon, the market leader, accounts for 65% of e-books reaching consumers, but the leading bookstore chain Barnes & Noble (see Box 3) accounts for 25% of e-book sales (Poort et al, 2012: 51).

Nevertheless this growth does not offset the losses of revenues over a longer period of time, as illustrated by Figure 6. In the US market, e-books have grown from 0.6% market share in 2008 to 6.4% in 2010 (in adult fiction, e-books are now 13.6% of the net revenue market share). Still a small amount in the total market for formats, it translates to 1274.1% in publisher net sales revenue year-over-year with total net revenue for 2010 at $878 million. Net unit sales growth for e-books was equally impressive, increasing 1039.6% for the same three-year period. In 2010, e-book net units were 114 million. (AAP, 2011).\textsuperscript{56}

The graph shows that the relative strength of the book sector vis-à-vis GDP is declining and that this level plateaued between 1995 and 2000. Besides, this share of the US is likely to decline with the growing share of China and India, the former country being the fastest growing country for the next five years according to PWC. In Latin America, Brazil provides the largest chunk of the market.

\textbf{Figure 6: Books: total revenue by category as a % of GDP, 1970 - 2009}

\begin{figure}[h]
\centering
\includegraphics[width=\textwidth]{figure6.png}
\caption{Books: total revenue by category as a % of GDP, 1970 - 2009}
\end{figure}

\textit{Sources: U.S. Census; trade associations; industry analysts; 10-K reports; author estimations}
\textit{Preliminary data (Waterman/Ji, March, 2011)}

\textit{Source: D. Waterman, presentation at the first MCI workshop, 2011.}

\textsuperscript{55} American Association of Publishers.
\textsuperscript{56} AAP, BookStats Publishing Formats Highlights, http://publishers.org/bookstats/formats/
Box 1: US distribution channels 2010

Size of the market

Retailers
Overall bricks and mortar trade retail remains the largest distribution channel with 40.8% of total. Chain Stores make up the vast majority of publishers’ sales directly to retailers (53.54%), followed by Independent Booksellers and Specialty Stores (10.6% each) and Mass Merchants (3.84%).

Retail Chains
Publishers’ net sales revenue to brick-and-mortar retail chains saw significant swings over the three years with an overall -2.7% decline. Net revenue to Retail Chains for 2010 is $3.06 Billion. Net units reflect the same pattern with a 2008-2010 growth rate of +3.0%. In 2010, total units are 436 Million.

Independent Retail
While seeing some loss over the three-year arc, independents did not experience the changes seen by retail chains. Publishers’ books sold directly to Independents declined 1.8% from 2008-2009 and had a -3.7% decline from 2009-2010. Net sales revenue for publishers directly into the Independent market for 2010 is $642 Million. Net unit sales directly to Independents for 2010 amount to 52.9 Million.

Online Retail
From 2008-2010, online retail clearly gained market share that other channels lost. There are two distinct factors contributing to this: the strong overall growth of the online channel as consumers are switching their purchase preferences and the explosion of the e-book as a reading format. Net sales revenue reported by publishers for content sold directly to online channels is $2.82 Billion in 2010. This year-over-year growth represents an 18.8% increase from 2008-2009 and 30.7% from 2009-2010, for a three-year overall growth of 55.2%. Net unit sales growth has been even stronger, from 19.6% in 2008-2009 to 40.9% in 2009-2010, a total growth of 68.6%. Total net unit sales by publishers to online channels in 2010 amount to 276 Million.

Mass Merchants, Jobbers and Wholesalers
It does appear that publishers are increasingly making sales directly into Mass Merchants, with both net sales revenue (553.4%) and net unit sales (294.7%) up over the past three years. As Mass Merchants have experienced this increase, there has been a noticeable drop in publishers’ sales to Jobbers and Wholesalers where revenue has declined -6.7% and net units fell -9.6%.

Institutional sales
This channel includes sales to such destinations as libraries, government agencies and professional businesses. Publishers’ sales reflect the downturned economy in 2008-2009, with a 11.7% decline, and a rebound in 2009-2010 with a +6.8% increase. Publisher net sales revenue and unit sales for 2010 are $5.97 Billion and 143 Million units.

Other channels
Publishers reported a healthy growth in net revenue in direct-to-consumer, export sales, book clubs and fairs; volume among these channels ranged from 7% to 10% over the past three years. Such growth reflects publishers’ and end consumers’ interests in continually expanding where they can sell and buy books.

1.3 The EU market

The weight of book publishing is significant in the EU with a turnover of 23 billion Euros in 2009 according to the Federation of European Publishers. The following Figures 7 and 8 are introducing the core data (turnover, number of titles and level of employment: Figure 7), distribution across categories (Figure 8). They show a relative stability (with a decrease in the employment level though) but an increasing number of published titles. The revenues derived from the different categories are also stable: the largest segment is the trade segment.

Figure 7: Turnover (billion euro), number of titles (thousand) and employment (thousand), 2004-2009.

Source: FEP, 2011.

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This section comes from the TNO statistical report, see Leurdijk et al, 2012.


This section is based on the presentation of Enrico Turrin, FEP at the Expert workshop: ‘The economics of Media and content industry (MCI): Approaches, case study, economic effect of the digital transition ‘, Seville, 30-31 May 2011. Presentation and background documentation are available under: http://is.jrc.ec.europa.eu/pages/ISG/MCI.html. See also: http://www.fep-fee.be/
The EU27 publishing industry is characterised by an important number of firms compared to the other major markets (see Table 4) but with a much lower number of employees per firm (less than seven as an average) compared to the US for instance (over a hundred). The value added of the EU sector appeared stabilized and its productivity is much higher than the EU average of 19 800 Euros: 53 800 Euros per employee.

Table 7: Overview of the number of firms, employees

<table>
<thead>
<tr>
<th>Region/ country</th>
<th>Number of firms</th>
<th>Number of employees</th>
</tr>
</thead>
<tbody>
<tr>
<td>EU27 (2007)</td>
<td>31 813</td>
<td>201 100</td>
</tr>
<tr>
<td>United States (2001)</td>
<td>5 409</td>
<td>547 196</td>
</tr>
<tr>
<td>Japan (2001)</td>
<td>1 628</td>
<td>63 772</td>
</tr>
<tr>
<td>China (2001)</td>
<td>190</td>
<td>121 000</td>
</tr>
<tr>
<td>India (2001)</td>
<td>172</td>
<td>41 132</td>
</tr>
</tbody>
</table>


Figure 9 shows the ranking of the six countries with the largest value added share in the EU publishing of books industry in 2007. With Germany in first position, with a share of almost one quarter of the total value added, the United Kingdom and Italy followed in second and third ranking with a share of respectively 18% and 12%. During the period 1995–2007, the

---

60 Value added at factor costs divided by number of employees.
value added share decreased in the United Kingdom and France, whereas it increased in Germany, Italy and the Netherlands.61

**Figure 9: Value added share of the six largest EU Member States in book publishing (2007) and average national growth (1995-2007)**

![Value added share of the six largest EU Member States in book publishing](image)


The growth in these countries is even more evident when the development over time of the six countries is compared with the largest share in the total value added (see Figure 10). As from 2006, Germany has taken over the position of largest European publisher of books from the United Kingdom.62 Remarkably, all countries experienced a small drop in market share in 2004.

---

61 Germany, UK, Italy, France and Spain accounted for a similar % of the total value added in 2000, around 84% according to Abadie et al (2009).

62 According to the FEP data it was already the case before.
Figure 10: Six largest EU Member States in the total value added of the publishing of books industry between 1995 and 2007


Figure 11: Employment in the EU 25 in the publishing, printing and reproduction sector


Figure 12 ranks all EU27 Member States by their score on the specialisation index. The publishing of books industry is relatively most important in the Netherlands, Poland, Greece,
Denmark and Belgium, with a share significantly larger than the overall EU27 share. In contrast, in Cyprus, Slovakia, Malta, Ireland and Luxembourg the industry is relatively less important.

The figure also shows the average growth rates in the specialisation index during the period 1995-2007. The publishing of books has become more important over the years in Greece, Czech Republic, Hungary and Romania, and less important in Poland, United Kingdom, Slovenia and Luxembourg.

**Figure 12: Specialisation index of the Publishing of books industry for the 27 EU Member States**

Table 8 reflects the heterogeneity of the EU market(s). Notwithstanding the importance of the leading publishing EU firms, its fragmentation is a well known feature. It is first fragmented along linguistic lines but its industrial structure, the size and the role of the different players (the revenue stream composition) varies as well. The patterns of consumption differ from one country to another so do the policies (for instance, the regulation of the retail price for books in France since 1981). Seen from a positive angle, as opposed to other sector of the wider publishing sector, dominated by US and Japanese owned media conglomerates there is a preponderance of EU firms.
Table 8: The EU 27 landscape in 2007

<table>
<thead>
<tr>
<th></th>
<th>Number of Enterprises</th>
<th>Annual average growth rate</th>
<th>Average Size (EU27 = 100)</th>
<th>Average size 2007 and average change 1995-2007</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2007</td>
<td>1995-07</td>
<td>2007</td>
<td>95-07</td>
</tr>
<tr>
<td></td>
<td>Absolute</td>
<td>%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Belgium</td>
<td>406</td>
<td>4.1</td>
<td>8.2</td>
<td>-6.3</td>
</tr>
<tr>
<td>Germany</td>
<td>2077</td>
<td>-2.8</td>
<td>16.5</td>
<td>4.8</td>
</tr>
<tr>
<td>France</td>
<td>3586</td>
<td>0.6</td>
<td>7.5</td>
<td>1.9</td>
</tr>
<tr>
<td>Italy</td>
<td>3237</td>
<td>1.6</td>
<td>4.6</td>
<td>-2.9</td>
</tr>
<tr>
<td>Luxembourg (Grand-Duché)</td>
<td>24</td>
<td>1.5</td>
<td>7.2</td>
<td>1.1</td>
</tr>
<tr>
<td>Netherlands</td>
<td>1300</td>
<td>1.5</td>
<td>7.7</td>
<td>1.1</td>
</tr>
<tr>
<td>Denmark</td>
<td>490</td>
<td>-3.1</td>
<td>8.6</td>
<td>3.4</td>
</tr>
<tr>
<td>Ireland</td>
<td>38</td>
<td>7.4</td>
<td>14.2</td>
<td>-7.5</td>
</tr>
<tr>
<td>Greece</td>
<td>1538</td>
<td>3.6</td>
<td>2.4</td>
<td>0.4</td>
</tr>
<tr>
<td>Spain</td>
<td>3973</td>
<td>8.6</td>
<td>5.1</td>
<td>-6.2</td>
</tr>
<tr>
<td>Austria</td>
<td>374</td>
<td>8.6</td>
<td>5.9</td>
<td>-9.4</td>
</tr>
<tr>
<td>Portugal</td>
<td>481</td>
<td>8.1</td>
<td>6.9</td>
<td>-11.0</td>
</tr>
<tr>
<td>Finland</td>
<td>340</td>
<td>-1.0</td>
<td>6.9</td>
<td>0.0</td>
</tr>
<tr>
<td>Sweden</td>
<td>1864</td>
<td>8.1</td>
<td>2.5</td>
<td>-3.9</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>2756</td>
<td>-0.4</td>
<td>10.8</td>
<td>-1.1</td>
</tr>
<tr>
<td>Bulgaria</td>
<td>272</td>
<td>13.3</td>
<td>4.9</td>
<td>-21.1</td>
</tr>
<tr>
<td>Czech Republic</td>
<td>2897</td>
<td>23.9</td>
<td>2.8</td>
<td>2.7</td>
</tr>
<tr>
<td>Estonia</td>
<td>136</td>
<td>7.9</td>
<td>6.1</td>
<td>-4.8</td>
</tr>
<tr>
<td>Cyprus</td>
<td>8</td>
<td>-12.6</td>
<td>3.3</td>
<td>2.6</td>
</tr>
<tr>
<td>Latvia</td>
<td>124</td>
<td>2.4</td>
<td>8.4</td>
<td>0.5</td>
</tr>
<tr>
<td>Lithuania</td>
<td>215</td>
<td>-2.2</td>
<td>7.8</td>
<td>-8.1</td>
</tr>
<tr>
<td>Hungary</td>
<td>1363</td>
<td>14.3</td>
<td>3.1</td>
<td>-3.9</td>
</tr>
<tr>
<td>Malta</td>
<td>36</td>
<td>0.2</td>
<td>2.3</td>
<td>0.1</td>
</tr>
<tr>
<td>Poland</td>
<td>2882</td>
<td>0.4</td>
<td>5.8</td>
<td>0.2</td>
</tr>
<tr>
<td>Romania</td>
<td>1140</td>
<td>4.8</td>
<td>4.5</td>
<td>-5.7</td>
</tr>
<tr>
<td>Slovenia</td>
<td>170</td>
<td>8.5</td>
<td>7.0</td>
<td>-14.1</td>
</tr>
<tr>
<td>Slovakia</td>
<td>86</td>
<td>13.1</td>
<td>3.9</td>
<td>-90.3</td>
</tr>
<tr>
<td><strong>EU27</strong></td>
<td><strong>31813</strong></td>
<td><strong>3.0</strong></td>
<td><strong>6.3</strong></td>
<td><strong>-2.1</strong></td>
</tr>
<tr>
<td>EU 6</td>
<td>10630</td>
<td>0.3</td>
<td>8.4</td>
<td>0.3</td>
</tr>
<tr>
<td>EU 9</td>
<td>11854</td>
<td>3.8</td>
<td>6.0</td>
<td>-3.3</td>
</tr>
<tr>
<td>EU15</td>
<td>22484</td>
<td>2.0</td>
<td>7.1</td>
<td>-1.5</td>
</tr>
<tr>
<td>EU new</td>
<td>9329</td>
<td>6.2</td>
<td>4.3</td>
<td>-3.3</td>
</tr>
</tbody>
</table>

*Source: Eurostat. Structural Business Statistics/National Accounts/TNO.*
1.4 The main EU markets

The following sections offer some of the main features of the major EU markets. The data are mostly coming from the national trade associations which supply more recent data that the official ones used in the previous sections. In some countries like France, the ministry of Culture publishes data. However, the way to provide the core data differ from one domestic market to another one, as well as the way to breakdown the different categories. Therefore, the data provided are rather heterogeneous but nevertheless consistent enough to provide a fair view of these markets.

1.4.1 Germany

As of 2010, the German book market reached 9.7 billion Euros (based on retail sales) growing by 0.4% (Börsenverein des Deutschen Buchhandels, 2011). Retailers (‘brick and mortar’) stood for 50.6% of total book sales (over 4.9 billion Euros). Direct sales to end users of the publishing followed with 18.5% of the sales in 2010 (1.8 billion Euros). The mail-order book trading, including on line sales, with nearly 1.7 billion Euros, accounted for 17.1% of estimated revenues, department stores 2.1% (0.21 billion Euros), and book clubs 2.3% (0.22 billion Euros), other outlets account for 9.4% (0.91 billion Euros). See Table 9.

Five large retail chains concentrate 22% of the sales: Thalia Holding, DBH, Mayersche Buchhandlung, Pustet and Wittwer). The market is dominated by large groups. Springerverlag is the world second largest publishing group with 2000 scientific journals (Benhamou, 2010). Nevertheless, the book retail landscape in Germany appears varied with, nationwide, around 3,800 points of sales ranging from the small town bookstore to the highly specialized stores with various departments (for instance: legal, business and taxes).


63 http://www.boersenverein.de/de/158446/Wirtschaftszahlen/158286
64 Online sales 10.7% in 2008, Benhamou (2010).
The revenues of the publishers in 2010 rose by 1.5%. Retailers, in recent years a segment increasingly marked by concentration, went through a decline of 2.8% in 2010. On line sales represented only 13.8% of the market but displayed a steady growth (14.1% in 2010 but 21.3% in 2007). In 2010, the estimated Internet sales were 1.35 billion Euros.

**Breakdown by categories**

2010, 14,514 new titles in fiction books were released, out of which 17.2% were first editions. Trade books (fiction)\(^{65}\) sales went down by 0.1% in 2010, after two years of revenue growth in 2008 (+8.1%) and in 2009 (up 6.9%). This category maintained its market share over 2009 standing at 33.8%. Novels dominated within this category with a share of 49.7% in 2010, with even a slight increase of 5.2%, after the previous year, a decline of 1.9%.


<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Booksellers</td>
<td>47</td>
<td>46</td>
<td>50</td>
<td>49</td>
<td>44</td>
<td>41</td>
</tr>
<tr>
<td>Department stores</td>
<td>4</td>
<td>3</td>
<td>5</td>
<td>3</td>
<td>4</td>
<td>3</td>
</tr>
<tr>
<td>Mail order</td>
<td>11</td>
<td>11</td>
<td>10</td>
<td>11</td>
<td>12</td>
<td>12</td>
</tr>
<tr>
<td>Book clubs</td>
<td>9</td>
<td>8</td>
<td>9</td>
<td>7</td>
<td>9</td>
<td>9</td>
</tr>
<tr>
<td>Internet</td>
<td>5</td>
<td>10</td>
<td>3</td>
<td>8</td>
<td>7</td>
<td>12</td>
</tr>
<tr>
<td>Discounters</td>
<td>7</td>
<td>6</td>
<td>7</td>
<td>6</td>
<td>7</td>
<td>6</td>
</tr>
<tr>
<td>Other</td>
<td>8</td>
<td>7</td>
<td>7</td>
<td>6</td>
<td>8</td>
<td>9</td>
</tr>
<tr>
<td>Hybrid**</td>
<td>10</td>
<td>10</td>
<td>9</td>
<td>11</td>
<td>10</td>
<td>10</td>
</tr>
</tbody>
</table>

* Preference: over 50% of purchase to be classified in the sales channel.
** Hybrid: no strong preference for any type of sales channel.

According to the same survey, during the last 12 months before the survey, 57% of Germans have bought at least one book, leaving 43% for non-buyers. Compared to 2005,

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\(^{65}\) The German trade association gives the following breakdown of this category: General fiction: 49.7%, Thrillers: 27.0%, Science Fiction / Fantasy: 8.1%, Humour/Cartoons/Comics /Satire: 6.9%, Gift Books: 6.9%, Poetry/Drama: 1.2%, Bilingual editions: 0.8%, Various anthologies: 0.2%.

\(^{66}\) The survey was carried out by the Association for Consumer Research (GfK) in collaboration with sinus Sociovision (Heidelberg) based on a sample of 10,000 people were interviewed from ten years up, in addition, purchase data were collected from nearly 8,000 participants. Number of answers, 2005: 7,425, 2008: 7,821.
their number has decreased slightly from 45%. The buyers can be classified depending on the number of books acquired in three groups:

- **Weak (38% and slightly rising: 3% in 2008):** buying 1-7 books a year
- **Average buyer (10%):** about 11 books and,
- **Heavy (9%):** over 14 books a year.

The survey reveals a sound readership basis as nine out of ten Germans have in the last twelve months of the survey at least read a book. Readers are broken down into three main categories:

- **Weak readers (43%):** up to 9 books a year,
- **Average (23%):** 9-18,
- **And heavy (25%):** more than 18.

### 1.4.2 France

The French market in a nutshell (2009): over 5 billion Euros of sales, 74 800 titles published, 609.3 million copies printed for 224 publishing houses out of which 64 issue over 200 titles annually accounting for 90% of the titles. It is introduced by the French ministry of Culture as the first cultural industry based on the level of revenues accounting for one fifth of the workforce of the "cultural" sector (over 80 000 employees out of 430 000, less than 0.4 of the working population).

#### Table 10: Production and circulation of books in 2009

<table>
<thead>
<tr>
<th></th>
<th>Titles (number)</th>
<th>Copies (million)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total</td>
<td>74 788</td>
<td>609.3</td>
</tr>
<tr>
<td>New titles and new editions</td>
<td>38 445</td>
<td>370.5</td>
</tr>
<tr>
<td>Reprints</td>
<td>36 343</td>
<td>238.8</td>
</tr>
</tbody>
</table>

Including serialised encyclopaedias or those in pamphlet form. Source: Minidata 2011, Ministry of Culture.

The French publishing sector which looked fossilized over a period of time with a market structure dominated by two leading firms (Hachette-Lagardère and Vivendi Universal Publishing-VUP), four family-owned firms (Albin-Michel, Flammarion, Gallimard, Le Seuil) and a myriad of small publishers, underwent some dramatic changes. Flammarion was sold to the owner of the Italian publisher Rizzoli in 2000 (RCS Mediagroup), Le Seuil to another French publisher La Martinière in 2004, and VUP sold its publishing assets to Hachette and a private investor (Wendel) that same year. More and more publishers now belong to media conglomerates.

#### Table 11: The French book market (2006-2009)

<table>
<thead>
<tr>
<th>Year</th>
<th>Publishers’ turnover (million Euros)</th>
<th>Number of new titles published</th>
<th>Number of copies sold (million)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2006</td>
<td>2 791</td>
<td>70 148</td>
<td>469,7</td>
</tr>
<tr>
<td>2007</td>
<td>2 894</td>
<td>71 746</td>
<td>486,6</td>
</tr>
<tr>
<td>2008</td>
<td>2 830</td>
<td>76 205</td>
<td>468,3</td>
</tr>
<tr>
<td>2009</td>
<td>2 829</td>
<td>74 788</td>
<td>464,5</td>
</tr>
</tbody>
</table>

Source: F. Benhamou.

---

It is worth noting (Figure 14) that the percentage of Internet sales (both in value and quantity) around 10% is still lower than the percentage coming from mail orders and clubs. Superstores (specialised like FNAC, Virgin around 400 points of sales in 2007, and supermarkets,) dominate the market (a total points of sales between 20 000 and 25 000, 15 000 on a regular basis) (Gaymard, 2009): nearly 45% of the number of books and 43% of the value. The French market can be considered, according to F. Benhamou (2012), as first and foremost a “bookshop” market. As bookshops are the weak link of digital books as they operate under weak margins, it may not help a smooth transition to digital books.

**Figure 14: The distribution of books (value %)**

<table>
<thead>
<tr>
<th>Distribution</th>
<th>Val%</th>
<th>Nr%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Booksellers (all kinds)</td>
<td>24.7</td>
<td>22.1</td>
</tr>
<tr>
<td>Bookshops (both general and specialised)</td>
<td>18</td>
<td>15.5</td>
</tr>
<tr>
<td>Department stores</td>
<td>0.3</td>
<td>0.3</td>
</tr>
<tr>
<td>Press shops, stationers</td>
<td>6.4</td>
<td>6.3</td>
</tr>
<tr>
<td>Specialised cultural superstores</td>
<td>22.1</td>
<td>20.6</td>
</tr>
<tr>
<td>Non-spec. superstores (including hypermarkets)</td>
<td>20.7</td>
<td>24</td>
</tr>
<tr>
<td>Mail orders, clubs (excluding internet)</td>
<td>14.3</td>
<td>11.1</td>
</tr>
<tr>
<td>Internet sales</td>
<td>10</td>
<td>10.4</td>
</tr>
<tr>
<td>Discounters/2nd hand booksellers</td>
<td>1.5</td>
<td>3.4</td>
</tr>
<tr>
<td>Brokers</td>
<td>0.1</td>
<td>0.1</td>
</tr>
<tr>
<td>Other (work councils, kiosks, stations, book fairs, etc)</td>
<td>6.5</td>
<td>8.3</td>
</tr>
</tbody>
</table>

*Source*: Minidata 2011, French Ministry of Culture.

The market structure is oligopolistic with some fringe competition: 4.3% of the firms accounts for 65.3% of the revenues (Busson, 2011), 12 publishers stand for 80%. Editis

68 “Marché de libraires”
was created with part of the asset brought from VUP by the Wendel group; the company was sold later in 2008 to the Spanish publishing house Planeta. Flammarion bought by the Italian group RCS Mediagroup in 2000 was about to be sold in 2012. Proposals were made by a consortium of smaller publishers (Actes Sud, Albin Michel) which may led to the creation of the 3d ranking group on the French book market, but also by Editis and La Martinière.

Table 12: Revenues of the main publishers broken down revenues (2009)

<table>
<thead>
<tr>
<th>Revenues</th>
<th>International groups</th>
<th>Independent publishers</th>
</tr>
</thead>
<tbody>
<tr>
<td>Over 500 M €</td>
<td>Hachette</td>
<td>Editis</td>
</tr>
<tr>
<td></td>
<td>France Loisirs</td>
<td>La Martinière</td>
</tr>
<tr>
<td></td>
<td>Éditions Atlas</td>
<td>Gallimard</td>
</tr>
<tr>
<td></td>
<td>Media Participations</td>
<td>Lefèbvre-Sarrut</td>
</tr>
<tr>
<td></td>
<td>Flammarion</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Reed Elsevier</td>
<td></td>
</tr>
<tr>
<td>Between 200 and 500 M €</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Albin Michel</td>
<td></td>
</tr>
<tr>
<td>Between 100 and 200 M €</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: SNE compiled by A. Busson.

---

69 RCS owns the publishing house Rizzoli, newspaper (Corriere della Sera, la Gazzetta dello Sport and El Mundo in Spain).

70 After a loss of 322 million euros in 2011 but a turnover of only 220 million in 2010.


Figure 15: Publishing trends, and Table 12. Breakdown of title by categories

Source: Minidata 2011, French Ministry of Culture.
The demand

As of 2008, 70% of the French citizen aged 15 and over have read at least one book over the last twelve months, out of which 17% read 20 or more. According to a study for the French ministry of Culture (Culture prospective, 2007), the number of “heavy” (defined as reading over 20 books during the last 12 months) has steadily declined during the last quarter of the century: from 28% in 1973 to 19% in 1997, down to 18% as of 2003.73

According to the study, what is striking is that this core of “heavy” readers declined across all demographics: man and woman, low and high diploma, all kind of households, all generations included. Otherwise; it is stressed that, unsurprisingly, there is a positive correlation between the diploma and the reading pattern but the fall within the high diploma category (from 60% in 1973 to 31% in 2003) is more stunning.

Table 13: Evolution of pattern of reading of heavy users (20 books or more per year74)

<table>
<thead>
<tr>
<th></th>
<th></th>
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</tr>
</thead>
<tbody>
<tr>
<td>Total (%)*</td>
<td>28</td>
<td>22</td>
<td>24</td>
<td>19</td>
<td>18</td>
</tr>
<tr>
<td>Gender</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Men</td>
<td>31</td>
<td>23</td>
<td>22</td>
<td>17</td>
<td>14</td>
</tr>
<tr>
<td>Women</td>
<td>26</td>
<td>21</td>
<td>25</td>
<td>22</td>
<td>22</td>
</tr>
<tr>
<td>Degree</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Low</td>
<td>23</td>
<td>18</td>
<td>20</td>
<td>14</td>
<td>14</td>
</tr>
<tr>
<td>High</td>
<td>60</td>
<td>41</td>
<td>45</td>
<td>37</td>
<td>31</td>
</tr>
<tr>
<td>Size of the city</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Less than 100 000</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>inhabitant</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Over 100 000</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Paris area</td>
<td>35</td>
<td>24</td>
<td>26</td>
<td>19</td>
<td>19</td>
</tr>
<tr>
<td></td>
<td>41</td>
<td>35</td>
<td>34</td>
<td>28</td>
<td>22</td>
</tr>
<tr>
<td>Family status</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Married or common law</td>
<td>23</td>
<td>20</td>
<td>22</td>
<td>17</td>
<td>n.a</td>
</tr>
<tr>
<td>Unmarried</td>
<td>45</td>
<td>33</td>
<td>29</td>
<td>23</td>
<td>n.a</td>
</tr>
<tr>
<td>Other</td>
<td>27</td>
<td>20</td>
<td>22</td>
<td>22</td>
<td>n.a</td>
</tr>
</tbody>
</table>

73 The new survey is not available but most likely the declining trend will go on.
74 Heavy readers start over 18 in the German survey and accounted for 25% of the population as of 2008, comparable to the 18% total for 2003 in France.
75 The French Minister of Culture has been carrying out a survey "Pratiques culturelles des français" since 1973.
<table>
<thead>
<tr>
<th></th>
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<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Total (%)*</td>
<td>28</td>
<td>22</td>
<td>24</td>
<td>19</td>
<td>18</td>
</tr>
<tr>
<td><strong>Generation</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>September 11</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Internet</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>AIDS</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Crisis</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>May 68</td>
<td>42</td>
<td>27</td>
<td>25</td>
<td>19</td>
<td>19</td>
</tr>
<tr>
<td>Algerian war</td>
<td>31</td>
<td>18</td>
<td>20</td>
<td>20</td>
<td>21</td>
</tr>
<tr>
<td>Liberation</td>
<td>22</td>
<td>17</td>
<td>20</td>
<td>19</td>
<td>19</td>
</tr>
<tr>
<td><strong>Age group</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>15-24</td>
<td>-</td>
<td>33</td>
<td>26</td>
<td>19</td>
<td>17</td>
</tr>
<tr>
<td>25-34</td>
<td>-</td>
<td>27</td>
<td>28</td>
<td>20</td>
<td>14</td>
</tr>
<tr>
<td>35-44</td>
<td>-</td>
<td>20</td>
<td>25</td>
<td>21</td>
<td>20</td>
</tr>
<tr>
<td>45-54</td>
<td>-</td>
<td>17</td>
<td>18</td>
<td>19</td>
<td>20</td>
</tr>
<tr>
<td>55-64</td>
<td>-</td>
<td>17</td>
<td>22</td>
<td>20</td>
<td>19</td>
</tr>
<tr>
<td>65-74</td>
<td>-</td>
<td>17</td>
<td>21</td>
<td>18</td>
<td>19</td>
</tr>
<tr>
<td>75 and over</td>
<td>-</td>
<td>17</td>
<td>19</td>
<td>14</td>
<td>18</td>
</tr>
</tbody>
</table>

* 28% of the total means that 28% of the people interviewed declared having read 20 books or more during the preceding 12 months, at the same date 41% of the interviewees living in the Paris area claimed a similar pattern of use.

** Generations are classified under the main event chosen for the period.

Source: DEPS, Ministry of Culture and Communication/ INSEE (EPCV 2003).

Table 14: Distribution of pattern of use by generation and age groups (%)* and graph Generational curves

<table>
<thead>
<tr>
<th>Generation/ Age group</th>
<th>15-28</th>
<th>23-38</th>
<th>33-48</th>
<th>43-56</th>
<th>56-63</th>
<th>63-72</th>
</tr>
</thead>
<tbody>
<tr>
<td>September 11</td>
<td>17</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Internet</td>
<td>19</td>
<td>15</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>AIDS</td>
<td>26</td>
<td>20</td>
<td>16</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Crisis</td>
<td>32</td>
<td>27</td>
<td>21</td>
<td>20</td>
<td></td>
<td></td>
</tr>
<tr>
<td>May 68</td>
<td>42</td>
<td>27</td>
<td>25</td>
<td>19</td>
<td>19</td>
<td></td>
</tr>
<tr>
<td>Algerian war</td>
<td>31</td>
<td>15</td>
<td>20</td>
<td>20</td>
<td>21</td>
<td></td>
</tr>
<tr>
<td>Liberation</td>
<td>22</td>
<td>17</td>
<td>20</td>
<td>19</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

* Between 15 and 28 years of age, 19% of generation Internet interviewed declared having read 20 books or more during the preceding 12 months, in the same age group 17 of generation September 11 claimed a similar pattern of use.

Source: DEPS, Ministry of Culture and Communication/ INSEE (EPCV 2003).
To be noted, a consumer survey conducted in 2009 showed that 5% of the population in France had on occasion read an e-book; 30% indicated they would like to read a novel in digital format (*Le livre sera-t-il numérique?,* 2010). The market share of digital books is still pretty low: about 1.5% (€68 million) in 2010 (from 0.1% of the total book market in 2008 (Poort et al: 47)). At the end of 2010, the number of e-titles amounted to about 80 000 (over 13%) to be compared with 600 000 print titles (id at 47).
1.4.3 Italy

According to the Association of Italian Editors (Associazione Italian degli Editori, AIE),\textsuperscript{76} in 2011, the total publishing market in Italy reached 3.408 billion euros. The Italian publishing industry is recording signal of crisis at least since 2009, when the loss was estimated in a 4.3%, and the number of book copies produced was of 208.165, with an average of about 3,617 copies per published title (Eurispes, 2012). These figures, compared with the previous year, show a decrease of 12.2% in the number of copies and of 3.8% in the number of titles.

In spite of a small improvement in 2010 (Rapporto sullo stato dell’editoria in Italia, 2011), the offer seems to keep shrinking, as a consequence of both the economic crisis and a demand motivate by a relatively small share of the Italian population (less than 50% of population over 6 years).

The market in Italy involves about 2,500 active publishers (even if namely 7,590 are recorded), which are responsible for the employment of something like 36,000 employees. The industry looks rather concentrated, as the 5 biggest groups are covering 63% of the total sales, leaving the remaining 37% to be split by 7,590 actors, among which 400 small publishers. The following picture provides with further details about the distribution of market shares among the five biggest groups in Italy in 2010.

**Figure 17: Market shares of the 5 biggest Italian publishing groups, 2010**

![Market shares of the 5 biggest Italian publishing groups, 2010](source)

Source: elaboration on a presentation by Luisa Capelli (2011), on Nielsen Bookscan data (only trade channels).

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With regard to text books, the 63% of the Italian market was concentrated in 2009 in the hands of only 9 publishers (namely De Agostini, Giunti, Il Capitello, Mondadori, Pearson Paravia Bruno Mondadori, Principato, RCS Libri, S.E.I., and Zanichelli), enough to justify an intervention of the Anti-Trust Authority in the same year.

The following table and pictures provide some details on the industry in terms of distribution channels, and on their shares.

**Table 15: The publishing industry in Italy**

<table>
<thead>
<tr>
<th>Source</th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
<th>% var.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Booksellers</td>
<td>1,043,900</td>
<td>1,048,000</td>
<td>1,042,000</td>
<td>1,038,000</td>
<td>-2.6%</td>
</tr>
<tr>
<td>Gdo</td>
<td>248,100</td>
<td>251,400</td>
<td>251,000</td>
<td>251,000</td>
<td>0%</td>
</tr>
<tr>
<td>Newstands</td>
<td>16,000</td>
<td>16,000</td>
<td>18,000</td>
<td>19,500</td>
<td>8.6%</td>
</tr>
<tr>
<td>Other retail</td>
<td>19,350</td>
<td>19,750</td>
<td>20,000</td>
<td>21,300</td>
<td>5.3%</td>
</tr>
<tr>
<td>Online bookshops and internet sales</td>
<td>53,082</td>
<td>71,600</td>
<td>90,400</td>
<td>101,200</td>
<td>11.0%</td>
</tr>
<tr>
<td>Total</td>
<td>1,377,312</td>
<td>1,416,956</td>
<td>1,422,200</td>
<td>1,472,589</td>
<td>3.6%</td>
</tr>
</tbody>
</table>

**Figure 18: The publishing industry in Italy in 2009: main aggregates' shares**

- 22% Bookshops, newsstands, other retail, online bookshop, internet sales, ebook
- 43% Textbooks + museum & exhib.sales
- 20% Instalment, mail, direct sales; book club; export
- 15% Collectable; electronic publishing & internet services; half prices; non book

**Source:** elaboration on AIE 2010 data presented by Augusto Preta.
Not surprisingly, bookshops are still representing the major distribution channel for books in Italy, covering a share of the total market which increased from 39.7% in 2006 to 45.7% in 2009. This dominating position of bookshops shows similarity with the other markets in Europe. Online sales are also showing the quickest increase, with almost 12% between 2008 and 2009, but they still cover a small portion of the market, moving from 1.4% to 3.1% in the period between 2006 and 2009.

Figure 19: The publishing industry in Italy: main aggregates between 2006 and 2009

The impact of the first Italian Kindle store is still expected to become visible in the coming months. In August 2011, according to the AIE, a growth in relative terms of the digital book market was expected, but a very low penetration in absolute numbers: the eBook market was estimated having grown from 0.04% of publishing market to a 0.1% in 2011. A few months later the same source estimated the share of eBook at the end of 2011 around 1.5%, with 10,000 eBooks to be released that year, against a total of 58,829 titles published in 2010.

Source: elaboration on AIE 2010 data presented by Augusto Preta.

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Forecast by Edigita\textsuperscript{79} pushes to 3\% the share of eBook market in 2012; and between 5 and 7\% in 2015. In terms of revenues, AGCOM in its yearly report 2011\textsuperscript{80} records an increase of nearly 13\% between 2009 and 2010 for the electronic publishing, representing some 11\% of the whole revenues from publishing.

The strategies to boost the Italian market seem to be twofold: on one side, by increasing the choice and reducing the unit price of eBook readers (e.g. with the Kindle 4), on the other side, by introducing initiatives like distributing new titles in electronic version at half the price of the printed one, and by enlarging the available catalogue (now about 20,000 books, from only 1,619 in 2009).

An analysis published in 2011 (Capelli, 2011) identified four main actors emerging in the landscape of ebook digital market in Italy, respectively Stealth, book republic, Biblet, Edigita.

The first is the ebook distribution platform of Simplicissimus Book Farm; it offers services to publishers allowing them to make its books immediately available on every virtual bookstore, by only charging the 5\% of the cover price of sold books. The proposed policy is therefore that of promoting relatively low prices and an open approach, avoiding DRM and leaving the freedom to sell the books on different sites and online stores. Moreover, the platform sells ereaders of different producers.

Book republic, owned by DigitPub (also controlling a publisher producing ebooks only), is also providing an online service of ebook distribution, together with additional services and an online shops. Their policy leaves the publishers free to choose to adopt or not DRM.

Biblet is the TELECOM and Mondadori groups portal for ebook publishing; it imposes Adobe DRM and the specific Biblet reader, which is offered for a monthly rent.

Edigita declares its scope is that to be the publishers’ platform to support the publishers themselves in order to promote the development of a digital book market in Italy. It was owned in equal parts by RCS Libri, Messaggerie Italiane and Gruppo Feltrinelli, and it proposes a model of a service provider, covering a wide range of aspects, from distribution and promotion to administrative issues. As a counterpart, it requires exclusivity and imposes Adobe DRM.

1.4.4 Spain

As of 2010, the revenues from the sales were 2,890 billion euros dropping from 3,100 billion in 2009 (Federación de Gremios de Editores de España, FGEE, 2011\textsuperscript{81}). The Spanish book industry was exporting for 457 million euros the same year and has a significant presence in Latin America. 2,994 publishers were active (3,032 in 2009) as well as 529 public entities. However 19 publishers (the first five being: Editorial Mad, Anaya, Editorial CEP, Oxford University Press España, Susaeta Ediciones) account for 30\% of the titles


\textsuperscript{81} http://www.federacioneditores.org/SectorEdit/DatosEstadisticos.asp
released, each of the publishing more than 700 books per year. 1 617 publishers release four or fewer books per year.\textsuperscript{82}

The other Spanish trade association, the “Confederación Española de Gremios y Asociaciones de Libreros” (Cegal) publishes data as well and counted 1 432 bookshops as of 2010 (Sistema de Indicadores Estadísticos y de Gestión de la Librería en España, 2010):\textsuperscript{83} 281 classified as big or very big (over a turnover of 600 000 euros), 370 medium big (in the 300 000/600 000 bracket), and 781 small and medium (150 000/ 300 000). As of 2010, only 16.5% of the bookshops were selling e-readers and only 14/7% e-books but with strong variations linked to the size of the enterprise: from 52.6% of the very big, down to 8% for small retailers (the sales of e-books show a similar distribution). 55 000 e-books were available in 2012 on the Spanish market.\textsuperscript{84} Bookshops remain by far the first channel of sales for book in Spain as illustrated by Table 16. Bookshops accounted for 47.5% of the sales\textsuperscript{85} in 2008 (Asimelec, 2010: 144), followed by mail, Internet, telephony with 18%, large retailers only accounted for 9%.

Over 228 million books were sold in 2010 (average price: 12.67 euros), over 300 million copies published, an average number of copies per book of 3790. According to the survey of the FGEE, “Hábito de Lectura y Compra de Libros en España” (2010),\textsuperscript{87} during the 12 months preceding the survey, 43.8% did not buy any books, 21.3% bought between 1 and 5, 17.2% between 6 and 10, 10.7% between 11 and 20 and 6.9% more than 20. The average number of books per households is 212 however only 32.2% of the people interviewed own more than 100 books.

90.5% of the Spanish population beyond the age of fourteen declares to read some kind of reading material (books, newspaper, others...) at least every quarter, slightly increasing from 54.6% in 2008. 85.7% are classified by the same survey as “frequent readers” reading at least once a week. 60.3% are readers of books (newspapers: 78.1%, magazines: 48.9%, comics: 13.7%) with an average of 9.6 books read during the 12 months preceding the survey, less than one book a month. Around 40% of the Spanish population described as non readers by FEGP (2011) do not or almost never read. The survey concludes that reading is on a declining trend whatever the format, declining quickly with age.

The survey provides data about digital material (of all kind again) which show that nearly 50% of the population (47.8%)\textsuperscript{88} is using a digital format (accessed through a computer: 46.5% by far the dominant use, a mobile phone and/or an electronic agenda: 6.9%, or an e-reader: 1.3% still a very low figure but out of which 1% are nevertheless books). Nearly

\textsuperscript{82} For a, not too optimistic, outlook of the Spanish market, see: Winston Manrique Saboqual, “Una tormenta perfecta azota el mundo del libro”, http://cultura.elpais.com/cultura/2012/03/14/actualidad/1331733685_617428.html
\textsuperscript{84} A.Avila (FGEE) at the Jornadas sobre el libro digital, May 18, 2012.
\textsuperscript{85} The data include institutional sales: firms and institutions for 11%.
\textsuperscript{86} Source: Spanish Ministry of Culture, quoted by the Asociación multisectorial de empresas de tecnología de la información, comunicaciones y electrónica (Asimelec)(2010). Informe 2010 de la industria de contenidos digitales. Available at: www.asimelec.es
\textsuperscript{87} Hábito de Lectura y Compra de Libros en España 2010. Initiated in 2000 in cooperation with the Ministry of Culture (Dirección General del Libro). Total size of the sample: 15 000 (5000 interviews every four months). Composition of the sample: women 50.7%, men 49.3%. Available from: www.connectarc.com
\textsuperscript{88} 60% of the Spanish population access to the Internet at the least once every quarter, more than half every day, same source.
90% of these active consumers access at least once a week. The most popular digital format appears to be blogs, websites and forum with nearly 40% during the third quarter of 2010. E-Books account for less than 6%.89

Table 16: Usual source of purchase by preferences (2010)

<table>
<thead>
<tr>
<th>Source: “Hábito de Lectura y Compra de Libros en España”(2010), Federación de Gremios de Editores de España (FGDE).</th>
</tr>
</thead>
<tbody>
<tr>
<td>Booksellers</td>
</tr>
<tr>
<td>Department stores</td>
</tr>
<tr>
<td>Retail chains</td>
</tr>
<tr>
<td>Supermarkets</td>
</tr>
<tr>
<td>Book clubs</td>
</tr>
<tr>
<td>Book fairs</td>
</tr>
<tr>
<td>Internet</td>
</tr>
<tr>
<td>Kiosks</td>
</tr>
<tr>
<td>Publishing houses</td>
</tr>
<tr>
<td>Study centres</td>
</tr>
<tr>
<td>Mail/ phone orders</td>
</tr>
<tr>
<td>Other</td>
</tr>
</tbody>
</table>

Table 17: Breakdown by categories (based on sales)

<table>
<thead>
<tr>
<th>Source: FGDE, Datos estadísticos, 2011.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Literature (includes fiction, theory, poetry and theatre)</td>
</tr>
<tr>
<td>Non fiction (learning, schools)</td>
</tr>
<tr>
<td>Social science and humanities</td>
</tr>
<tr>
<td>Children</td>
</tr>
<tr>
<td>Dictionaries and encyclopaedia</td>
</tr>
<tr>
<td>Popular science</td>
</tr>
<tr>
<td>Technology and science</td>
</tr>
<tr>
<td>Practical books</td>
</tr>
<tr>
<td>Other</td>
</tr>
<tr>
<td>Comics</td>
</tr>
</tbody>
</table>

89 See also, Observatorio de la Lectura y el Libro (2010): “El libro electrónico”.
1.4.5 United Kingdom

UK publishers sold an estimated 763 million books in 2009, with an invoiced value of £3,053 million. Unit sales were 9% lower than in 2008, while value stayed level. The sales of digital products in 2009 were estimated as just over £150m, up 20% on 2008 nevertheless (PA Statistics Yearbook 2009, The Publishers Association 2010). The value of the UK book market in 2009, at end purchaser prices, is estimated to have been £3.4bn. The total number of new and revised titles published in the UK was of 133,224 in 2009, up 3.2% on 2008 and the highest single year figure within the last fifteen years.

According to BML’s *Books & Consumers*, consumers aged 12-74 spent 5% less on books in 2009 than 2008, down from £2,347m to £2,208m. Spending had also fallen in 2008, and was down 11% between 2007 and 2008 as a whole. 34% UK consumers buy their books first from retail chains (Figure 16), followed by supermarkets with 14%, but the same amount will buy books on the Internet. Institutional customers bring another stream of revenues estimated to £147.4 million (2007/2009): the British Library (3.2 million), public libraries (92 million), university and higher education college libraries and the school library service (although the there is no update for the latter: £51.2 million).

![Figure 20: Consumer source of purchase by volume share (%), 2009.](source)

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90 In 2010, the combined sales of the 23 participating distributors/publishers participating to the survey, PA Sales Monitor (PASM: administered by BML) were estimated to account for over 75% of total UK publisher sales, reached £2 386 million and were deemed to be fairly representative of the industry as a whole in terms of category breakdown.

91 Quoted by PA, Source: Books and Consumers, BML/TNS Marketing Ltd (www.bookmarketing.co.uk), The Bookseller (www.thebookseller.com).

92 There are no statistics for specialist libraries (i.e. libraries in commercial/industrial or non-commercial organisations) according to PA.
The UK is following the US for e-books with a fast growing share of the new format. A total of 3.7 million general e-books were sold in 2010 (1.5% of the total market), generating a turnover of £31 million. The e-market share is expected to increase to between 13 and 14% in 2014. If one adds academic and professional titles, a substantial portion of digital turnover (72%), the digital turnover in 2010 reached some £180 million (6% of the total market) (Poort et al: 46).

1.5 Major technological developments

This industry went through various technological developments. On its manufacturing side (printing companies), printing machines appeared at the beginning of the 19th century. The steam press was patented by a German inventor in 1810\(^{93}\) and the steam powered rotary printing press, invented in 1843 in the United States\(^{94}\) allowing mass production to flourish.

Typesetting evolved from the letterpress era with moveable type composed by hand for each page, to phototypesetting in the early 1960s, one of the earliest electronic photocomposition systems was introduced by Fairchild Semiconductor.\(^ {95}\) The next decade saw the progressive emergence of a next generation of machines to be replaced in the 1980s by fully digital systems now known as image setting. In 1985, desktop publishing became available with the introduction of Mac Publisher\(^ {96}\) allowing the publisher to integrate these functions on their own in-house computers, or to outsource to other specialised entities. In turn, the sub segment which grew with phototypesetting shrunk.

The first commercial application of e-paper (also referred to as ‘e-ink’) was launched in Japan in 2004. E-paper is a portable, reusable storage and display medium, typically thin

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\(^{93}\) The company Koenig & Bauer AG founded then is still one of the world’s largest manufacturers of printing presses today. Source: Wikipedia, Printing press.


\(^{96}\) See Wikipedia, Desk publishing.
and flexible.\textsuperscript{97} It is literally the electronic substitution for the printed page\textsuperscript{98} however hinging on consumer acceptance. E-paper is used as an ICT component for e-books, mobile handsets, laptops.\textsuperscript{99} E-books and e-magazines are key applications. The first e-books (Cytale, Gemstar\textsuperscript{100}) were introduced earlier in 1999. The Cybook Gen1 (formally Cybook) was originally made by the French company Cytale.\textsuperscript{101}

Audio books began developing and being distributed by retailers in the late 80s even if spoken word albums were made prior to the age of videocassettes, DVD's, and compact discs.\textsuperscript{102} However because of the added costs of recording and reduced economies of scale for printing they are more expensive than regular printed books. The widespread availability of reproduction devices, online music stores will increase economies of scale that favour downloadable audio books. According to Abadie et al, the development of sophisticated voice recognition and synthesis technologies which facilitates the automation of 'book recording' processes will increase the speed and cost-efficiency of audio book creation, and open up great possibilities for the transformation of valuable back catalogues into this format.

Google's Library Project, also now known as Google Book Search, was announced in December 2004. The first online version of Europeana,\textsuperscript{103} the European digital library was opened in 2007 (6 million references), the project launched in 2005. Unesco launched its World Digital Library\textsuperscript{104} in 2007.

In October 2004, at the Frankfurt book fair,\textsuperscript{105} Google launched its "Google print" project, later to become Google books (12 million references). It makes it possible for users to search the full text of books that Google has scanned, converted to text using optical character recognition, and stored in its digital database.\textsuperscript{106} They can then be browsed in PDF format and, in some cases printed. This service also provides links to publishers and a limited number of affiliated (mostly large) online bookshops from which physical copies of a book can be purchased. The business model for this service is based on targeted advertising and fees on transactions. The initial goal was to digitize 15 million books within a decade thanks to agreements with US public libraries (New York Public Library, Harvard, Stanford Michigan University) and a UK one (Bodleian Library at Oxford University).

Microsoft opened its ‘Live search book’ in 2006. Yahoo partnered with some other public

\begin{thebibliography}{99}
\item \textsuperscript{97} E-paper products are largely centred on electrophoretic technologies, with E-Ink (USA, with links to MIT) being a major supplier for the technology and basic materials. Other players include Polymer Vision (the Netherlands) and Plastic Logic (UK), while PVI (Taiwan) has a volume production of electrophoretics in a silicon TFT fabrication facility and SiPix (USA) has flexible electrophoretics for smart cards (Gurski and Quach, 2005). Bridgestone (Japan) has its own electrophoretic technology. Source: Forge, S., Blackman, C. (2009). An electrophoretic display is an information display that forms visible images by rearranging charged pigment particles using an applied electric field.
\item \textsuperscript{98} Forge, S., Blackman, C. (2009), IPTS report available at: \url{http://ftp.jrc.es/EURdoc/JRC51739.pdf}
\item \textsuperscript{99} Also for applications such as signage (outdoor displays), disposable electronics (smartcards), consumers electronics (clocks and watches). Forge, S., Blackman, C. (2009).
\item \textsuperscript{100} Gemstar exited the ebook business in 2003.
\item \textsuperscript{101} Source Wikipedia. The company filed for bankruptcy in 2003, the rights were bought by Bookeen, the product was discontinued, later to be replaced by the Cybook Gen3.
\item \textsuperscript{102} Source Wikipedia, Audiobook.
\item \textsuperscript{103} \url{www.europeana.eu}
\item \textsuperscript{104} A huge cultural multilingual database rather than a real digital library.
\item \textsuperscript{105} The biggest for such trade fair in the world.
\item \textsuperscript{106} Source Wikipedia: Google Books.
\end{thebibliography}
libraries (universities in California and Toronto) to set up the Open Content Alliance, working with the Internet Archive.\textsuperscript{107}

Sony’s e-reader was made available in the United States in September 2006. Amazon launched its e-reader Kindle late in 2007.\textsuperscript{108} The arrival of the Apple iPad in 2010, just like the launch of the iPhone in the mobile sector some years earlier, changed the rules as the IT company set up its own sale platform iBooks (following the model of its iTunes) and proposed a different agency model to the publishers. It was followed by other IT manufacturers like Samsung and HTC (using Google’s Android software) trying to make inroads into the sector and to offer a device-centric distribution model.

\begin{table}[h]
\centering
\begin{tabular}{|l|c|c|c|c|c|}
\hline
\hline
\textbf{North America} & & & & & \\
\textbf{USA} & 556 & 3 580 & 7 187 & 8 425 & 10 046 \\
\textbf{Canada} & 471 & 3 400 & 6 900 & 8 073 & 9 602 \\
\hline
\textbf{Japan} & 85 & 180 & 287 & 352 & 444 \\
\hline
\textbf{EU5} & & & & & \\
\textbf{Germany} & 52 & 164 & 337 & 636 & 1 423 \\
\textbf{France} & 12 & 38 & 89 & 171 & 469 \\
\textbf{Italy} & 8 & 26 & 57 & 103 & 297 \\
\textbf{Spain} & 11 & 27 & 34 & 66 & 221 \\
\textbf{United Kingdom} & 17 & 56 & 128 & 245 & 310 \\
\hline
\textbf{Total} & 608 & 3 759 & 7 568 & 9 159 & 11 752 \\
\hline
\end{tabular}
\caption{Global sales of e-readers (thousand units) 2009–2014}
\end{table}

Source: Idate, Digiworld Yearbook 2011.

It was predicted that the e-book market will start growing around 2007, it turned out the growth started around that period with the US and Japan as leading markets for digital publishing. Japan is offering an interesting case with the Japanese mangas: 22% market share in physical books, 65% in digital books with a shift of contents (sentimental, ‘adults’). This digital market became essential for mobile support.\textsuperscript{109} PWC considers 2010 as the tipping point\textsuperscript{110} for e-readers to penetrate the mainstream markets with declining prices for e-readers: spending rose by 51% (PWC 2011). The consultancy predicts that most of the growth of the sector will be triggered by electronic books during the next five years, a compound annual rate of nearly 35% and sales growing from less than 3 billion US $ (out of 109 billion)\textsuperscript{111} in 2010\textsuperscript{112} to 12 in 2015 (out of 119 billion US $).

The introduction of these new services and products together with the new distribution technologies are opening new opportunities for the sector. Publishers of all varieties are in

\textsuperscript{107} A non profit organisation created in 1996.
\textsuperscript{108} A 6-inch electrophoretic display.
\textsuperscript{109} Source: F. Benhamou (2011).
\textsuperscript{110} There seems to be a consensus within the industry about this year as acknowledged, for instance by the French trade association SNE on their website under ‘numérique’: http://www.sne.fr/dossiers-et-enjeux/numerique.html
\textsuperscript{111} In 2009, ebooks stood for 1.9% of the total sales (17.2 billion euro) of printed books in the US. Source: Benhamou et al (2010).
\textsuperscript{112} PWC was more conservative as they forecast 1.8 billion US $ for 2011. PWC was much more optimistic with their 2000 report when predicting spending on e-books of $ 5.4 billion by 2004. Quoted by Thomson (2010).
a good position to exploit any new opportunities since nearly all content is available in
digital form. As a new service, Amazon launched, in March 2009, "Kindle Profile" for
highlights and notes. It raises several challenges that will be dealt with in the next
chapter.

113 Highlights are passages in a book that literally highlighted for later viewing. Notes are custom notations
inside a book, much like scribbling in the margins of a paper book. Both highlights and notes are private by
default, but can be made public on a book-by-book basis.
reading-to-kindle-but-98002.html?partner=rss&emc=rss
2 A Changing Industry Structure

2.1 The publishing value chain

Publishing is perceived as a long term business (hence the joke: "an easy way to make a slow buck") as profit margins are slim. This has meant a stable organisation of the value chain to allow the publisher to build the portfolio they need to sell books over long period of time. Such a catalogue is indeed a source of stability and profitability but came under pressure under some developments in the 80s and 90s (Thomson, 2010): hardback revolution as instead of the backlist paperback the front list hardcover sales grew quickly, the increasing role of large corporations pushing for more rapid growth (including through mergers and acquisitions) and an increased financial pressure. Nevertheless the core business involves a well functioning relationship between the different parts of the value chain. We will present in the following sections the rocky road toward digitization.

2.1.1 Networks of cooperation

We will start by taking a look at the traditional value chain of the sector.

![Figure 21: The traditional value chain](image)

The content is supplied by the author who provides the work directly to the publisher or indirectly through the mediation of an agent. According to Thomson (2010), this kind of middleman saw his power growing in the English-language trade publishing, what he described as a "proliferation of agents" even if the real number of professional seems to be difficult to establish.

One major feature on the creative side is that this creative workforce is usually not supported directly, at least on a regular basis by its main customer the publisher, a feature shared by other creative industries. The author appears to be more in the position of a supplier working under various contractual arrangements. They will receive in most cases royalties within the range of 7% to 15% of the list price set for the physical book.

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114 Quoted by A. Busson (2011).
115 Thomson dates back the apparition of these professional agents to the late 19th century in London.
116 He quotes Publishersmarketplace.com for data and gives an indicative 1018 for agents active in recorded deals in 2008.
To have an indication of the size of authors’ workforce, one can take a look at the data dealing with the French case. As of 2008, the entity in charge of managing the social security regime of the French authors (Association pour la gestion de la sécurité sociale des auteurs: Agessa) registered some 11,000 artists-authors, mostly from the book sector, the photography and the audiovisual sector (M. Gouyon, 2011). The number has grown by 58% over the last fifteen years; two thirds are men, but women are more and more numerous especially within the writers, photographers and playwrights. The average is 49 years. Half of this population receives less than 10% of the revenues but 10% concentrate over 50% of the revenues. This is a low figure as most of the authors do not register, therefore the global figure is estimated to 55,000 (Gaymard, 2009). The book sector is a notable exception within copyrighted industry as it is the only sector where authors derive a significant amount from royalties (Benhamou and Sagot-Duvaouroux, 2007: 11) : in the case of the French market in 2004, 427 million euros (Benhamou and Sagot-Duvaouroux, 2007: 11), around 400 million in 2009\(^{117}\) (Minidata Figures 2011: 9) out of a market of 2.8 billion euros and a stream of 126 million euros for the sales of rights in 2009 (Minidata: 9).

\(^{117}\) The amount peaked in 2006 at nearly 500 million (Minidata 2011: 9)

### Table 20: Composition of the workforce, France, 2007

<table>
<thead>
<tr>
<th>Occupation</th>
<th>Number</th>
</tr>
</thead>
<tbody>
<tr>
<td>Literary occupations (total)</td>
<td>79,973</td>
</tr>
<tr>
<td>Journalists and publishing executives</td>
<td>55,067</td>
</tr>
<tr>
<td>Translators</td>
<td>15,116</td>
</tr>
<tr>
<td>Writers</td>
<td>9,790</td>
</tr>
</tbody>
</table>


The publisher is at the core of the business. His function covers the aggregation, presentation (reading, editing, and designing), pricing and marketing of the books and
dealing with other parties of the value chain including the technical intermediaries (printers, phototypesetting, binders...) and specialised workforce in-house or outsourced (proofreading).\textsuperscript{118} He is also responsible for the “quality” of the edited product. In this particular case, he may not have to finance the initial content creation but its funding role nevertheless grants the publisher a pivotal position.

One of the business model for the development of specific content is based on publishers’ advancement of funding to authors (usually bestsellers) in exchange for the property rights over content (including, in some cases, future works). Once the advance is recouped from sales of the product, content creators start receiving royalties, usually a share of the revenue per unit of content sold. The revenues from the sales are shared between the different players. For instance, in France, the price of a book is split as follows: author (11%), publisher (14%), printer (16%), distributor (wholesale part, 11%: logistics, + “diffuseur” – e.g. sale force: 7%), retailer (36%), VAT (5.5%). In the US, if we follow M. Rich, for a typical hardcover\textsuperscript{119}, priced at $26, the bookseller will generally pay the publisher $13. The publisher has to cover the following costs: about $3.25 to print, store and ship the book (including unsold copies returned to the publisher by booksellers), about 80 cents for cover design, typesetting and copy-editing, $3.90 for the author’s royalty (generally 15% of the hardcover price). The publisher is left with $4.05.

The main technical industries\textsuperscript{120} are printing, binding and phototypesetting, a technical segment that went through difficult economic times, at least in most EU countries.

The distributors store the goods in warehouses, and deals with the order of the wholesalers and retailers, managing the logistics. The implementation of automated systems for stock chain and return management, facilitated by book classification according to international standards (International Standard Book Number or ISBN, and Global Trade Identification Number: see Box 2) have reduced the costs of distribution and started to replace what in some cases used to be personal interactions between booksellers, distributors and publishers (Abadie et al, 2009). This increases the range and the scope of the inventories that can be accessed by booksellers, making it possible to address customer demand more efficiently. Some specialised wholesalers will take care of the institutional customers such as libraries, universities.

Box 2: The International Standard Book Number: emerging issues

| The ISBN is a digital system created by ISO in 1970 to identify the title and editor of a work released by a publisher. An ISBN is assigned to each edition and variation (except reprinting) of a book. The International ISBN Agency is the registration authority for the ISBN system and manages the system globally through a network of national or regional ISBN agencies who assign ISBNs to publishers. The main functions of the International ISBN Agency are to promote, coordinate and supervise the world-wide use of the ISBN system. The entity in charge of the assignment vary from country to country, allocation can be free |

\textsuperscript{118} Under critical skills for publishers, FEP (2006) lists the following: editorial (commissioning and acquisition, copy-editing, proof reading, index making, copyright Fees), production (typesetting, layout and design, printing and binding, insurance and shipping), sales and marketing (representation and generation of orders, marketing plans and promotions, advertising), fulfilment and distribution (order processing and servicing, fulfilment and delivery, IT Systems, warehouse management), financial (Authors’ Royalties, especially advance payments, management accounts, creditors and debtors).

\textsuperscript{119} Coleman and Bazelon (2011:38) give the following breakdown: 15% for author royalties; 7% for the costs of paper, printing, and binding; 4% for marketing; 7% for distribution, and the remaining 18% to cover rent, editors, a sales force, and any write-offs of unearned author advances.

\textsuperscript{120} Data are not available for these industries.
of charge or for a fee (various charging arrangements from a single number to block of numbers). For instance, in the United Kingdom and Ireland the privately held company, Nielsen Book Services, charge a fee for lots of ten or more. In France, the numbers allocated by the agency AFNIL are free. In some cases (e.g., Belgium, Switzerland), there is more than one agency responsible in a country.

In Spain, the numbers have been issued by a department of the ministry of Culture until 2010 it was then transferred to the Federación de Gremios de Editores de España. A fee has been introduced to help upgrading the allocation process. However, small publishers claim that it tilted in favour of the larger publishers and is imposing a toll on digital books. They state that 45 euros for a digital book will prevent self-publishing according to El Pais. In 2011, 15 935 numbers were issued out of which around 20% for e-books.

In November 2010 the International ISBN Agency issued a set of guidelines to keep up with the changes taking place and to assist national ISBN agencies, publishers, intermediaries and other interested parties in the appropriate identification of digital publications, including "apps". Each format receives a specific number. However, the digital publication landscape is still in development and the impact of different types of Digital Rights Management software and of different usage rights settings on the assignment of ISBN is a complex issue followed by the ISBN agency.121


The retailers will stock the books, display and sell them to the end customers. It is also a segment that has been under considerable economic pressure during the previous decades. The prospect for survival looked often rather dire especially for small bookstores with the consolidation that took place in book retail, especially in countries with no minimum fixed price for books, potentially reducing available distribution channels for niche publishers. The rationale of the introduction of single price regulation of books by some EU governments (9 EU Member States: Austria, France, Germany, Greece, Luxemburg, the Netherlands, Portugal, Spain) was to protect a network of retailers122,123 (see Section 3.1). Such a network of retailers can bring additional, more personalised, services to their customers or enhance the "book-shopping experience" creating forms of social spaces (including “cafés”) to survive. As pointed by Abadie et al (2009), smaller bookshops could benefit from an on-line environment allowing them to provide more services catering to niche demand and using their expertise for content filtering and classification. Databasis were already introduced in the 80s for retailers and publishers (Electre in France, for instance124), but also for the cooperation of distributors and retailers through EDI.125

On the opposite, the growth of large retail chains, especially in the US and UK shifted the bargaining power away from publishers to these large retailers (Thomson, 2010) (see Box 1 US distribution channels, and Box 3, Barnes & Nobles). The market power of large bookstore chains makes it possible for them to impose harder conditions on publishers and distributors. The rise of these chains contribute to lower the window of opportunity but escalated the level of returns to the publisher; shifting some of the storing costs back to them. However, even the large retail chains are vulnerable to the changes in the market and the appearance of the on-line players, as illustrated by both the bankruptcy of

122 According to assessments by the French Ministry of Culture, this goal was more or less achieved.
123 This is acknowledged as an advantage by the international trade association, International Publishers Association (IPA), fixed book prices ensure the existence of small, independent bookshops even in remote locations, nevertheless pointing some drawbacks. http://www.internationalpublishers.org/index.php/-industry-policy/-fixed-book-price/pros-a-cons
124 1 200 000 titles, out of which 500 000 out of sales: www.electre.com
125 In France: dilicom-prod.centprod.com
Borders\textsuperscript{126} (399 stores, the second-largest U.S. bookstore chain) and the forthcoming financial rescue of Barnes & Noble: the media conglomerate Liberty Media has offered to acquire 70% of Barnes & Noble in July 2011,\textsuperscript{127} Microsoft intervened in 2012\textsuperscript{128} to support the subsidiary in charge of the e-reader (Nook). A threat summarized by a consultant to US publishers: “If you want bookstores to stay alive, then you want to slow down this movement to e-books...The simplest way to slow down e-books is not to make them too cheap.”\textsuperscript{129} (See Box 6 on Apple and cartel issue)

**Box 3: Barnes & Noble**

Barnes & Noble, Inc. (Barnes & Noble) is a bookseller. The company is a content, commerce and technology company that provides customers access to books, magazines, newspapers and other content across its multi-channel distribution platform.

As of May 1, 2010, the Company operated 1,357 bookstores in 50 states, 637 bookstores on college campuses, and one Web eCommerce sites, which includes the development of digital content products and software. Barnes & Noble operates in two segments: B&N Retail and B&N College. B&N Retail refers to Barnes & Noble excluding B&N College.

The Company’s principal business is the sale of trade books (generally hardcover and paperback consumer titles, mass market paperbacks (such as mystery, romance, science fiction and other popular fiction), children's books, eBooks and other digital content, eReaders and related accessories, bargain books, music and movies direct to customers through its bookstores or on Barnes & Noble.com.

The company released its own reader Nook in July 2009. A Goldman Sachs analyst report forecasts Nook-related sales going up from $62 million in 2009, to an estimated $1.16 billion in 2012\textsuperscript{130}. In 2012, the company formed a strategic alliance with Microsoft. Microsoft invested in the subsidiary 300 million US $, for a 17.6 percent equity stake in Newco: “giving the new business a valuation of US$1.7 billion. As was widely noted, this gives the new unit a higher valuation than Barnes & Noble as a whole – indicating the pressure on its core book retailing activities”\textsuperscript{131}.

Source: annual report and company information available through:  

The publishers are all the more central as other segments have been highly weakened: printers, retailers (especially these smaller bookshops) and now with the rapid development of on line distribution, distributors.

**Institutional customers: the role of libraries**

Libraries have been, in a way, consubstantial to the books even with evolving relationships and functions. They are as old as the book itself, for centuries they were the only place where books could be found as books were consulted not sold. They are indeed major institutional customers\textsuperscript{132} and can provide additional streams of revenues in a stable way,

\begin{footnotes}
\item \textsuperscript{126} Borders filed for bankruptcy protection in February 2011.  
http://online.wsj.com/article/SB1000142405270230456760456456430727129532.html
\item \textsuperscript{128} Source: “Barnes & Noble and Microsoft ink Nook partnership deal”,  
http://www.mobilebusinessbriefing.com/articles/barnes-noble-and-microsoft-ink-nook-partnership-deal/23688?elq=fc6081dcb8143bb9c7fde5292ae57d
\item \textsuperscript{129} Mike Shatzkin, Chief Executive of the Idea Logical Company, quoted by M. Rich.
\item \textsuperscript{130} Quoted by Coleman, Bazelon: 45.
\item \textsuperscript{131} Source: “Barnes & Noble and Microsoft ink Nook partnership deal”,  
http://www.mobilebusinessbriefing.com/articles/barnes-noble-and-microsoft-ink-nook-partnership-deal/23688?elq=fc6081dcb8143bb9c7fde5292ae57d
\item \textsuperscript{132} For instance, in France there is a network of 2 800 municipal libraries offering 106.3 million books to some 5.3 million registered users. In the same country, in 2009, university libraries held 35 millions titles
\end{footnotes}
as quoted in 4.4, institutional customers bring revenues estimated to £147.4 million (2007/2009, out of £3,053 million) in the case of UK. Libraries played a major role, in the US, for university presses.

They may act as enabler of the introduction of new technologies (for instance, in the 80s, with the creation of the French “Très Grande Bibliothèque” (TGB) and the accompanying decision to digitize the books), this happened with the computerization of specialised data basis. The institutions can boost sales of e-books through public procurement for instance in the educational sector where policies appear to be whimsical or unpredictable according to some players. They may as well delay the process.

Nevertheless, libraries are going through a transformation of the way to provide services to their customers in order to better match the new digital environment. However, moving from the acquisition of books to the era of access triggers new issues for libraries. The books bought belonged to the public entities but access is always negotiable and terms and conditions can be modified. As already illustrated with the example of scientific, technical and medical publishing the subsector already digitalized, the publishers tend to increase the annual access fees thereby putting the libraries under pressure at a time when their budget is rather on a declining trend than on an increasing one. Academic and research libraries are the major customers in that field. As noted by P.Carbone (2011:1) in a report for the French administration: “the growing number of publications and their constant cost increase (about 10 to 15% per year in the eighties and nineties) led scientific institutions in many countries to form consortia, allowing them to better negotiate prices for electronic resources and to group their purchases”.

The digital libraries initiative is now part of the Commission’s Digital Agenda for Europe and designed “to make all Europe’s cultural resources and scientific records – books, journals, films, maps, photographs, music, etc. – accessible to all”.

“The initiative focuses on two areas:

- cultural heritage – creating electronic versions of the materials in Europe's libraries, archives and museums, making them available online, for work, study or leisure, and preserving them for future generations;

- scientific information – making research findings more widely available online and keeping them available over time”.

Besides, Europeana, launched in 2008, is meant to provide “a single access point for consulting digital copies of the materials held by libraries, museums and archives”. The
recommendation, adopted in October 2011, further enhances concerted action by the Member States to digitise their cultural heritage\textsuperscript{139} which is already the case with the French Gallica\textsuperscript{140} and the German Libreka!\textsuperscript{141} (the latter being a private public partnership).

The fact that now these public entities are now competing with private ones like Google book or Yahoo (Open Content Alliance) is a new phenomenon that triggers various policy issues as exemplified with the case of the Google books settlement (see Box 7) with a shift from public regulation to contract law.

\textit{Self publishing and vanity press.}

This field may differ from the news where blogging and citizen journalism bloomed. Indeed, the low barriers to entry are not equivalent to a new form of pervasive on-line publishing, the expertise of the publisher may be more crucial in that case (not to mention the marketing/promotion of the product).

Nevertheless, digital self-publishing may appear more lucrative for authors. Amazon for instance will grant to a self-published author, $ 6.99 for each e-book (instead of the net $1.75 to be received from most major publisher for a similar e-book) sold on Amazon’s Kindle e-bookstore for $9.99.\textsuperscript{142} New digital vanity presses or self-publishing companies like Lulu, JePublie, BiblioCrunch (Benhamou, 2012b: 93) are appearing. Lulu will pay $5.99 to authors for e-books sold through the iBookstore for $9.99 (Coleman, Bazelon: 48).

For unknown authors, their lack of popularity is likely to be a major obstacle. However, this is not the case for well established authors and this may turn out to be a threat for publishers. In 2009, King published \textit{Ur}, a novella written exclusively for the launch of the second-generation Amazon Kindle and available only on Amazon.com.\textsuperscript{143} Amazon has taken an early lead, providing service tools (Amazon Digital Text Platform) for authors to self publish and creating an imprint last year to publish promising authors in print and online. Other publishing systems are available such as Lulu, or Barnes & Noble’s PubIt!\textsuperscript{144} The American novelist Tom Drury told the Spanish newspaper "El Pais" how pleased he was to have a publisher working for him.\textsuperscript{145} Marketing and other core competences will remain key but it may opens up some niche markets either on the professional, technical side or on the more "creative" but highly specialised side, with poetry for instance as noted by S. Wildman.\textsuperscript{146} This may allow new forms of “vanity press” to bloom. On the technical side

\begin{footnotesize}
\bibitem{138} Commission recommendation on the digitisation and online accessibility of cultural material and digital preservation, C(2011) 7579 final.
\bibitem{139} In line with the suggestions of the report ‘The New Renaissance’ by the ‘Comité des Sages” on bringing Europe’s cultural heritage online’ of 10 January 2011.
\bibitem{141} http://gallica.bnf.fr/
\bibitem{143} Throttle, a novel co-written with his son Joe Hill, which later was released as an audiobook Road Rage.
\bibitem{144} Or FastPencil, Publish Green, Scribd, or Smashwords (Coleman, Bazelon: 47).
\bibitem{145} Tom Drury, El Pais, Libros, Entrevista, Babelia, 13 August, 2011, p. 11: “Me encantan los editores no quiero trabajar sin ellas! Un buen editor es lo mejor que le puede ocurrir a un novelista”.
\bibitem{146} Intervention at the IPTS 2d MCI workshop.
\end{footnotesize}
some highly specialized consultants/authors can sell directly (to their own customers) or through on-line distributor.\textsuperscript{147} Just like in the case of music it provides a novel way to scout for talents.

\section*{2.2 Going digital: from books to e-books}

\begin{figure}[h]
\centering
\includegraphics[width=0.5\textwidth]{image}
\caption{Example image caption}
\end{figure}

\textit{Source: E. Turrin.}

One should not overlook that technologies, as enablers, do not operate in a vacuum. As a shift if happening from products to services, toward more "dematerialisation",\textsuperscript{148} it is all the more important to take into account the evolution of the patterns of consumption,\textsuperscript{149} with emerging practices of "\textit{consumaction}" that already affected strongly other sectors such as the music industry. However, self-publishing is spreading.

We are moving toward a "new design" of markets, with new players entering the markets, the balance of the value is shifting toward the downstream\textsuperscript{150} making the creative part more "secondary", new localisation basis and world integration ("mass-customization"). These elements, together with a central role of aggregators (an output of the asymmetry of information of the markets), characterize the digital cultural economy and are bringing new business models to compete for the economics of experience and attention according to F.Benhamou (2011).\textsuperscript{151}

The main economic actors of the hyper offering are information portals and aggregator of contents (search engines providers, social networks and IT manufacturers) allowing unprecedented form of vertical competition. There is a new dominance of prescribers as social networks bring a drastic change in the behaviour of customers, away from the "informative web" characterised by the line "on the Internet nobody knows you're a dog", now on the opposite users are willing to share with their "friends" (an average of 130 friends on Facebook), moving from the "\textit{wisdom of the crowd}" (recommendations on web 2.0) to the "\textit{wisdom of the friends}".

\begin{itemize}
\item \textsuperscript{147} "We had to front about $4,000 in design and production costs. Our gross margin is anywhere from $6/copy (for books sold through Amazon.com) to $19/copy (for books we sell at full price)". Case reported in 2005: http://www.frozennorth.org/C509291565/E1906135870/index.html
\item \textsuperscript{148} This section relies on two P. J. Benghozi's presentations: at the "Les modèles économiques du livre et le numérique" Conference, Innovation and Regulation Chair, Orange, Ecole Polytechnique, Telecom Paris, Paris, 15 June, 2010, and at the IPTS MCI workshop, "The cultural economics at the digital age: a second shockwave", presentation available under: http://is.jrc.ec.europa.eu/pages/ISG/MCI.html
\item \textsuperscript{149} Typically, in another sector, the music industry, the glorious days of the album format in music may be over. Younger customers are listening to music in a more itemized way, creating their own repositories.
\item \textsuperscript{150} This is a well-known feature of mature or maturing markets. In emerging market, upstream (artists and/or engineers) will prevail but a mature market will be dominated by marketing people.
\item \textsuperscript{151} "Case study: from books to ebooks" at the first IPTS MCI workshop, May 2011.
\end{itemize}
2.2.1  A first step: on-line distribution of printed books

Indeed new channels of distribution (Internet) are bringing cheaper and more efficient vehicles, together with a strong pressure to get rid of intermediaries while at the same time new aggregators/distributors are appearing. This process of disintermediation/ re-intermediation is common to other subsectors\textsuperscript{152} and has a strong impact on the structure of the market.

The introduction of on-line distribution illustrates that process. Created in 1995, Amazon.com (see Box 4) has reached a position of dominance in the online book sale market: Amazon.com’s large catalogue can be browsed using a simple searching interface, enhanced with additional tools such as customer contributed reviews, links to similar items based on other customer’s shopping history, and in some cases, online access to samples of content: the result is a list of available copies which can be purchased from Amazon’s stock, or alternatively other participants, who in many cases offer second-hand books (Amazon.com collects a fees from their sales). The strong online position of the company is reinforced through a program of affiliation with external web-sites who display links for the purchase of books in Amazon, obtaining a commission in exchange for the sales (Abadie et al, 2009).

\textbf{Box 4: Amazon}

\begin{quote}
Amazon was formed in the first days of the Web, in 1995 in Seattle on the North West coast of the USA. It offered early consumer e-commerce in books only over the Mosaic browser and its first descendents such as Netscape. In its very early days it only sold one product, books, from a warehouse in Seattle. Its founder Jeff Bezos, who came from a NY hedge fund background, was crucial to its formation, business model, early survival, financing and massive success. It also nearly went bust in its early days. The company first advertised in tiny ads on the front page of the NY Times, before growing enormously fast through excellent logistics and order-taking with viral marketing.

Amazon grew up in a world of book delivery dominated by the publishers and dominant physical distributors, with traditional mail and phone ordering distributors such as Ingrams – the market leader in the USA. Amazon’s major advantage was its original innovation, selling books over the internet. In getting there first, it grabbed the key position of first-mover. The development trajectory has been very fast as illustrated by the diagram. A table below gives its present profile:
\end{quote}

\textsuperscript{152} For instance the video games industry, see De Prato et al (2010).
As the diagram shows, Amazon has had one of the fastest growth rates in the history of the Internet's history even against eBay and Google. Amazon has since become an e-commerce platform for others, based on its pioneering retail e-commerce/ e-shopping business in many product categories, not just books. Since 2007 it has had successful and logical extensions into e-books with its own e-readers (the Kindle family) with an e-library for charged-for titles for download. Now it has launched cloud computing services, based on its own business infrastructure to sell to others.

The company located in Seattle, being low-cost and giving access to the whole US continent in its first growth phase. It then expanded overseas in the first five years via acquisition of web-based bookstores in the UK and Germany.\(^\text{153}\)

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\(^\text{153}\) Bookpages, of Slough, UK and ABC Telebuch of Regensburg Germany.
One long-time feature that has helped Amazon become the largest Internet retailer in the world is the customer review section that occupies the bottom of most product pages. This was an early way to harness personal opinions on products, free, preceding such innovations as Facebook’s popular ‘like’ button. Up to 2000 it also featured the largest book reviewing department in the USA, which was exchanged for a ‘personalisation’ engine that built profiles for customers, to suggest future buys.

Amazon has entered certain quite new markets and then withdrawn as it could manage the processes that inevitably come with a new business model. Thus expansion has mainly been through selling different products online (the book model) rather than entering new segments like search, auctions or social media (so far!). Instead it has now expanded into 16 product categories, from the first catalogue of books. They include for example: Amazon-branded electronic products; AmazonFresh sells and delivers groceries in Seattle; AmazonStudios is an online social movie studio; Amazon WarehouseDeals offers discounts on refurbished products. Amazon’s Marketplace grew into a highly profitable clearinghouse for used goods.

Amazon is adept at reading the market, pursuing their customers progressively into new areas, preferring to innovate incrementally while keeping a close eye on the innovations of competitors. Amazon strongly tracks the technology trends that can help to create that differentiation. Much is incremental but sometimes leads with major discontinuities such as, for instance the recognition of the internet as delivery channel via e-books. Then, the introduction of its own-design e-reader (Kindle) at low cost, with the aim of selling downloaded digital content – e-books and e-mags. The latest is now Fire, a low-cost tablet (US$199 vs Apple iPad at $499) with hundreds of apps tied to Amazon services, so the customer is locked in – also locked in via DRM on book sales in a proprietary Amazon format for the Kindle. New book launching sales are now driven by Kindle. There seems to be a tablet pricing model in use whereby the Kindle is only the key to the e-book website. Logically it should thus be at near-to-cost price, because the profits lie with the e-books that are downloaded to it.

Amazon, despite its apparently virtual presence in cyberspace, is very much a hardware company needing heavy amounts of capital investment for the two key business processes:

- its sales interfaces, which rely on some of the world’s largest data centres with intensive use of computer hardware and storage, consuming many megawatts of electricity running its order-taking, statistics, sales, cataloguing and customer profiling engines on a base of cloud –computing.
- A logistics chains of dispatch centres for warehousing and ground transport with a host of delivery services partners.


The same study notes some reluctance from European publishers to fully endorse new forms of distribution. They tend to approach the online environment as rather a marketing channel, than a distribution one. However, the on-line markets grew in the EU. In Germany, eleven firms are sharing the on-line market: four pure players (Ciando, Beam, Projekt Gutenberg and Texture), two belongs to major groups (Springer and Bücher), three are subsidiaries of large retail chains (Hugendubel, Buch.de and Thalia), Libri! is a subsidiary of a wholesaler. Libreka! is an original creation from the German booksellers (Börsenverein des Deutschen Buchhandels) which started operating in 2009 (Benhamou 2010).
2.2.2 Going virtual

As noted earlier, the previous years saw a new momentum for the growth of e-books. The French publishing house Hachette is now getting 9% of its US revenues from e-books, from only 3% in 2008 and 15% is forecast for 2015.154 The market took off only in recent years even if some of the technologies have been around for quite some time, already some 40 years according to E. Turrin,155 in 1971 with the Gutenberg project to publish works under a digital format (30,000 references, free e-books).

Digital technologies were introduced in the publishing value chain upstream, but not used for the final product. The players appeared to have been reluctant to opt for this direction. However, historically, the 80s went through some kind of “cd-rom fever” which never delivered its promises and increased the caution toward digital technologies.156 As noted by Abadie et al (2009), comparing with other subsectors,157 the book sub-sector seems to be the one where the impact of ICT innovation has been less significant. They perceived this as a consequence of the prevalence of the traditional book format over alternative platforms for digital distribution and reproduction, whose adoption has been hindered by the absence of suitable technologies and uncertainty regarding standards for reproduction and DRM. Revenues derived from this new channel are also lower to the one received from the...

155 First IPTS MCI workshop, May 2011. In 1971, the project was already using optical recognition of character (OCR).
156 Emphasized by Virginie Clayssen, Editis and chair of the digital commission of the SNE, at the Jornadas del libro digital, May 2012: “went nowhere”.
157 Audiovisual production (film and television broadcasting, excluding advertising), music recording and publishing, videogame development and publishing.
printed material, as long as new services and products are not generated. No wonder that this "digital revolution" could be perceived not as a booster but as "a brake" for the growth of revenues by major publishing groups, as stressed by *Livres Hebdo*.

**A trade segment lagging behind**

The ability of this new nascent market to compensate for declining or stable sales is clearly a major issue for the industry. In the leading market, the US (see Figure 6), it does not appear to be the case; the growth of e-books sales does not compensate the losses or revenues. However, IDATE (Digiworld Yearbook, 2011) foresees that on a global scale, the sales of e-books will compensate the decline of the physical books with the notable exception of Japan where the book market has been declining since 1999. For the EUS5 markets, Table 21 presents the data. Table 21 also shows that despite of the assumingly fastest growth of the eBook segment, the share of the new segment will still remain modest in 2014: 16 billion euros for printed books v. 1.6 billion for eBooks.

**Table 21: The e-books markets in the EUS5, 2008-2014 (billion euros)**

<table>
<thead>
<tr>
<th></th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>PRINT</td>
<td>17.6</td>
<td>17.5</td>
<td>17.2</td>
<td>16.9</td>
<td>16.5</td>
<td>16.2</td>
<td>16</td>
</tr>
<tr>
<td>eBook</td>
<td>0.1</td>
<td>0.2</td>
<td>0.4</td>
<td>0.6</td>
<td>1</td>
<td>1.3</td>
<td>1.6</td>
</tr>
</tbody>
</table>

*Source: Idate, 2011.*

So far the European e-book markets displayed a fragmented and diversified picture as fast expanding markets and initiatives go alongside very underdeveloped markets and businesses.

**Figure 22: The evolution of the top EU markets, 2008-2015**

*The European Top-Five printed and e-book market, million EUR, 2008-2015*

*Source: Idate (2011).*
The trade segment is still lagging behind or worse, to quote the French trade paper, *Livres Hebdo*, is caught in a “digital divide” (Piault, 2011) in most markets. Even if the US major companies are now receiving a more substantial portion of the revenues, if the UK market appears to get started, digital activities are held negligible. Nevertheless, some major digital platforms, bringing together several national companies were launched in 2010: in Italy (Edigita by RCS, Mauri Spagnol and Feltrinelli), France (Eden by Flammarion, Gallimard and La Martinière) and Spain (Libranda by Planeta; Santillana, Roca Editorial, Grup62, Grupo SM, Wolter Kluwer and Random House Mondadori). In Spain during 2011, 60 new e-books companies have been created and out of the 3500 publishing houses, 500 are offering digital books (Lizaranzu, 2012). In Germany, Bertelsman is preparing a platform in cooperation with the other German publisher Holtzbrinck. This evolution may pave the way to a ramped up switch to digital.

**Box 5: E-Books in Germany: a consumer survey**

The consumer survey carried out for the German book publisher trade association (see 4.1 Germany), in 2008, claims E-books are the future of the market stressing that already half of the 20 - to 29 year-olds are familiar with this medium. The younger ones (10 to 19) are even more open as 40% of those who know the e-book find the option to download books electronically attractive. The survey claims an overall level of awareness of e-books of 31%. One out of five readers indicates his intention to purchase electronic books in the future.

So far, textbooks (business and scientific) are dominantly downloaded (42% of the total) but women are downloading up to 39% fiction books. The table below indicates the kind of e-books that were downloaded in 2007-2008.

<table>
<thead>
<tr>
<th>Kind of e-books</th>
<th>Total</th>
<th>Women</th>
<th>Men</th>
</tr>
</thead>
<tbody>
<tr>
<td>Business and scientific</td>
<td>42</td>
<td>30</td>
<td>46</td>
</tr>
<tr>
<td>Non fiction</td>
<td>35</td>
<td>26</td>
<td>39</td>
</tr>
<tr>
<td>Fiction: novels</td>
<td>26</td>
<td>39</td>
<td>21</td>
</tr>
<tr>
<td>Guides and cook books</td>
<td>18</td>
<td>17</td>
<td>19</td>
</tr>
<tr>
<td>Crime</td>
<td>12</td>
<td>14</td>
<td>11</td>
</tr>
<tr>
<td>Teaching</td>
<td>7</td>
<td>3</td>
<td>8</td>
</tr>
<tr>
<td>Travelling guides</td>
<td>5</td>
<td>5</td>
<td>5</td>
</tr>
<tr>
<td>Children</td>
<td>3</td>
<td>3</td>
<td>3</td>
</tr>
<tr>
<td>Side of the sample</td>
<td>231</td>
<td>64</td>
<td>167</td>
</tr>
</tbody>
</table>


However, they are ample variations according to the kind of publishing activities, with scientific, technical and medical (STM) publishing already under digital format (90%). This segment has been involved earlier in a transformation that is now almost completed; the

158 See the comparison US, UK provided by the UK Publishers Association (PA) (2011).
"paper" output became marginal within the data based sales and services provided by the largest companies. For instance, Thomson Reuters a US company, ranked n°3 by Livres Hebdo, derived, as of 2010, 90% of its revenues from such services. Reed Elsevier (UK/NL/USA, n° 2) nearly 75%, up from 50% in 2009, Wolters Kluwer (NL, n°4) near 70%. Their business model differs from the core trade publishing companies due to the role of subscriptions in their revenues: 86% for Thomson Reuters in 2010. However, the same report stresses that this switch was very painful for the companies with massive social plans, reinforced because of the 2008-2009 crisis. In the trade segment some specialised publishers managed the shift, this is the case for instance of the French publisher Harlequin ("sentimental" fiction\textsuperscript{159}) which already released over 270 000 eBooks (Benhamou, 2012).

Some new intermediaries are also appearing to supply services to publishers to enable the transition, for instance, in Spain Publidisa, a ten year old company which was involved in the first Spanish e-book project in 2001,\textsuperscript{160} provides service to some 700 publishers in Spain, to a network of booksellers\textsuperscript{161} and was involved in the production of 30 000 e-books. The company claims that the digital technologies allow a better management of publishing with "just in time marketing".

Idate (2011) predicts that the revenues coming from e-books within the book market will go respectively from 2008 up to 2014, from less than 1% to around 17% in the US, from 2% to around 8% in Japan, and from less than 1% to nearly 9% for the EU5. According to the FEP, it seems difficult to gauge as it varies across sector, the data are not always consistent, most likely between 8 and 10% of the market. According to the same source, despite very high rates of growth in the developed markets, the overall size of electronic publishing is still very small compared to the printed book market ranging from les than 1% to maximum 5% of the book market. This is in keeping with the relative size of online segments relative to off-line in other media as well, the former still prevailing by and large and consistent with our presentation of the data of the main markets in Section 1.4.

Therefore, F. Benhamou\textsuperscript{162} highlights a paradox: this is still a minor market and is considered, by publishers as a by-product rather than a newborn, and yet the growth is strong, it is at the core of the concerns of all actors in the book world as it disrupts the whole book ecosystem. For F. Benhamou, the notion is not that easy to define: a text that broke free from its own support? A dedicated or semi-dedicated material? A book without a full stop? How to delineate what could be labelled as an e-book: are we talking about digitised available contents (called “homothetic” or “facsimile” e-books)? About enriched contents, new e-contents? New formats? Or just about a device, the e-reader? Different options will yield different overview of the scope and impact of the phenomenon.

Still following, F. Benhamou, “the demand side is uncertain and the extrapolation from first users’ behaviour is always a difficult exercise. They are a variety of potential readings mode: nomad (from one kind of content to another) and nonchalant (brief attention), consultation, split by new developments, “predatory”\textsuperscript{163}. Such a variety of potential uses

\textsuperscript{159} Called “romans à l’eau de rose” in French.

\textsuperscript{160} Publidisa claimed it was the 1st in the world. Lucia Fournier at the “Jornadas sobre el libro digital”, May 18 2012.

\textsuperscript{161} www.publidisa.com/canales/red-libreros-afiliados.es


\textsuperscript{163} Translated by the authors from Benhamou et al (2010).
opens the way for a plurality of supply and price policies. However, as emphasized by E. Turrin, digital publishing has a potential to meet the needs of users, proposing enhanced accessibility (font size, text to speech, audible menus...), mixing with other interactive contents, well fitted to better reach the digital natives, and even...lighter school bags.\textsuperscript{164}

\textit{Toward new industry configurations?}

The commercial strategies being implemented by both traditional and new players in the book publishing industry are laying the foundations for various possible publishing industry configurations. Dematerialisation is leading to changes which are likely to affect whole industry, e.g. the emergence and the changing role and relative importance of various industry players (strong level of risk for retailers such as book shops), the loss, creation and transfer of value and industry restructuring.

The legacy cost structure is altered. Some costs disappear (printing, physical transportation, storage),\textsuperscript{165} some remain unaffected (creation, author’s advance, editorial process, marketing and sales), some are shifted (promotion with the coming of blogs and other tools) but some are appearing mostly on the software side of the equation (computer programmes, file conversion, cataloguing and permitting search of text and metadata, storing, security, right management...). The latter are by and large a question mark, thereby making a proper assessment of the cost differential between the two formats very difficult to predict. Nevertheless, one can follow D. Waterman\textsuperscript{166} when he claims that the new media (new aggregators/ distributors) are normally more efficient as they allow differentiation. Therefore one can assume some broad gains and a higher efficiency. E. Turrin gave an estimate of a price differential of 15 to 25% from the physical product, also noting it is difficult to assess as it varies across sectors. It appears that the willingness to pay of consumers is linked to this reduction in price according to a survey (between 2% and 15% according to the kind of books\textsuperscript{167}). According to a Wall Street Journal report European publishers are charging 20 – 30 percent less for ebooks than print books.\textsuperscript{168}

The (new) players are following various strategies. Some are "pure players" serving niche markets or communities. They usually strike favourable negotiations with authors (in France, Publie.net: grants 30% to the author for downloading revenues). Others are aiming at vertical integration and lock-in. Within this category, the strategy varies. Amazon sold the new titles at a loss and imposed at first a 50/50 split to then move to a contract of agency under the pressure of publishers.\textsuperscript{169} Publishers were opposed to prices they held as too low

\textsuperscript{164} South Korea is replacing physical school books by e-books, a move allowed by a most favourable tax regime than in most EU countries.

\textsuperscript{165} According to industry sources (FEP), printing, storage and physical distribution accounted traditionally for less than one sixth of the total.


\textsuperscript{169} "Steve Jobs explained how Apple and the publishers implemented the agency model, and how the publishers expanded it to Amazon: They went to Amazon and said, "You're going to sign an agency contract or we're not going to give you the books." Quoted by Tim Carmody, "Report: Justice Dept. Threatens Apple, Publishers With Price-Fixing Lawsuit's": http://www.wired.com/epicenter/2012/03/justice-dept-threatens-apple-publishers-with-price-fixing-lawsuits-report/
as Amazon was selling many new best sellers at $9.99 (bought to publishers at about 13) to encourage consumers to buy its Kindle electronic readers.

Taking into account the fact that bookshops remain the major channel of distribution and than they operate under very tight margins, publishers should not be expected to further destabilize their main distribution channel. They may be cautious not to weaken this already weak link and may grant some time to the bookshops to adapt themselves to the new environment. The prevention of the side-effects of unregulated discounts was one of the rationales for the adoption of fixed price in several countries (see Chapter 3 at 3.1), seen as a supply side policy to avoid price competition and maintain a network of retailers. Furthermore, publishers and some policy makers claimed that low prices also have a negative impact on the ability to remunerate authors which is, from an economic viewpoint, less obvious to understand if we assume that lower prices may generate more sales and eventually more revenues. Besides, users are forced to buy eBooks exclusively from the Kindle store (Loebbecke, 2010).

Box 6: Apple, the agency model and US publishers: a case of cartel?

In March 2012, the US Department of Justice (DOJ) has opened a case against Apple, and five publishers (Hachette Book Group, Harper Collins Publishers, Macmillan, Penguin and Simon & Schuster alleging the publishers and Apple colluded to fix e-book prices. Under that type of contracts (“most favored nation” clauses) signed with Apple, publishers are prevented from selling books to other buyers at a cheaper rate. However, backers of the agency model, explained it has been a smart move to prevent Amazon from crushing bookshops with the drastic discount the company was imposing on publishers under the wholesale model. For instance after the announcement from the DOJ, Scott Turow, president of the Author’s Guild, criticized the approach claiming that agency model brought some air for retailers “Two years after the agency model came to e-bookselling, Amazon is losing its chokehold on the e-book market: its share has fallen from about 90% to roughly 60%. Customers are benefiting from the surprisingly innovative e-readers Barnes & Noble’s investments have delivered, including a tablet device that beat Amazon to the market by fully twelve months”. The defendants argue that that the agency model encouraged innovation and that the settlement was “analogous to a cartel imposing a detailed business model on publishers” with Apple adding that the US government siding with “monopoly, rather than competition”.

A settlement could be agreed on whereby the agency model would be preserved but some discounts by booksellers would be allowed. Hachette, Harper Collins and Simon & Schuster have agreed with DOJ to refrain from deals constraining the retailers’ ability to discount.

171 Position of the SNE in France for instance, V.Clayssen (2012).
172 It is odd to notice that what should work for tax return with a lower VAT in the mid-run would not work for revenues see section 3.3.
177 Id.
178 “A too-cosy world?”, The Economist, April 14th 2012, p.62.
In any case, this “closed” model, based on a proprietary platform already, this new form of vertical integration, “Apple economics” (A. Perrot, 2011), raised concerns about potential anticompetitive effects, just like the search one taking into account the dominant position of Google. Within its ecosystem, Apple is able to design and manage the customer experience which also raises concerns among regulators and consumers associations. They point at the lack of interoperability and the limitations to the potential uses compared to the physical/analogue world.

As agency agreements can result in an unauthorised restriction of competition it triggered not only an investigation in the US,179 but as noted in the UK180 and by the European Commission.181

Apple under a mandate or agency contract grants 30/70, leaving the publisher free to set the retail price, but treats the book as “just another application” something that publishers as well as other legacy players in the field may resent. Google, with its advertising based strategy, is apprehending this market as a two-sided market which basically means that the IT company is focusing on its customer base and is not as concerned with the books per se.182 With e-books, e-readers and other devices the manufacturers are now stepping in as well, bringing their device-centric model, typically as Apple is doing. Sony relies on cooperation with experienced book sellers (Loebbecke, 2010). The publishers are threatened in any case to lose the central role in the book value chain as the value chain is more and more dominated by downstream players with an increased bargaining power: in 2010 Amazon revenues were of 34 billion euros to be compared with the size of the entire German (nearly 10 billions euros), French (nearly 3 billion euros) or Spanish (nearly 3 billion euros) book markets, Apple revenues reached 57 millions US $ out of which only 4.9 millions were coming from the sale of contents.

More broadly, F. Benhamou foresees three supply models:

- An “economics of free” model where free contents are used to lure customer into buying some elements, to access other models, contents are used as a springboard towards paying access. Ex. Leroutard.com183 advertisement based or the Spanish 24 Symbols. In Libro Veritas offers a free digital copy but paid hard copies to be ordered (Benhamou, 2012: 98).

- A mirror model: purchase with downloading, guaranteed of a durable access, single rate with a variable discount over the paper book.

- A service model where the consumer is buying a service linked to some editorial content rather than the book per se.

E-books can be offered for free (Project Gutenberg, The Internet Archive) or sold around 15 euros in the EU. So far, prices are not stabilized not even for the e-reader as illustrated by the fact that, the US, Barnes & Noble initiated an e-reader Price war with Amazon184,185

180 http://www.of.t.gov.uk/OFTwork/competition-act-and-cartels/ca98-current/e-books/
181 http://www.guardian.co.uk/books/2011/mar/04/ebooks-publishing/print
182 A viewpoint summarized in March 2012 by the Italian “presidente del Centro per il Libro e la Lettura”, Gian Arturo Ferrari: “Amazon e Google vivono elaborando software sempre più potenti e dal loro punto di vista i libri sono solo materia bruta, tant’è che chiamano l’opera dell’intelletto contenuto”. Dario Giambelli (Feltrinelli) described Google as a case of “culutal imperialism” (“imperialismo culturale”). http://www.repubblica.it/spettacoli-e-cultura/2012/05/11/news/libro_liquido-34883707/?ref=HREC2-13
183 Le routard is a well known French travel guide.
184 Information from In-Stat, June 25, vol. 278.
Kobo did the same in 2010.\textsuperscript{186} In the EU prices of e-readers vary from 90 euros up to 313 euros.\textsuperscript{187} Not only the price can vary but also the way to monetize: per unit or sub-unit (chapter, page), subscription, rental rather than sale (perennial), pay per view, a limited number of downloads,\textsuperscript{188} bundled sale... These models and options are evolving toward the direction of books as service with an array of new (e)services from digital bookstores, digital bookshelves and digital libraries, a choice between purchase or rental of e-books, consultation of single works or collections and full search of books on a platform (E. Turrin, 2011).

However, in such an uncertain context the ways to pay the authors are moving targets (neither the level nor the bases are to be taken for granted). Hence the issue of the remuneration of authors is still pending. There are uncertainties on royalties (percentage and final amount) and slipping contracts (duration of cessions of rights, “meeting” clause, percentage). Solutions are being explored, such as some kind of general licence, for an extended use of the works. This may require some harmonization at the EU level as well as in the case of the exemptions for private copies (see 3.2). The French government passed a law on March 1, 2012 to offer a new mode of collective management of the rights that is trying to balance copyright protection, to preserve its principle while taking seriously the “access argument” pushed forward by Google for its Google book project.\textsuperscript{189}

The retro-conversion of catalogues is creating transaction costs for the research of authors, collective works, orphan works. This is a field where the European Commission has been pushing enabling policies. To foster the preservation and dissemination of Europe’s cultural heritage, the Commission proposed, in May 2011, two initiatives which seek to facilitate the digitisation and online availability of:

- out-of-commerce books (i.e. books that are still protected by copyright but are no longer commercially available); to that end, the Commission will support the conclusion of a memorandum of understanding between libraries, publishers, authors and collecting societies, allowing for appropriate licensing solutions; the MoU was signed in September 2011,
- orphan works (i.e. works with unidentified or non located rights holders); a proposal for a directive was tabled by the Commission on 24 May, 2011 to that effect.

To tackle what is nicely described as the “book famine” faced by visually-impaired, the EC intervened to broker a MoU (signed in September 2010)\textsuperscript{190} to facilitate cross-border exchanges of works in special formats (COM(2011) 287 final:13).

\textsuperscript{185} On June 21st, 2010 Barnes & Noble added an aggressively priced model to its Nook e-reader line-up. The new Nook was launched at US$149. The company also slashed the prices for all existing Nook models, the most notable of which is the Nook 3G’s price cut to $199, making it the first 3G plus Wi-Fi e-Reader on the market for under $200. Barnes & Noble’s new introduction and aggressive price cuts signify that a price war among e-Reader manufacturers has begun. One day after Barnes & Noble launched its first price war attack, Amazon countered by slashing the price of its wireless Kindle to $189. \textit{Source: In-Stat.}

\textsuperscript{186} The original Kobo was priced at US$149 in the US, then US$110 less than the Kindle. \textit{Source: Wikipedia:Kobo.} \url{http://en.wikipedia.org/wiki/Kobo_eReader}

\textsuperscript{187} Laura Borras at the Jornadas sobre el libro digital, May 18, 2012.

\textsuperscript{188} As used in the music industry with a DRM.

\textsuperscript{189} Rémi Gimazane, chef du département de l’économie du livre, French Ministry of Culture and Communication at the Jornadas sobre el libro digital, May 18 2012.

\textsuperscript{190} \url{http://ec.europa.eu/internal_market/copyright/copyright-infso/copyright-infso_en.htm#otherdocs}. 

\url{http://ec.europa.eu/internal_market/copyright/copyright-infso/copyright-infso_en.htm#otherdocs}
Box 7: The Google Books settlement

In 2005, a class action was initiated by the US Authors Guild, 5 US publishers, and the American Association of Publishers. They collectively sued Google for an infringement of the US copyright Act as the company was reproducing and allowing access to the books without any formal authorization from the publishers. Google claimed that its approach was legal under the US “fair use” doctrine and that it will delete any title when requested but under an 'opt out' approach, an option that appeared to contradict the very principles of copyright. The US Department of Justice (DOJ) claimed it was: «the most far-reaching class action settlement of which the United States is aware» (September 2009).

Before reaching the court a compromise was struck between the parties (class action settlement agreement). The settlement was introducing ways for Google to market the digitised contents: if the books were not available, Google was granted a right by default to proceed unless they receive a formal request not to do so. For authorised books from the publisher, the former was supposed to receive 33% of the revenues generated (advertising, pay access per title, paid institutional access). The revenues were to be collected through a new entity: the Book Right Registry. This agreement was only valid for the US territory. However, there is a risk all authors/publishers not only in the US but everywhere else will have a unique deal with a single operator: Google for so-called orphan works and out of print books.

This was highly criticised as granting a de facto monopoly for every unclaimed book, under a legal waiver contrary to the principles of copyright giving the right to profit from books without the permission of copyright owners. Google answered it was the only way to solve the issue of orphan works. The French and German governments intervened against the settlement, opposing the creation of a monopoly over “orphan works”.

Opponents to Google made a case for a public regulation through common law, against “private ordering” through contract law that such a deal would bring. They stated that it should be addressed by Congress, not by the private settlement of a lawsuit.

On March 2011, the Google Books Settlement was rejected by the US District Court of New York, a decision derailing the entire book-scanning project, a setback for Google but also for the Authors Guild and the Association of American Publishers. The judge acknowledged that “the creation of a universal digital library would benefit many,” but said that the proposed agreement was “not fair, adequate and reasonable”, a strong wording but in line with the position taken by the Antitrust department earlier. The US Justice Department suggested last year during a court hearing to use an ‘opt in’ rather than an ‘opt out’ approach, but Google rejected the idea as unworkable. However, the judge left open the possibility for a substantially revised agreement to be adopted.

Three years ago, online retail giant, Amazon, quickly emerged as the leader in the standalone eReader market with its Kindle line-up; and the company maintained its lead despite an array of competitors entering the space. The company countered quickly the slashing of the Barnes& Noble’s e-reader, Nook. The market started to grow in the US only with the recent explosion of the mobile Internet (due to smartphones as the number of e-books applications rates first ahead of videogames) through the growth of applications but was lagging before in spite of the attempts of Amazon. Some market analysts are optimistic, for instance Juniper Research estimated on Tuesday that 67 million e-reader devices will be sold in 2016, as compared to 25 million in 2011.

In Japan, according to Kimata (2011), the most influential factor in publishers’ reluctance to embrace e-books was the willingness to maintain a unique book distribution system.

192 R. Gimazane at the Jornadas sobre el libro digital.
193 Miguel Helft; “Judge Rejects Google’s Deal to Digitize Books”, nytimes.com
194 Still only 1.3% of the whole market in 2009.
Publishers are trying to keep an alternative to Amazon’s streamlined supply chain, and advocating “a (Japanese style) horizontal specialization in e-books,” which means a collaborative environment where different stakeholders in the complicated supply chain work together without encroaching on the others’ territory (Kimata, 2011). Japan is offering an interesting case with the Japanese mangas on mobile: 22% market share in physical books, 65% in digital books with a shift of contents (sentimental, ‘adults’). This digital market became essential for mobile support (Feijoo, 2011). Again it opens experimentation with new business models.

The nascent market faces, as well, issues such as technical constraints, i.e. interoperability between file formats (PDF v. e-pub) and reader hardware. For publishers the issue of metadata is a major one so as to manage the information linked to the management of books in a digital world and this requires as well standards (ONIX).

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196 Virginie Clayssen, Editis, at the Jornadas sobre el libro digital, May 18 2012.
3 Public Policies and Government Interventions

Public intervention in cultural and creative industries is predicated on the understanding that books (like films, videos, CDs...) are not just commodities, but have a special value to society as cultural goods, and as such, merit to be treated differently from other tradable commodities. The production of these merit goods generates externalities for society at large (cultural, societal, etc.) (Unesco, 2005). By the same token, the European Competitiveness Report 2010 stresses that the economic rationale for government intervention in favour of cultural industries is based on the notion that this sector constitutes a significant locus of economic dynamism in the post-industrial world.

3.1 The debate about the fixed price of books and its extension to e-books

From an economic viewpoint the relevant question is: are we facing market failures and consequently is public intervention needed? To take the example of the fixed retail price of book, a measure introduced initially in France in 1981 ((single uniform price, discount capped to 5%) and adopted by several other Member States, this was meant to ensure the persistence of networks of independent bookshop throughout the countries, to maintain/ protect equal access to reading) and the quality of authorship/ editorial guarantee. It has been effective, mostly for the former, in the sense that under ‘normal’ market conditions most of the retail points would have disappeared. It is far from being obvious to assess clearly if the other goals were achieved, neither if it was the most relevant policy.

Nevertheless, the opponents to the measures, like the Swedish publishers and booksellers argue that any regulatory interference artificially increases the prices for books. In Sweden, the fixed book price system was abolished some 35 years ago upon the instigation of the Swedish competition authority. In Finland it was suppressed earlier in 1991. In the UK, the “Net Book Price Agreement” was abolished in 1995. In the US such an agreement would be held illegal as a mandated retail price. Under the “anglo-saxon” agency model, prices and discounts are left to the players so that publishers and bookshops can adjust their margins as opposed to the wholesale model where prices are fixed and discounts regulated. Even in France, the 1981 law was challenged and brought to the courts as a quantitative protectionist restriction but was upheld by the European Court of Justice (with some requests for modifications). The EC does not interfere with national agreements but ban cross-border ones. Therefore, in 2009, the European Court of Justice has ruled that German books imported into neighbouring Austria do not have to abide by the fixed pricing rule, allowing discounted prices.

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197 Not to mention the fact that media have an acknowledged role in the functioning of democracies.
198 Austria (adopted in 2000), Denmark (2001), Germany (since 1887 but legally since 2002), Greece (1997), Italy (2005), Luxembourg, the Netherlands (2005), Norway, Portugal (1996), Spain (1975).
In the debate in France about the extension of the fixed price to the e-book, the French competition authority (Conseil de la concurrence)\textsuperscript{201} questioned the transferability of the former policy goals\textsuperscript{202} (Perrot, 2011). The “long tail” is supposedly taking care of the rotation issue. Bookshops are not the main access point for e-books. The substitution effect digital/hard copies is different from the music case. According to A. Perrot, in an emerging and ill-defined market, it would be unwise to freeze the market: the burden of proof is high on policy makers to set policies out of the market mechanisms, it is necessary to identify clearly the market deficiencies and to sort out the adequate remedies. The viewpoint of the French government was that price competition should be banned in order to avoid a monopoly over the distribution,\textsuperscript{203} to prevent the capture of the value through the sales of e-books sold just to lure in customers; to maintain the diversity of the sales channels, and the diversity of production (discounted prices may negatively impact the payback for authors\textsuperscript{204}).

In that debate; French public policy makers appear to have a tendency to extend the legacy regulation to new areas. French policy makers favour ex ante regulation and do not appear to be ready to leave the intervention to antitrust authorities (ex post). They will claim that\textsuperscript{205} they did not consider the digitalisation as disruptive as one can expect, therefore legacy policies could as well apply without hindering the appearance of new models. The French ministry of culture was trying to understand what the conditions were to enable, accompany the new developments. From this viewpoint, a single price is perceived as a way to better protect publishers and the law should apply at least to “homothetic books”. However, F. Benhamou (2012,b: 102) holds that the French public policies are getting blurred and that one should avoid getting trapped in the fallacy of the digital book just mirroring the physical one.

A report on “Internet and creation”\textsuperscript{206} was delivered to the French minister of Culture in 2010 dealing with the legal offer of content over the Internet. The report was indeed suggesting an extension of the legacy regulation as well as the same reduced VAT rates for books as for physical books. The French law was extended to cover e-books on May 2011, after considering the option of leaving price setting to contractual arrangements but following the advice of the “Conseil de la concurrence”, with a strictly focused law on “homothetic” e-books.\textsuperscript{207} Such a decision amounts to imposing French law on non-French

\textsuperscript{201} Autorité de la concurrence, Avis no 09-A-56 du 18 décembre 2009 relatif à une demande d’avis du ministre de la culture et de la communication portant sur le livre numérique.
\textsuperscript{202} The “Conseil de la concurrence” issued a note in December 2009.
\textsuperscript{203} The same argument was used in the 80s at that time not to prevent the dominance of Amazon but of the retail chain FNAC.
\textsuperscript{204} However in a sector where most of the workforce is not employed by the firms (see 2.1.1) and where only 10% of the registered authors concentrate 50% of the revenues, the argument will certainly benefit from some robust data to illustrate the potential loss of revenues and the potential fall of diversity.
\textsuperscript{205} Laurence Franceschini, Direction des industries culturelles, ministère de la culture et de la communication at the Paris e-books conference.
\textsuperscript{206} Available at: http://lesrapports.ladocumentationfrancaise.fr/BRP/104000006/0000.pdf
The Book Publishing Industry

distributors, it was likely to trigger further reactions from the EC, although as stressed by Poort et al (i): “European law does not in principle rule out resale price maintenance for e-books”. However as fixed price may impede both the freedom of establishment and the freedom to provide service, two notifications were sent to the French government. In his answer to the EC, the French government claimed that the law did not discriminate between French and foreign firms; and that the law was grounded in a principle of an equal legal value: cultural diversity.

Already, in the UK of the Office of Fair Trading began investigating Pearson, HarperCollins and others for price fixing in 2010, on the premises that the agency model is merely a backdoor into another Net Book Agreement (see Box 6 on Apple and the agency model).

A study commissioned by the Dutch Ministry of Education, Culture and Science (OC&W) in March 2012 gives some reason to be cautious about the expected results of the introduction of a fixed price for e-books (Poort et al, 2012: 79). The study examine four scenarios that predict the share of turnover from e-books in the short and long run and the share of physical bookshops in this market. The factors used to build the scenarios are suppliers’ (publishers and booksellers) attitudes towards e-books (reactive versus proactive) and whether or not digital books are subject to resale price maintenance. The conclusions are straightforward about the impact: “the effect of e-book price fixing on the market share of digital books will remain limited... This can be explained by the fact that a fixed price is least relevant precisely in that part of the market that offers the best opportunities for digitisation, especially in the long term” (Poort et al, 2012: 85). What appear to be crucial are the publishing strategies (i.e. including the degree to which both new editions and the backlist are released in user-friendly digital format for both e-book sales and the position of traditional bookshops. “If publishers (and authors) continue to take a wary stance, they will significantly hold back the development of digital books, creating a real risk that major international retailers will not actively target the Dutch market” (Poort et al, 2012: 86).

The authors add: “The market share of traditional bookshops is set to decline under all scenarios. Even if they set up a shared infrastructure, these bookshops will have to cede market share to domestic or international online specialists, who benefit more from economies of scale and are able to leverage network effects between users on the strength of their customised advice. The pace at which this will take place will depend largely on how soon e-books capture market share” (Poort et al, 2012: 86).


209 The text of the notifications (2010/616/F and 2010/710/F) by the European Commission can be found in: Sénat, Rapport au nom de la commission de la culture, de l’éducation et de la communication sur la proposition de loi, modifiée par l’assemblée nationale, relative au prix du livre numérique, no. 339, dated 9 March 2011.

210 Rémé Gimazane at the Jornadas sobre el libro digital, 18 May, 2012.
3.2 Piracy

Publishers voice their legitimate concern about piracy. The debate about the harmful role of piracy has been especially heated up in the case of music industry (Leurdjik et al, 2012). Some argue that a similar scenario is likely to take place in the book industry (Loebbecke, 2010, Drath, 2011) the main issue being when and not if. There is some logic in that argument, treating digitisation in a similar fashion across media, however it seems to be predicated on the much debated assumption of the dire impact of piracy in the music industry. Others held different views pointing to changing patterns of use or in the case of the music industry the subsequent growth of other segments (live and printed music) rather than the subsegment if recorded music (declining).

The main question is whether copyright is enhancing creation in a digital environment or adding unnecessary constraints. Indeed, there are many ways to organize the digital economy, between markets and governments. Privately negotiated contracts can anticipate and enhance market goals, while negotiated settlements address unexpected issues and changes in facets of the market environment as illustrated in the book industry. Copyright law does not operate in an institutional vacuum. It is one of several mechanisms for protecting intellectual property and regulating market behaviour. Alternative modes of licensing have emerged, Creative Commons being the most well-known, linked in science and art with the open source movement and open content principles. Most of the academic literature suggests that copyright may well be the suppressor of ‘radical potential’. It tends to argue that legal regimes and technology are often out of phase, as in the case of many uses of collaborative software. Y. Benkler (2006, 2011) is the most vibrant proponent of the new knowledge economy where producers and consumers role tend to overlap: « The result is a flourishing nonmarket sector of information, knowledge and cultural production, based in the networked environment and applied to anything that the many individuals connected can imagine ». He made available his book on his website under Creative Commons.

Typically, advocates of the “free internet” argue that the 19th century copyright regime is outmoded. Before the adoption of the US Digital Millennium Act, Samuelson, P. (1996) held the view that new copyright law may restrict access to information and impede the application of new technologies by authors and their audiences and slow development of more appropriate models for cyberspace. L. Lessig (2001) later claimed that that over extensive copyright rules were enclosing the “commons of the mind,” resulting in public harm in access to knowledge. He argued that a system of legal protection of copyright with less commercially driven enforcement was needed for artists and creators, inspiring directly the Creative Commons movement.

In the case of books as emphasized, by a 2009 study from the French observatory “Le MOTif”, there are few studies available to document the phenomenon of digital piracy of

212 E. Turrin presentation at the 1st IPTS MCI workshop, FEP’s view at the publishers round table with DG INFSO.
213 Founded in 2001. In December 2002, Creative Commons released its first set of copyright licenses for free to the public. Creative Commons developed its licenses — inspired in part by the Free Software Foundation’s GNU General Public License (GNU GPL) — alongside a Web application platform. As of 2009 there was estimated 350 million CC licensed works. Source: http://creativecommons.org/about/history
214 Creative Commons Noncommercial Sharealike : www.benkler.org
215 We followed Marsden, C., (2012) in that section.
books.\textsuperscript{217} It is therefore worth summing up their main findings under the assumption that these findings may be valid, to some extent, for other EU markets. In 2009, it appeared as a highly marginal market compared to the music, film or video games markets. The volume of illegal downloadings of books is very difficult to gauge making its financial impact even more difficult to assess. This is why the study opted for concentrating on the illegal offer of the pirates networks.

Finding the appropriate data for the number of titles available is also complex, however according to their estimation (for the summer of 2009) the amount was lower than 1\% of the number of titles available under the physical format: between 4000 and 6000, the majority (between 3000 and 4500) being comics books,\textsuperscript{218} followed by scientific, technical or medical titles (1000-1500) and some 200-300 audiobooks half of the title being in the public domain.

As can be expected, authors of best sellers on the French market\textsuperscript{219} are prominent in the list of downloaded authors. However, some results are much more counterintuitive. First, 25\% of the top 20 are philosophers a percentage that does not compare with the top 20 for books, neither of sales. The number one is the French philosopher, Gilles Deleuze. Another 25\% comes from science fiction and heroic fantasy. Lastly writers within the category “religion and esoterism” are overrepresented.

The second round of the study, released 18 months after in March 2011\textsuperscript{220} yielded a similar pattern (science fiction and comics). Piracy still did not appear massive but tended to speed up nevertheless, new titles being pirated more quickly. Direct downloading prevails now upon Peer to Peer. The study concludes by raising the questions of what makes this illegal offer attractive, of its ability to meet the demand of the consumers. In other words, are these pirated books filling an unmet demand?\textsuperscript{221} Indeed, the study reveals that out of the 50 best-selling comics, 58\% of these are not available as e-books. The pirated comics appear to be provided by well organized entities which drives the study do conclude that without an improved legal offer, the risk is high to see an increase in piracy.

According to the Spanish Centro Espanol de Derechos,\textsuperscript{222} piracy has been plaguing the Latin American market for many years but is now increasing in Spain with digitisation. According to this center, 50\% of the legal market (all kind of titles) was available on the Internet, however the director of the center stated that downloading remained at a tolerable level with no need to be legally banned.

\textsuperscript{217} The International Intellectual Property Alliance released a short report in 2008: available at http://www.iipa.com/2008_SPEC301_TOC.htm. It concentrates mostly on what they call “priority watch list” of infringing countries such as China, Mexico or Egypt, most of the time there are no data available for books. For China the estimated level of piracy for the period 52 million US $ for books but of nearly 2.5 billion for software. http://www.iipa.com/pdf/2008SPEC301LOSSLEVEL.pdf. There are no data available on the IPA website either?

\textsuperscript{218} France is well known for the importance of this market, this may not be transferable to other markets.

\textsuperscript{219} For instance: Bernard Werber, Amélie Nothomb, Frédéric Beigbeder, J.K. Rowling, Michael Connelly, Daniel Pennac, Marc Levy, Paulo Coelho, Stephenie Meyer.

\textsuperscript{220} EbookZ 2 (March 2011).


\textsuperscript{222} Magdalena Vinent at the Jornadas sobre el libro digital, May 18 2012.
3.3 VAT

Rates of value added tax (VAT) on e-books vary widely and are usually much higher on e-books (classified under “software”) than on print books (see Table 21). The output has been described as “an emerging quagmire”:223 “In Italy, VAT on a paper book is 4%, whereas for digital books it’s 20%. In Germany it’s 7% for paper versus 19% for digital.” Building on the fact that reduced VAT rates remain the norm for printed books, the world trade association of publishers (IPA, 2011) logically suggests extending this special treatment to e-books, to make it non-discriminatory. They lobby for a reduced rate for all kind of e-publications, presenting the discrimination as an “illogical and antiquated distinction” (IPA, 2011).

Beyond the obvious fact that higher prices for e-books are a counter-incentive for their adoption, they emphasize it will smooth out the adoption and the potential experiments/innovation both on the consumer and author sides. The IPA stresses the positive role for the introduction of digital technology into classrooms and learning, on the opposite a higher tax may increase the financial burden for schools making them less likely to shift to the digital format.

In March 2010, the IPA launched its first annual global survey on VAT on books and e-publications. 88 countries have been surveyed. “In a global context where standard VAT rates are on the rise, special treatment for books remains the norm”.225 As far as e-publications are concerned, a small number of countries have already adopted a real non-discriminatory, consistent tax regime. The study concludes that Korea, which boasts the world’s 8th largest publishing industry, should serve as a model in this respect.226 The study welcome developments in an increasing number of EU countries (8 EU Members, out of 27 as well as Norway and Iceland) makes use of the new flexibilities granted a 2006 amendment to the EU Tax Directive.227 This amendment allows the application of reduced rates to “books on all physical means of support”, e.g. e-publications sold on CD-ROM or USB sticks. However, other e-book sales including book downloads are still not covered.

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224 According to a digital publishing consultant for the Italian Publishers Association and European member of the IDPF board, quoted by E. Nawotka. In Germany, consumers pay 19% in VAT for e-book downloads and 7% on print books. In France, the difference is 19.6% and 5.5%. Printed book taxes are 4% in Italy and Spain instead of 20% and 18% for e-books. In Britain and Ireland, the gap is widest: 20% on e-books, but no tax at all on printed books. Source: http://mhpbooks.com/stunning-numbers-reflect-european-disinterest-in-ebooks-and-internet-retail/.

225 All major publishing markets surveyed (France, Germany, Italy, Japan, Korea, Spain, UK) provide for reduced rates or exemptions at least for paper books.


Some Member States, like France\textsuperscript{228} and Spain have been considering passing legislation to align the VAT treatment for the two formats. Spain recently did try to harmonize the two VATs, bringing the VAT rate of e-books from 18\% to 4\% but apparently the Commission disagreed. The French ministry of Culture, quoting a 2009 study stating that consumers were ready to buy e-books provided they were getting a 40\% discount over the printed books, considered that discounts of that magnitude were almost impossible without some tax harmonization. A report from the French ministry of finance indicated that reduced VAT for e-books were likely to eventually yield higher fiscal revenues.\textsuperscript{229} In 2012, the French and the Luxemburg government applied the reduced VAT rate to e-books. On July 2012, the European Commission sent a formal notice to the governments of France and Luxemburg. The EC stated that it is opening a case and infringement proceeding of the new VAT rates in both countries and that they were in clear breach of current EU VAT rules, as set out in the VAT Directive. In the case of Luxemburg, the reduced VAT was perceived as a direct subsidy to many of the digital services providers, such as Amazon and Netflix headquartered in Luxemburg.\textsuperscript{230} Spain considered harmonizing the two VATs, in 2011, bringing VAT on e-books down from 18\% to 4\% but ended up increased the tax on e-books up to 21\% in July 2012.\textsuperscript{231}

This may indicate there is some room for an EC initiative even if it always a complex matter. Luxemburg already introduced de facto such a reduced rate. On 17 November, 2011, the European Parliament passed a nonbinding resolution urging a reduction in taxes on e-books. Neelie Kroes, the European commissioner for the digital agenda, appears to be well aware of the issue, stating in December 2011: “Isn’t it just common sense to think that

\begin{adjustwidth}{-1.5cm}{0cm}
\begin{longtable}{|l|c|c|}
\hline
Country & E-books & Print books \\
\hline
Belgium & 20\% & 6\% \\
Germany & 19\% & 7\% \\
France & 19.6\% & 5.5\% \\
Ireland & 21\% & 0\% \\
Italy & 20\% & 4\% \\
Netherlands & 19\% & 6\% \\
Austria & 20\% & 10\% \\
Poland & 22\% & 0\% \\
Romania & 17.5\% & 0\% \\
Spain & 16\% & 4\% \\
Czech Republic & 19\% & 5\% \\
Sweden & 25\% & 6\% \\
\hline
\end{longtable}
\end{adjustwidth}


\textsuperscript{228} It was one of the proposals of the Selnick report. The rate would go down from to 5.5\%.

\textsuperscript{229} R\ë mi Gimazane at the Jornadas sobre el libro digital.

\textsuperscript{230} Source: \url{http://www.tmf-vat.com/tmf-in-the-media/eu-targets-france-and-luxembourg-on-reduced-ebook-vat-rates.html}

\textsuperscript{231} Source: \url{http://www.the-digital-reader.com/2012/07/19/spain-raises-taxes-on-ebooks-amazon-says-thanks/}
e-books should benefit from the same reduced VAT rates as physical books.\footnote{232} In any case, the existing legal regime may need to be adapted to a new environment especially as moving away from physical goods enables to supply more services and such an opportunity shall not become a drawback. Nevertheless such a change is likely to take time and meanwhile the existing legal framework (higher rate) is to be applied. However, The European Commission is reviewing this position in advance of a 2015 wholesale overhaul of the European VAT system.\footnote{233}

\footnote{232} During a speech in Avignon, France, adding: “The legal regime — the EU’s own, I admit — makes it illegal to do that. Not just discouraged, but illegal. Personally, I find this very difficult to explain.” Quoted by Kevin O Brien, “European E-Book Sales Hampered by Tax Structure”, \url{http://www.nytimes.com/2011/12/02/technology/eu-e-book-sales-hampered-by-tax-structure.html?_r=2&pagewanted=all}

4 Conclusions

The trends presented in this report raise a lot of unanswered questions: about the profitability of the business models, about an adequate proprietary rights regime, about the ways to foster the industrial investments. Considering the specificity of the book industry, one needs to consider not only the economics of the sector but also the welfare of the consumer (the reader) and to find a trade-off (Benghozi 2011). Are policies focused on book production/creation or on the readership (extension/improvement)? In other words, how can both production and consumption be supported in a sustainable way? Books and texts are emblematic of the digitalisation process, as we are dealing not only with existing/available contents but also novel ways of extending and improving text, just as the printing press did centuries ago. Of course, this brings the risk of ruining existing formats.

Besides, customers do not know what to expect from an eBook, or an MP3 file, or a game. This uncertainty about the main characteristics or normal functioning of digital content is common to all the new digital services. Their expectations may be at odds with those of the industry: customers may expect strong consumer protection while the industry may push for extended copyright protection. This can lead to a “clash of cultures” (N. Helberger et al. 2012) between two different notions of property. Physical objects (books) as goods are sold and become the property of their buyers, but digital contents are “licensed” and remained managed by the rights owner. There is uncertainty about how the consumers may move from the ownership of books toward the management of access to the relevant contents, although readers are not unfamiliar with previous forms of access through loans from libraries or from friends and relatives. The shift seems to be easier in the case of music. New ways of sharing are also emerging with social networks and the move toward the “wisdom of friends” (trusted network on web 2.0).

Mavericks

In the past, players introduced IT in their work processes first and foremost to upgrade their production. On the whole, this did not alter established relationships between the players (example: phototypesetting and the offset press) though some may have shifted a little. It improved the processes and reduced some costs. Existing players were, as noted, reluctant to change the way they related with their customers, their demands and patterns of consumption. They were unwilling to change how they managed their assets, and leveraged their core competencies in an existing book chain, taking into account the demand and consumption side. The complex existing relationships and interactions are not easy to modify. For instance, as noted the strength of the relationships between publishers and their main sales channel, the bookshops, remain of major importance and explains part of the reluctance to move too quickly to the digital format, avoiding the risk of leaving the weak part of the book value chain stranded. In the EU, as highlighted, the largest book markets (Germany, France and Spain) are “bookshops markets”.

It was no surprise therefore that the main changes were brought by external players, first by e-merchants like Amazon, then search-engines providers (Google, Microsoft, Yahoo) and eventually Apple, which managed to get the e-reader market started. To sum up bluntly, IT companies are not trying to improve/change the book publishing subsector - they are

234 J. McNamee (Advocacy Co-ordinator, European Digital Rights), at the IIC Brussels forum, 2010, listed the following: “suing citizens, plundering citizens’ personal data in peer-to-peer, opposition to providing copyright exception and ‘fair use’ exceptions, cutting off citizens from the Internet”.
simply trying to extend their scope, adding attractive “applications” to their offer, thereby increasing their portfolio. Publishers and some policy makers like in the French case have concerns about the domination of the distribution by the US players; they fear that most of the benefits from the economies of scope will not go back to the publishers.235

As noted, or rather deplored by players in the field,236 these new entrants have a tendency not to play by the established rules. On the contrary, they benefit from a strong first mover advantage in the IT field (as clearly illustrated by the cases of Amazon, Apple and Google) and a strong market position which allows them to make inroads into the media and content sectors. Their power is all the more potent as some subsectors were caught by a dramatic decline in their sales, making them less and less able to resist the “barbarian invaders”.237 Newspapers may resent the number of accesses to their websites mediated by Google but they are not in a position to shut these down, as some players acknowledge:238 Google represents 40% of the access to the website of the French newspaper group “Ouest France”, a market leader and also a pioneer in the introduction of new technology (“télématique”).239

At the same time, the dominant position of these new players allows others to act as “White Knights”, offering better options to content holders. For example, the telcos have seen an opportunity to intervene as trusted intermediaries, offering more favourable commercial agreements. In November 2010, Orange signed a deal with the ePresse consortium to integrate their content into Orange’s digital kiosk, “Read and Go”, using its search engine. Most importantly, Orange, unlike Google, is willing to pay for content under a “fair deal” sharing agreement. For book publishing, Orange is proposing a similar deal to counter “over-the-top” (OTT) players under an open model (like the Internet or GSM) maintaining each player in his (legacy) role: publisher, bookshop and transmitter (described as the manager of the library: “digital locker”). In 2011, the company was also negotiating with the French trade association of book publishers (syndicat national de l’édition: SNE).240 Under the proposed arrangement, publishers can set their retail prices.

However, the book sector, at least its publishing segment, seems to be in a better situation and has leading global firms. This may leave some room for more balanced negotiations with the new players. US publishers have just, in 2011, won their legal case against Google (see Box 7 on the Google settlement). This landmark decision from the US Supreme Court will probably affect relationships and may act as a signal for moderation to other IT players. Some of the new entrants may be more willing to take a closer look at the expertise needed in the field. This is illustrated by the reasons put forward by the international media group Liberty Global241 for buying the bankrupt retail chain Borders. Its CEO, J. Malone explained242 that having an acknowledged player in the field may ease relationships with the other legacy players. Publishers’ core competencies are assets that are as important as the rights they may hold.

235 A. Avila at the Jornadas sobre el libro digital.
236 A. De Tarle, CEO Ouest France, Paris Conference.
237 See the scenarios proposed by A. Busson for the ADEMA (Busson, 2010).
238 A. de Tarle, id.
239 Ouest France played a pivotal role in the adoption of « télématique » by the French market in the 80s (Charon, 1991).
241 A cable network operator.
242 NYTimes.com.
This reinforces the point explained earlier that stable relationships within a given “world” or ecosystem are necessary. As shown by research on innovation (Flichy, 2003), there is a need to create a network of cooperation between the different players, as mandating their own ecosystem, regardless of other forms of cooperation (Apple), may not be sustainable in the long run. New forms of “co-opetition” are likely to emerge between vertical ecosystems.

Figure 23: European (EU25) revenues, 2009

Nevertheless, the power struggle has changed scale. The irony of the situation is that companies which were described until recently as media giants (Bertelsman, Hachette), often critically because of the concentration they brought (Castels, 2002), are now competing with the world’s largest market cap243 companies: Apple and Google. Figure 23 gives an overview of the relative economic weight of each segment of the value chain in the online world (Online revenues only, McKinsey, 2011): content is included under “aggregation”. Figure 23 shows that the “content” part of the new digital ecosystem (Booz, 2011) (Fransman, 2010) accounts for less than 7% of the total ICT revenues as of 2010.

The digitization of the book publishing generates a shift from the central role and domination of the book value chain by the publisher toward a downstream domination by the new entrants (distributors). However, the main difference with the music and newspapers industries where a similar trend is taking place is that the book industry managed so far to control and manage its own assets, copyrighted works. The scientific and technical subsector introduced asset management through access licensing successfully. In any case, the shift illustrates that the two worlds (printed book/ digital) operate under different logics: economics of production for the former, economics of distribution for the latter.

243 Market cap, simplification of market capitalization: total value of the tradable shares of a publicly traded company.
A paradoxical strength? The EU double paradox

As stressed in the first section, the EU leads the global publishing market, with companies like Bertelsman, Hachette or Pearson. As the same time, this global position does not necessarily translate into an EU behaviour/attitude: the markets remain national, even showing reluctance about the entry of other EU players. This is clearly illustrated by the sale of Flammarion by its Italian owner RCS Mediagroup, in March 2012. The sale gave birth to a coalition of smaller French publishers in order to maintain a “French” ownership, and even the potential financial support from a specialised agency of the French government was considered (the Fonds Stratégique d’Investissement: FSI, which may trigger a case of state aid as it may not appear as a strategic endeavour but just as a defensive one). This is a first paradox: international markets/local views, defensive attitudes.

The second paradox is linked to the different size of the e-book markets in the US and the EU (even with the UK trailing behind the US). In the EU, the e-book market is still negligible as shown by the data on the major EU markets (in France it had about a 1.5% market share in 2010, and the same in the UK, though here it was growing faster, 2% in Spain in 2011), even online distribution was only around 10%. The European e-book market is fragmented, expanding fast in the UK and lagging behind in other Member States. At the same time, according to the surveys reviewed in Chapter 1, customers seem to be willing to adopt the new format: 30% of French customers surveyed in 2009 declared they would like...

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245 A specialised financial entity with equity of 20 billion euros, a subsidiary of the state bank Caisse des Dépôts et Consignations.

246 T. Lizaranzu, Directora General de Politicas e Industrias Culturales y del Libro, Spanish ministry of Culture, at the Jornadas de libro digital
to read a novel in digital format (*Le livre sera t-il numérique?*, 2010), 50% of the Spanish population is using a digital format (accessed through a computer: 46.5% by far the dominant use, FEGP, 2011).

Paradox within paradox: a company like the French publisher Hachette is already deriving 9% of its US revenues from e-books. In addition, the leading French book publishers signed a deal with Google for e-books in August 2011\(^\text{247}\) to put a large number of out-of-print books on its Google Editions eBook store. Hachette has been leading with innovative applications for its magazines. Lagardère Active is the leading media group in Mobile Internet in France with 18 brands. On mobile applications only, they rank third in France, behind the French mobile and fixed operator Orange, and Facebook.\(^\text{248}\)

The trade segment is lagging behind (unlike the scientific one) and the book subsector is still the least affected by ICT innovation. The overall size of electronic publishing is still very small, accounting for less than 5% of the book market, appearing as more of a by-product than a new product. As emphasised by F. Benhamou, looking as it does (still) like a minor market, the level of concern it triggers is even less understandable beyond the threat of the power of US distributors.

However, if the optimistic forecasts from some market analysts (fast increasing sales of e-readers) become even partly true, the EU publishing industry may find itself in an odd position with leading publishers and lagging digital markets, more or less controlled by US IT companies. If the introduction of the iPad follows the iPod/iTunes scenario, the lack of any comprehensive digital catalogues may open up further opportunities for piracy to fulfil an unmet demand, as the examples of pirated comics in France have shown. An additional unintended consequence could be an unwanted extension of the culture of the free which characterised most of the Internet. The availability of a legal offer seems crucial. However, as noted earlier, new digital platforms jointly created by several publishers are being deployed on the main EU markets (France, Germany, Spain, and Italy).

But, considering the low numbers of available digital titles, policies may be considered at EU level to coordinate, accompany and speed up the process of digitalisation, though some Member States such as France and Germany are already committed to this end. European publishers emphasized the relevance of public support in large digitalisation programmes, taking into account the cost of digitalising large catalogues.\(^\text{249}\) During a meeting with the European Commission\(^\text{250}\) in 2011, they offered the following policy options to boost the digital offer by:

- “supporting publishers to develop their digital offer – for example via applications – for markets at an early stage;
- promoting interoperability and the adoption of standards (for e-reading software – such as ePub – and hardware) in order to reduce the dependence of publishers on

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\(^{248}\) Source: company from Q3 2010 Mediametrie. Emmanuel Vacher, Lagardère Active Digital, Executive Vice President Development & Corporate Alliance, presentation at the Digital Content Monetization, London January 2011.

\(^{249}\) FEP’s meeting with DG INFSO. It appears that the bulk of the cost is not a technical cost of digitalisation but most often overheads (negotiations with agents for digital rights, etc.).

\(^{250}\) “Some 35 million € are available for small projects (3-4 partners, some small publishers and technology providers, for example)”. Same source.
large technological players and avoid market lock-ups; encouraging the development of e-readers by European technological companies, based on the epub standard;
- examining whether the model of Public Library Online can be applied in other countries;
- exploring ways to provide access to online access models for SMEs;
- supporting the adoption of cloud computing technology for SMEs;
- supporting the development of filtering technologies to fight piracy online;
- providing facilitated access to training on ICT use;
- improving the Europe-wide availability of books by increasing the visibility of websites that retail content legally and without geographical restrictions;
- examining ways to support independent bookstores, also online;
- supporting translations.”

Beyond the action of Member States, there is room for some EU interventions as the markets are fragmented and lack harmonization at the single market level. While recognising that different Member States can, not only have different public policies in this field, but also different policies to reach similar policy goals like cultural diversity (the UK policies differs from the French one), the industry seems particularly worried by the discrepancy between for instance the existing EU fiscal regulatory framework and what is perceived, as illustrated by the attempt of the French government to harmonize the VAT treatment of physical and digital books, as a potential distortion of the market, leading new firms and distributors tax shopping for their headquarters. The publishing industry may have the impression that as is, without harmonization and adaptation, the EU framework may de facto favour the large distributors.

Up to a point, it appeared logical that most of the policies dealing with the book industry were left to the Member States, especially taking into account the language issue as well as existing institutional arrangements.251 However, digitisation of books and earlier on-line distribution of physical books are changing the landscape. In a way the situation may be comparable to the situation created in 80s with the (then) new developments of cable and satellite distribution, the coming of Pay TV, program sponsorship and teleshopping. It led to the adoption of the directive Television without Frontiers (TSF).252 The directive aimed initially at removing barriers to the free movement of television programming across national European boundaries (arts. 4&5). It was build upon the country of origin principle a core principle of the EU legislative framework. Similar measures can match the existing single market framework (e-commerce and copyright directives).

There is a growing discrepancy between the leading position of the EU publishing industry and its position in on-line distribution and production of e-books. However, it remains possible to further build on this strength at the EU level by adopting relevant policies (harmonisation) to enable and smooth out the transition to the digital world.

251 Existence of “Book departments” within Ministries of Culture with specific assignments and budget to support the industry.
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Abstract

This report offers an in-depth analysis of the major economic developments in the book publishing industry. The analysis integrates data from a statistical report published earlier as part of this project. The report is divided into 4 main parts. Chapter 1, the introduction, puts the sector into an historical perspective. Chapter 2 introduces the markets at a global and regional level, describes some of the major EU markets (France, Germany, Italy, Spain and the United Kingdom). Chapter 3 analyses the value network of the European book publishing industry, identifying the transformations taking place in the value network and in business models as a result of the on-going digitalisation process, first in the distribution of physical goods and then digital books. Chapter 4 reviews the policy issues specific to this sector such as fixed prices or VAT issues.
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