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Global Trends in Publishing 2014

An overview of current
developments and driving forces
in the transformation of the
international publishing industry.

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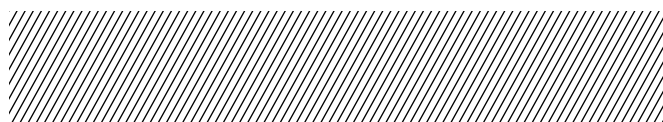
1. Introduction

This white paper presents a range of key figures and perspectives to illustrate the forces influencing the transformation of the international book business. Book publishing is undergoing a profound transformation. While the transition from print to digital provides the most headlines, the process of change is in fact more complex. This is because digitization, as the driving force, is being reinforced by globalization in an industry that has traditionally been very strongly subject to national and linguistic borders. The transformation of the book business is also embedded in the wider context of the digitization value chain affecting all the content industries. New, genuinely digital actors have entered the marketplace, with Google, Apple and Amazon only the most visible examples. Meanwhile, each link in the value chain has seen the emergence of new players, the adaptation of old ones - including some in neighbouring fields - and the

development of new competition between local (or regional) actors and the global players that are now making massive inroads.

The main focus of this paper is on trade publishing, with only a few references made to the professional and scientific, medical and technical (STM) sectors, or to educational publishing. At the same time, it is also important to look at book publishing within the wider context of other media and entertainment sectors, although a full comparative analysis exceeds the scope of our approach.

While the paper certainly falls short of being a map of the often turbulent waters we all need to navigate, we nevertheless hope to have provided the reader with a helpful overview - with a set of coordinates that will encourage a realistic understanding and support a meaningful debate.



2.

A global view of book publishing

Book publishing is the largest of the industries that produce media and entertainment content, bigger even than the much more glamorous film and entertainment businesses.

For a long time, the book publishing industry was controlled by players in a small number of cities, mainly in North America and Europe, and more recently Japan. Early in the 21st century, however, it has evolved into a truly global business. Books and reading are the keys to both learning and entertainment for hundreds of millions of people on all continents. In a growing number of emerging economies, the market for books and publishing has expanded over the past two decades. At a global level, however, the industry is still dominated by just a few markets. The six largest markets account for almost two thirds of the global value created by publishers.

Remarkably, China has now become the world's second largest book market, overtaking Germany and Japan, which had been rivals for this position for decades.

The United Kingdom remains the strongest exporter of books, in terms of the share of exports in the total value created by publishers.

Book publishing is the largest sector of content creation

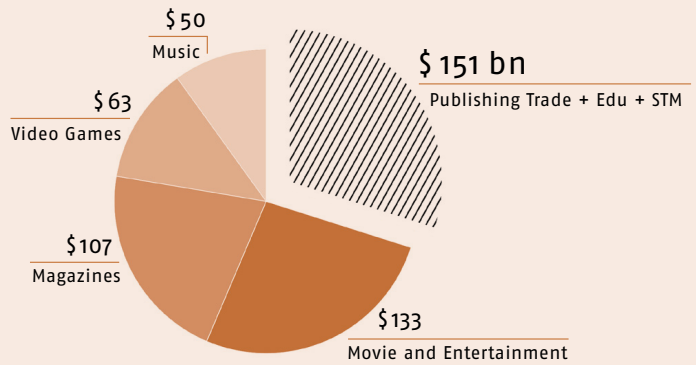


Fig. 1: Revenues at consumer prices in key media and entertainment industries, in billions of US-dollars. Mostly based on 2012 data, compiled from various sources by Rüdiger Wischenbart for the International Publishers Association (IPA, www.internationalpublishers.org).

The six largest book markets (% , 2012)

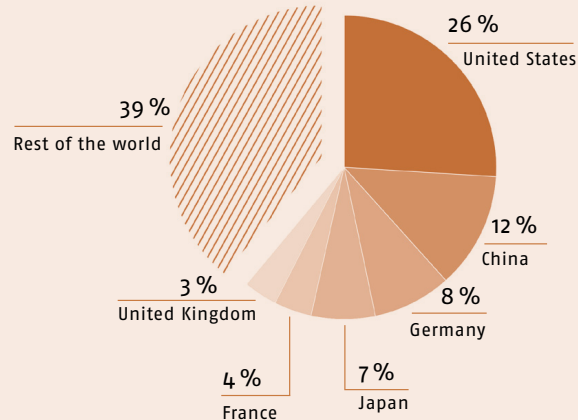


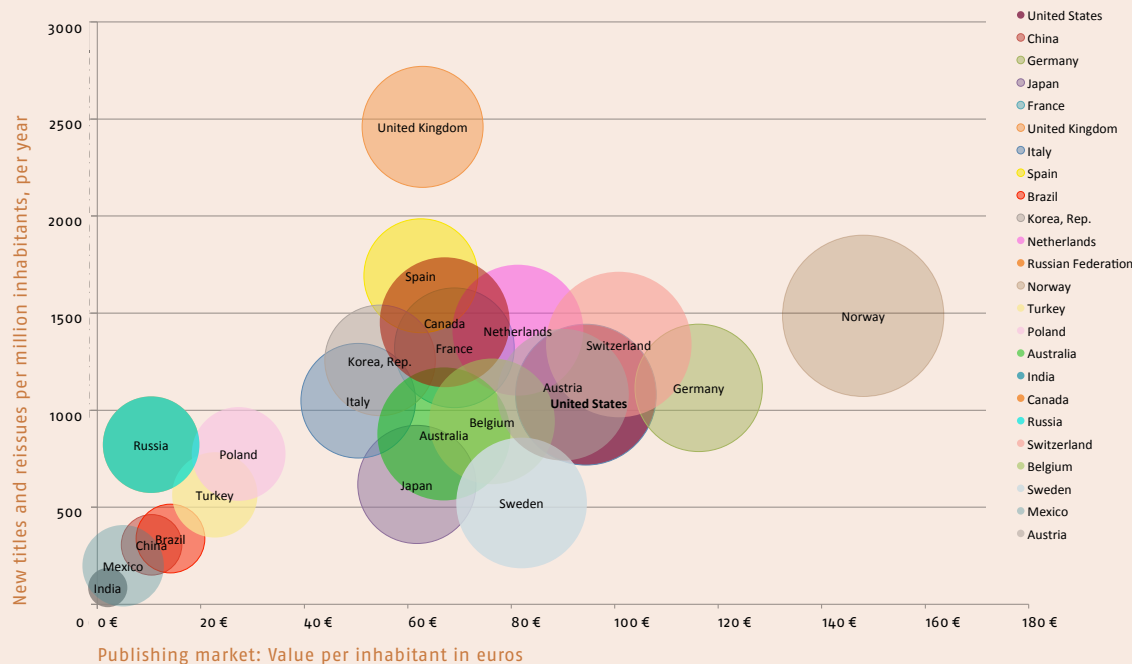
Fig. 2: Breakdown of the largest book publishing markets as percentages of total revenue, based mostly on 2012 data. Various sources, compiled by Rüdiger Wischenbart for the International Publishers Association (IPA, www.internationalpublishers.org).

The six largest book markets, at consumer prices

Country	Year	Publishers' net revenues, in million euros	Market value at consumer prices in million euros
World (estimate)			114,000
United States	2012	20,750	29,643
China	2012		14,200
Germany	2012	5,407	9,520
Japan	2012		7,878
France	2012	2,771	4,534
United Kingdom	2012	3,736	3,975

Table 1: The largest publishing markets, by market value at consumer prices. Various sources, compiled by Rüdiger Wischenbart for the International Publishers Association (IPA, www.internationalpublishers.org).

Market size and new title production in relation to per capita GDP in the 23 largest publishing markets worldwide.



Bubble Size = GDP (PPP) per capita in US\$

Fig. 3: 23 of the largest international book markets, represented by each market's per capita spending on books, their production of new titles, and their GDP (purchasing power parity, PPP). Various sources, mostly 2012 data, compiled by Rüdiger Wischenbart, www.wischenbart.com

To assess how important – and how different – book markets are in different countries, it is useful to make a per capita calculation to show how much the average person spends on books. Such a comparison overcomes the distortion of sheer population size for populous markets, while representing the relative cultural significance of books in smaller countries.

We can see that the book market is still very much dominated by a relatively small, conservative and affluent ‘club’ of countries. These consist mainly of countries belonging to the European and Anglo-Saxon cultural lineage (including former colonies), plus Japan and Korea. All of them can draw on a long tradition in the trade and consumption of cultural goods.

Some countries in this club stand out for particular reasons. The United Kingdom benefits from its extensive title production, with its book exports building on the global dominance of the English language. Spain profits in a similar way from strong exports to most of Latin America. Norway, on the other hand, is a small, affluent world in its own right, which channels revenues from North Sea oil into support for culture. A similar market ‘distortion’ due to public spending or structural sup-

port for books also helps sustain the prominent positions of Germany, Switzerland, Sweden and Austria among leading book countries.

The emerging economies – notably the ‘BRIC’ countries, Brazil, Russia, India and China – form another distinct group of nations, which are highly diverse in most respects but which share the same aspiration to develop their position with regard to books and book publishing. These countries also have a number of other factors in common: their populations have relatively limited resources at their disposal for consumption, and the infrastructure for distributing a wide variety of books to readers is underdeveloped; at the same time, however, they are perhaps pursuing an altogether different strategy for positioning themselves among the knowledge-based societies.

When it comes to understanding the globalizing ecosystem of books, reading and learning, the emerging markets can probably teach us the most exciting lesson: It is highly unlikely that India or Indonesia will strive to establish a dense network of bookshops in every town; nor will the growth of popular reading in Beijing, Sao Paulo or Guadalajara (or among the grow-

ing Hispanic population of the US) wait for the development of distribution centres for printed books, or for tax regimes that facilitate imports and exports, or for book reviews in the printed press as a means of discovering interesting new titles. It is much easier for them to leapfrog directly from their situations of poor infrastructure, in which accessing books is so hard and costly, to a digital future in which smart phones and ever cheaper tablet computers open up online resources, thereby filling the gap more rapidly and more easily.

Taking a global perspective on books, publishing and reading means acknowledging that the future of the industry will be different from the past. It is not a single, consistent world of reading and learning that is now emerging, but a fragmented, often messy mix of different strategies. It is also a world that offers many opportunities to fix some of the shortcomings of the past, when access to books – and, as such, to knowledge and entertainment – was characterized by an appallingly wide “digital divide”.

3.

The current consolidation in international publishing: examples and effects

In 2013, Bertelsmann's Random House, the world's largest trade publisher, merged with Pearson's Penguin, one of the few global book brands and one of the Big Five English-language publishing groups. Early in 2014, HarperCollins, the book division of Rupert Murdoch's News Corporation, acquired Canadian Harlequin for almost half a billion dollars. And in early summer 2014, news broke that the US arm of Hachette is acquiring Perseus Books Group, the largest independent publishing group in North America. As a service provider to hundreds of independent publishers, Perseus Books also runs a respected distribution operation, which is now to be sold on to Ingram, the world's largest wholesaler.

"These three deals alone make 2013-2014 the busiest period in book publishing mergers and acquisitions in recent history," commented Jeremy Greenfield of Forbes → <http://onforb.es/1iVjdQ4>. However, these three game-changing deals are only the tip of the iceberg, as will be shown by a review of several other cases from North America, Europe and the rest of the world, all of which are shaped by similar driving forces.

Book publishing, at least in its traditional form, has long been a well established, highly conservative and amazingly robust industry. In this context the only options for growth are through global expansion, or by altering the approach to publishing and reading altogether with digital products. A combination of these two strategies is also possible, of course.

Consolidation at a global level

A closer look at the revenue development of the world's 10 largest publishing conglomerates reveals the current situation. The largest trade publishing house, Random House (including Penguin's results for the second half of 2013), ranks only fifth, followed by Hachette. Only two other trade publishers appear in the

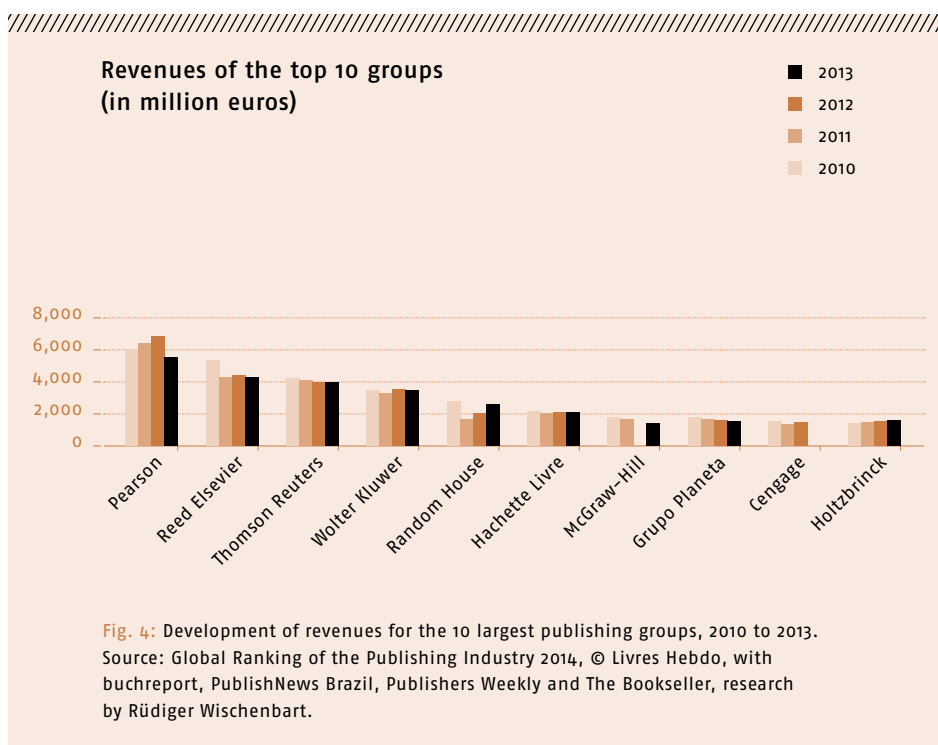
top 10, Planeta of Spain and Germany's Holtzbrinck, although the latter earns half of its turnover from science and education publishing. Most of the highest ranking groups are specialized in either educational publishing (Pearson, McGraw-Hill, Cengage and half of Holtzbrinck), or in professional and STM (science, technical and medical) publications. These groups have undergone dramatic changes over the past decade as they reorganized, merged or consolidated. They have taken the radical step of replacing the old business model of publishing - selling books, one copy at a time - with a model based on recurring revenue streams, notably through subscription, and with the systematic digitization of their entire value chain. Along the way, each of these groups has also carved out its own special niche in the global - not just local or regional - approach to the knowledge societies of the 21st century.

E-books have now entered the mainstream, especially in the English-speaking countries, spearheaded by the United States and the United Kingdom. Readers are increasingly adopting online sources for printed and electronic books as well as other publications. Since this process began, a similar transformation has been expected sooner rather than later in trade publishing. The ongoing wave of consolidation is the most visible aspect of that change.

Traditional practices in book publishing, and book distribution in particular, are increasingly at odds with the more convenient approaches in other areas of content, which consumers have come to see as normal. This is seen at various levels, and has become a driving factor in the ongoing redefinition of the largely conservative business of books.

Penguin Random House

At over 50 million, the Hispanic population of the United States is the second largest in the world, topped only by Mexico, while exceeding that of Spain → <http://bit.ly/1xbhHMI>. However, Spanish and Mexican publishers have often faced huge challenges in catering to Hispanic American readers. It was little surprise, then,



that, while acquiring Britain's Penguin, New York-based Random House also took over the second largest Spanish publisher, Santillana. At the same time, it increased its 50% stake in the third largest Spanish group – formerly Random House Mondadori – to assume full ownership. The two of them are now sailing together under the Penguin Random House flag, as a new force in global Spanish language publishing.

Penguin, meanwhile, was a pioneer not only in India, but in 2007 it was the first foreign trade publisher to open a major representation in Beijing. It also entered the Brazilian market by investing in the Brazilian publisher Companhia das Letras, in 2011. Bertelsmann's CEO, Thomas Rabe, summarized the overall strategy in clear terms, when he said that the media group will “invest on a much more significant scale (...) in the entire physical and digital spectrum of book acquisition, production, distribution and marketing as well as in rapidly growing emerging markets.” → Bertelsmann Annual Report 2014, page 21, <http://bit.ly/1q598yN>

Hachette

Unsurprisingly Hachette, as the main direct competitor of Penguin Random House in terms both of its focus and its size, is pursuing a similar course. As its CEO Arnaud Nourry stated in an interview in November 2013, “It is desirable for us to get back to the road of growth through acquisitions over the next five years.” → Livres Hebdo, <http://bit.ly/1qflcyc>

The acquisition of Perseus and, before that, of large parts of Disney's book publishing operations at Hyperion, are just the latest in a long series of manoeuvres by Hachette. To build a strong position in the English language markets, in 2006 Hachette formed the Book Group USA with its early takeover of Little Brown and Hachette UK (which includes Hodder Headline, Orion and others) and, most recently, Quercus, the British publisher of Stieg Larsson. It should be observed that these consolidation moves not only bring opportunities to acquire and sell rights globally, across markets (for example, the acquisition by Orion of world rights for a trilogy by the romance author Jodi Ellen Malpas → see press release 26 March

2013, <http://bit.ly/1VCweUB>), but also a consolidation in distribution, as demonstrated by the Quercus acquisition → see Hachette press release, <http://bit.ly/1VCweUB>.

In less than a decade, the French group has become a true global player. It has launched a joint venture with what is perhaps China's largest publishing group, Phoenix, and another with Librairie Antoine in Lebanon. It has also taken over Patria in Mexico and Azbook-Atticus in Russia, and has set up Hachette India. By 2013, the French market was responsible for just 37% of Hachette's total revenue.

HarperCollins

When HaperCollins bought Harlequin, a different rationale must have underpinned the decision. Harlequin had been an incredible innovator. It redefined romance novels and related genres as attractive reading for modern, urban professional women; it discovered before many of its competitors how digitization offers new ways of organizing a reading community; and it branched out internationally, moving into Russia, Germany, France and Japan. However, it was those genres of popular fiction, online communities and new digital audiences that have since been taken over largely by self-published authors. This has driven down retail prices and forced Harlequin to take cover in a much larger entity, HarperCollins.

Self-publishing and the entire, rapidly expanding e-book sector are being driven – and largely controlled – by players who want to reinvent publishing, reading and the sharing of reading experiences altogether. There is a wish to morph books with music, video downloads and any other content that can be distributed electronically. Amazon kicked off the e-book revolution when it launched its “walled garden” Kindle device for customers, as recently as 2007. Apple, meanwhile, had already pursued a similar path in the music business, introducing the iPod device and iTunes as a global online distribution platform. Both these players aspire to cater for the complete value chain under a single corporate umbrella, from authors, publishing and distribution, through to the final reading experience.

Amazon is clearly leading the field in this, being the dominant player in several of the traditional markets, including the United States, the United Kingdom, Germany and Japan. But Apple enjoys a stronger position in markets where the book retailing infrastructure is less clearly established, such as Brazil and the Middle East.

The increased momentum for consolidation among publishers has also been a way to meet the challenges posed by these new global players, especially as those players have recently stepped up their efforts to control pricing and market share. They have even been working to dominate niche areas, be it the translation of books, as with Amazon Crossing, or the provision of cutting-edge authoring tools, like Apple's iAuthor suite.

Regional consolidation scenarios

The global view of book publishing should not fail to consider the subsequent influence on local markets, nor, at the other end of the scale, the ever stronger grip on all aspects of the content business by the global media giants.

At the local or regional end, publishers are sharpening their profiles by reconsidering their portfolios. In Scandinavia in 2011, for instance, Swedish Bonnier and Finnish Sonoma agreed to swap entire divisions. Bonnier, as the leading Scandinavian trade publisher, took over Sonoma's WSOY's general literature arm, while Sonoma, in return, took on Bonnier Education → Svensk Bokhandel, 29 April 2011, <http://bit.ly/1pGX6jq>. In France, meanwhile, Gallimard's parent holding Madrigall chose to act when Italian RCS sold its French division Flammarion in 2012. The resulting combined venture of Gallimard and Flammarion is now the third largest publishing group in France, and also includes a strong distribution arm. It therefore has more muscle to cope with the global expansion of Hachette, as well as the earlier integration of the second largest French publisher, Editis, into the Spanish powerhouse Planeta.

In Germany in 2013, Ganske Group acquired the travel guide business of the

German automobile club ADAC, while, in the same year, Bastei Lübbe decided to go public on the German stock exchange – an unusual move in a market dominated by family controlled businesses.

An entirely different scenario is currently playing out in many of the smaller markets across Central and Southern Europe, although here too mergers and takeovers are bringing together the strongest players in the respective markets.

Size clearly matters when it comes to digital publishing and globalization, and to

the next round of changes and innovation, which will probably involve the formation of new alliances with telecommunication and technology players for the establishment of reading and subscription communities.

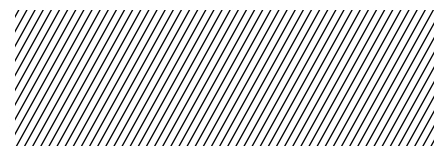
This last challenge – the need to bridge the gap between traditional content industries on the one hand, and the communication and technology giants on the other – is not something unique to the book industry. It has been a familiar theme in the global media industry for some time. “Global Media: Big Get Bigger”

ran the headline of a recent article on Media Business Asia, portraying a sector in which diverse conglomerates are competing for the same audiences and revenues → <http://bit.ly/1m5Fro1>. These include Google (with a media revenue of \$43 billion), Bertelsmann (\$10 billion), Axel Springer (at \$4 billion) and the rising Chinese Internet giant Baidu.

The drive to consolidate is gaining added momentum from the emergence of new markets – places where there is a new and growing appetite for books as a medium for education and entertainment, particularly among the rising middle classes. However, these emerging economies often follow significantly different paths; they are also vulnerable to economic challenges that directly influence the aspects of the market that are relevant to the book business.

“Vertical integration already exists in all smaller markets in Central and Eastern Europe, with the exception of Estonia, and is very likely a result of too small incomes in the book value chain to allow booksellers, distributors and publishers to economically survive without a radical vertical integration, that encompasses both publishing and retail. The main drivers are shrinking book sales, combined with the impact of economic recession and digital competition.”

MIHA KOVAČ, MLADINSKA KNIGA,
SLOVENIA, IN A COMMENT FOR THIS REPORT.



4.

BRIC developments: overview and analysis

Brazil, Russia, India and China – sometimes referred to as the BRIC countries – are good examples for a snapshot of the globalization of the book business, as they all share some important common features. Most notably, they are all experiencing a period of economic growth, resulting in the emergence of a new, or expanding, middle class that has both the desire and the means to invest in books as a source of culture, entertainment and education. However, these countries also differ from one another in many ways.

Brazil

For years, Brazil has been the poster child for big players in publishing (and other fields) looking for attractive, new markets in which they can either launch their own ventures or form partnerships with existing local players. With a value of €2.8 billion, Brazil's is the ninth largest book market in the world, behind Italy and Spain and roughly on a par with Korea and India, while clearly outstripping Russia. The rise of Brazil's book sector, which was greatly helped by gov-

“It is quite interesting, paradoxically, that the consumer market has grown considerably during the last 10 years due to the boom of the middle class as result of economic growth and stabilization as well as to the improvement of functional literacy. This means that it is very likely that other entertainment industries are stealing market share away from the publishing industry, especially internet, movies and games. The Brazilian publishers should therefore react and strive for a better understanding of their customers, more professional best practices, a more active digital content offering and more modern business models, if they want to reach out to the ‘new Brazilian consumer’ and keep or even increase their market share.”

CARLO CARRENHO, PUBLISHER,
PUBLISHNEWS BRAZIL, WWW.PUBLISHNEWS.COM.BR

ernment programmes to boost education and digital publishing, has slowed down of late, since the economy as a whole began stuttering in 2011, with GDP growth declining from 7.5% to 2.7% in 2011, and to just 0.9% in 2012 → See the World Bank summary: <http://www.worldbank.org/en/country/brazil/overview>. Despite this, the largest book market in Latin America still remains stable.

In recent years, Brazil has become a very interesting destination for all the global players in the book industry. For instance, Amazon, after rushing into Brazil in late 2012 and opening a local version of its online shop, has now submitted a bid to participate in government programmes for the distribution of digital textbooks. The government has – already distributed some 600,000 tablet computers to teachers. With its acquisition of Santillana in early 2014, Penguin Random House has also invested heavily in Brazil. Or, as the company's head of communication, Stuart Applebaum, puts it, “Brazil is a targeted emerging growth opportunity.” → See Carlo Carrenho in *Publishing Perspectives*, 21 and 31 March, 2014, <http://bit.ly/1o3E6pF> and <http://bit.ly/1pGXhuT>.

Russia

Meanwhile, Russia is in a more difficult position. A country with a long tradition of books, literature and reading, it faces the huge challenges of a vast territory – a nightmare for the distribution of physical items like books – and a monumental piracy problem that makes the legal e-book trade a real struggle. The challenges are set against the backdrop of an

economic downturn that hit even before the country had recovered properly from the 2008 crisis. → See World Bank country profile, <http://www.worldbank.org/en/country/russia/overview>.

The publishing sector has been in decline since it peaked in 2008 with a total \$3 billion worth of sales. In 2013, it was worth just over \$2.3 billion (or 78 billion roubles for the total market, and 50 billion roubles for the trade segment). Interestingly, the precarious market dynamics did not have a similar impact on production, as 2013 saw the release of 120,512 titles, compared to 127,000 in 2008. Overall, however, current figures and analysis suggest there is light at the end of the tunnel. As the Russian Book Industry Magazine has it, “The Russian book market has stopped its fall.” → <http://rus-lit.org/market/2384/>.

“Russia's economic decline affects the book industry. In the first quarter of 2014, the cost of living in the Russian Federation rose by 5.1%. The shrinking readership and the trend towards monopolization that were strong over the preceding four years flushed out medium-sized publishers from the market. This year a number of educational publishers were badly hit by the decision of the Ministry of Education to exclude about a third of the school textbooks from the approved list. By law, textbooks have to be approved by the Ministry of Education to be used in schools. A further decline in textbooks is expected for 2015.”

OLGA RO, THE BOOK INDUSTRY MAGAZINE,
IN A COMMENT FOR THIS REPORT

The results of the crisis can be seen clearly in their impact along the value chain. In 2012, the largest Russian book retail chain, Top Kniga, went into bankruptcy. This was followed by AST, one of the two leading publishing and bookselling groups, although AST's publishing arm was then rescued by the

other of the two groups, EKSMO. The latter also controls major retail chains for printed books, as well as the dominant e-book platform, LitRes → www.litres.ru. Despite the widely discussed damage done by piracy, legal downloads of electronic books doubled in 2013, and they now account for 500 million roubles worth of sales. LitRes was able to raise \$15 million in investment, according to the Russian Book Industry Magazine. As the leading, vertically fully integrated player, the newly formed EKSMO-AST group now claims to control 40% of this market.

India

India is home to one of the world's largest book markets, with an estimated value of at least €2.5 billion (no precise statistics available). It is also an example of a hugely complex industry in which domestic and international actors interact, as do private businesses and local and national governments. Significant cultural, social and economic differences exist between various provinces, and between urban centres and rural areas; books are produced and consumed in a variety of languages, with English, Hindi and Malayalam enjoying the broadest readership.

India is an important, competitive and highly dynamic market, particularly for the leading British publishing companies, like Penguin, Macmillan and the Oxford and Cambridge University Presses, but also for other international groups, such as Hachette. The market is driven primarily by the desire for education, but it also has a vibrant and growing trade book sector. For books imported from overseas, "Indian pricing" involves setting retail prices to suit income levels on the sub-continent.

Book festivals attract broad audiences, with the January event in Jaipur also having won international recognition → <http://jaipurliteraturefestival.org/>. The New Delhi World Book Fair, held in February, has likewise been gaining in traction internationally in recent years → <http://www.newdelhiworldbookfair.gov.in/>.

However, the fiercest debates and the most dynamic market developments are

"Since the market is still in growth mode, there is enough space for local and global players. Flipkart and Amazon are the primary players in the book market, and both are trying to out-do each other in services offered to customers, while at the same time borrowing ideas from each other. Amazon has followed Flipkart's successful cash-on-delivery model, which is now offered by almost all online retail stores in India. In April, Amazon launched Amazon Pickup services, a variation of the Amazon Locker in the US, in select areas of some cities, like Mumbai, Delhi, Bangalore, Ahmedabad and Manipal. For this, the company has tied up with local corner shops in these cities, from where customers can pick up their packages."

VINUTHA MALLYA, PRINCIPAL OF LINESPACE, INDIA, WWW.LINESPACE.CO
IN A COMMENT FOR THIS REPORT

to be found in the growing area of online book retail. This sector was initially dominated by an Indian platform, Flipkart → www.flipkart.com/books, but this has been challenged by Amazon since the latter's arrival in 2013.

Self-publishing is also rapidly gaining in importance, with Amazon once again driving its growth. It now accounts for about 20% of the retail giant's bestselling local Indian books. Amazon's main competitor in the sector is Partridge Publishing, a venture of Author Solutions and Penguin India that has released 400 titles since its launch in 2013. E-books are on the rise, despite a recent decline in the sales of tablet computers and smart phones, which are by far the preferred electronic devices among Indian readers.

China

According to official Chinese government sources, China's book market is second in size only to that of the United States, with an annual value of over €14 billion in 2012, based on consumer prices. It has shown continuous, robust growth over recent years. China also claims to be the biggest target market for international book copyright sales, with currently over 14,000 title acquisitions per year.

With a strategy directive called the "Going out policy", in recent years the Chinese government has been encouraging and preparing selected Chinese publishing groups to compete in international markets. Early joint ventures involving major local players and international corporations were spearheaded by the Phoe-

nix Publishing and Media Group in its cooperation with Hachette, launched in 2009. Since then, Phoenix opened an office in London in 2012, and it was the first Chinese publisher to announce a major international acquisition: the US-based Publications International Ltd.

Digital publishing in China has a strong focus on educational publishing. Domestic players are building business ties with international players (as in the case of China Education Publishing and Media Group). Meanwhile, efforts are ongoing to

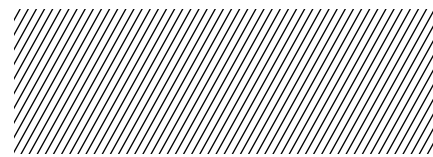
"E-books, which currently account for less than 5%, have seen a 50% growth in 2013, and are led by self-published titles, while online bookselling platforms have expanded by some 20% between 2012 and 2013, and sales of printed books in bricks-and-mortar book stores declined by 1.19% in 2013. The emerging digital reading market is largely shaped by two 'super players', the reading platform of telephone giant China Mobile, and Amazon Kindle, which launched in China in June 2013. China Mobile primarily attracts audiences that are particularly price sensitive, while Amazon Kindle is more popular with the strongest readers."

CHEN SANGUO, BOOKDAO, WWW.BOOKDAO.COM,
IN A COMMENT FOR THE PUBMAGNET NETWORK OF
INTERNATIONAL BOOK TRADE MAGAZINES.

prepare the required infrastructure for the seamless exchange of digital publications. One example of this is the CNP eReading platform, launched in 2013, which aims to give Chinese readers access to international journals and other electronic resources from libraries and schools. Since its launch in mid 2013, the database has accumulated 1.6 million digital titles and added a new service called Language Cloud → See *Global Ranking of the Publishing Industry 2014*, *Publishers Weekly*, 27 June 2014, <http://bit.ly/1n2PIVX>.

The digitization of publishing and reading in China is closely tied to the rapid penetration of the consumer market by smart phones and tablet computers, as well as the extremely dynamic expansion of the whole e-commerce sector. Like other media content, e-books are an integral part of the current explosive growth of the digital sector, which encompasses all aspects of life and business in China. They are being pushed by respected Chinese corporations, such as Huawei (for the digital infrastructure), Xiaomei (for

affordable smart phones) and Alibaba Group Holding, whose vast online market platform Taobao reported transactions worth \$177 billion for 2013, clearly surpassing the estimated \$100 billion of Amazon → *Wall Street Journal Deutschland*, 16 June 2014, <http://bit.ly/1ows8qj>.



5. Declining print sales across Europe and North America; gains in digital publishing

In 2013, the North American book market was almost flat, with a decline of less than 1%, although the trade segment declined by 2.3% → BISG BookStats, quoted by Publishers Weekly, 26 June 2014, <http://bit.ly/1mh4QpP>. In the UK, the invoiced value of publishers' book sales fell by 2% in 2013, according to the Publishers Association. This decline was driven by print, with a loss of 5% → <http://bit.ly/16qJdWA>.

In a comparison of the fluctuations in bookstore sales across a number of European markets, over the past several years the vast majority of markets have shown negative developments. For some coun-

tries, notably Spain and Italy, the negative growth clearly reflects the overall economic crisis, as these economies struggle to cope with the aftershocks of the 2008 recession. In Spain, the economic crisis continued to have a severe adverse impact on book sales in the first half of 2014.

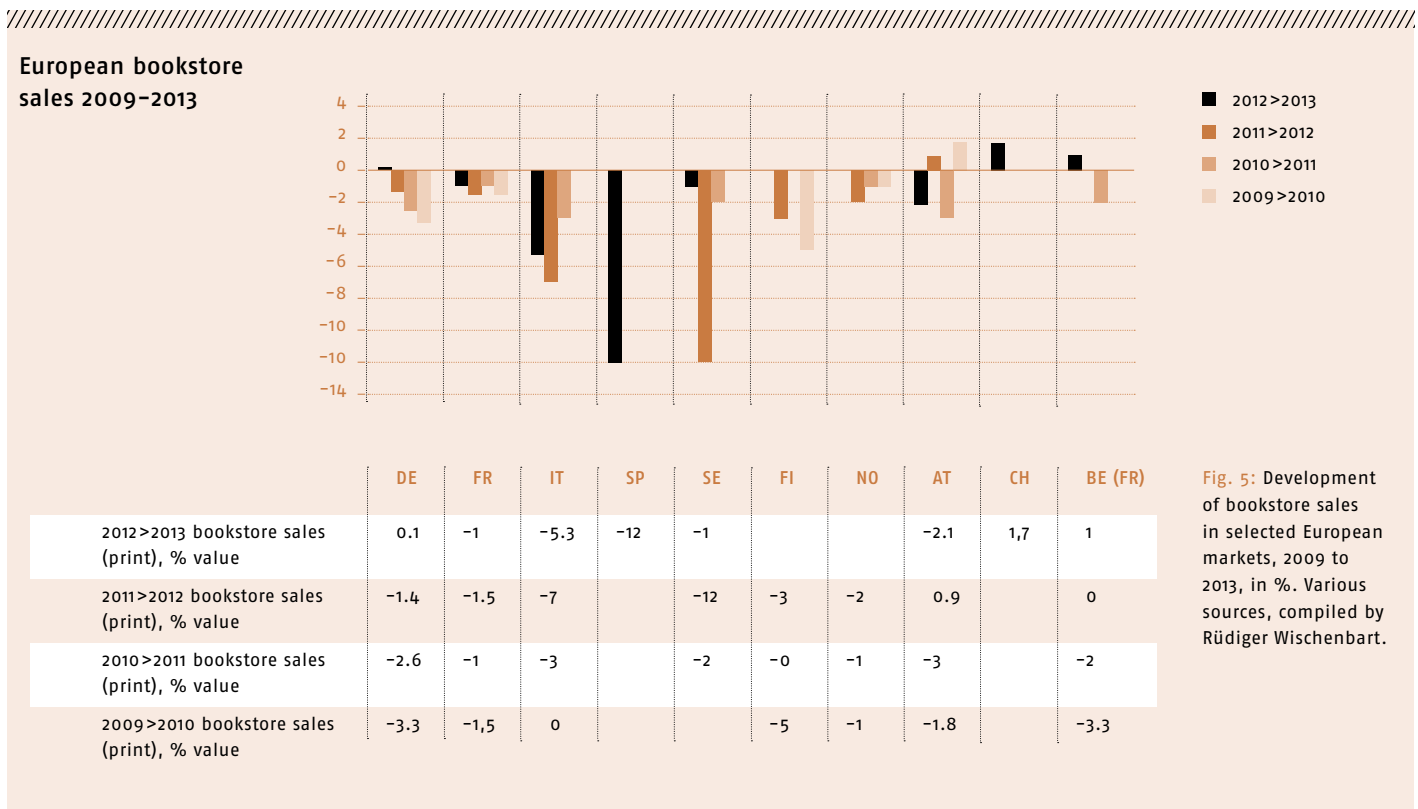
“During the first six months of 2014, trade print book sales are estimated to have declined between 25 and 30%. Bookstores report that, due to a huge drop in consumer spending, book sales have stagnated. Readers only buy books at Christmas, on World Book Day (23 April) and during the main book fairs in the big cities like Madrid, Barcelona, Seville and Bilbao. For the rest of the year, the bookstores are almost empty. The total sales loss since the beginning of the crisis, back in 2008, amounts to some €700 million in just four years.”

JAVIER CELAYA, CEO DOSDOCE.COM, IN A COMMENT FOR THIS REPORT.

However, markets can be severely hit by much more mundane forces, as the case of Sweden in 2012 shows, whose book market declined by 12% in 2012, while the economy as a whole remained stable. After having performed very well in 2011, Scandinavia's foremost trade publishing group, Bonnierförlagen, achieved more modest results in 2012 and suffered an explosion in the number of books being returned from retailers, all of which helped cause the sharp downturn in the overall market. More recently, in 2014, an unexpected threat to Swedish publishers has emerged following revisions to a law on VAT that has left publishers with tax bills amounting to millions of euros → The Bookseller, 24 June 2014, <http://bit.ly/1pGXqh5>.

This seemingly odd dispute illustrates very well how the traditional business of book publishing is being buffeted between a growing number of powerful forces.

E-books and digitization are just two of many disruptive elements. Even before the emergence of a significant market for e-books, a sea change in the traditional retail business resulted in a shift towards online sales. In many countries, this primarily benefitted the respective market



“If the printers keep refusing to repay the excess VAT, many publishers could face bankruptcy. The smaller publishers are in more danger from this than the bigger ones, but even for the bigger publishing houses it could mean that some members of staff will lose their jobs.”

CARINA JÖNSSON, EDITOR-IN-CHIEF, SVENSK BOKHANDEL,
IN A COMMENT FOR THIS REPORT.

leading platform – be it the locally adapted Amazon webshop or the strongest domestic player, such as BOL.com in the Netherlands, Casa del libro in Spain or Adlibris in Sweden.

Similarly, in France the multimedia Virgin Megastore and the second largest book

chain, Chapitre, went out of business, with the latter being split up and partially reformed as independent book stores. In the Netherlands, the failure of the Polare chain resulted in a similar restructuring of the market. In Germany, the second largest book chain, Weltbild, filed for insolvency before being rescued

with private equity; it is expected to significantly reduce its workforce and the number of its outlets.

Reading habits are changing too, as books now compete with a wide range of other formats and sources, including websites (which compete with non-fiction or DIY titles) and online entertainment (from gaming and movies to music streaming services). Indeed, the entire ecosystem for authors, book publishing and distribution, and reading is subject to this kind of transformation.



6. Comparison of e-book market shares

As yet, e-books are only a critical factor in a relatively small number of markets. These are led by the United States and the United Kingdom, with Germany developing more recently. These are, however, key markets for the industry, both because of their size and because they host the headquarters of many of the global leaders in trade publishing – and have markets that are decisive for the bottom lines of these giants.

E-books have become profitable, at least for the largest international publishing groups, such as Penguin Random House, Hachette, HarperCollins, Macmillan and Simon & Schuster. And the e-books business plays to the strengths of the biggest players – the Big Five publishers, as well as their global challengers, Amazon, Apple and, currently to a lesser degree, Google.

Revenues from e-books now account for a significant share of the total reve-

nues of the largest global trade publishing houses.

For technical and statistical reasons, it is much more difficult to carry out a comparison of e-book market shares for entire countries. No standard definitions currently exist of what e-book revenues actually include. This problem will become more significant as non-traditional business models expand, such as subscriptions to reading platforms (often referred to as “Spotify or Netflix for books”), or when communities for lending, reading and self-publishing e-books mushroom, which will significantly increase the number of sources from which to access digital reading material.

To be able, at least roughly, to track and compare the markets of the US, UK and continental Europe we used the following three generalized definitions for e-book market share:

- Share of revenues of total book market (which consists mostly of trade and educational, K1 to 12)
- Share of revenues of trade book market (arguably the most meaningful reference, as most e-books so far are fiction and non-fiction titles, including genre fiction and self-published books)
- Share of revenues in key segments, notably new fiction titles and genre fiction.

Summarizing and comparing selected e-book markets necessarily involves a complex narrative.

In the US in 2013, e-books accounted for 21% of all trade sales, the total value of which declined for the first time ever, falling by \$15 million to \$1.471 billion. E-books were the third most important format by revenue, behind hardcover books and trade paperbacks. The volume of e-books continued to grow, drawing level with hardcover books, though selling for a lower average retail price per unit → *BookStats report 2013, by AAP and BISG, quoted in Publishers Lunch, June 26, 2014, <http://bit.ly/1mh51Bz>.*

In the United Kingdom, e-books represented 15% of publishers’ total digital and physical book sales in 2013 → *Publishers Association, Statistical Handout 2013, <http://bit.ly/16qJdWA>.*

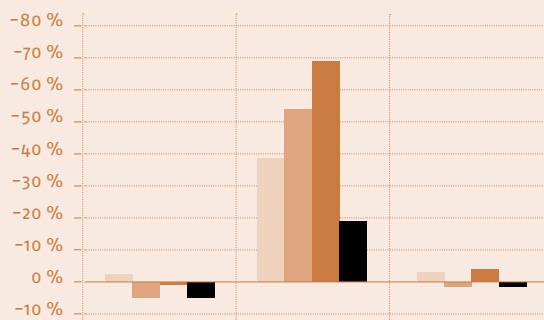
In the same year in Germany, e-books comprised 3.9% of all trade sales, up from 2.4% in 2012. In terms of volume, e-books grew by 63% (compared to 200% in 2012) → *Börsenverein, press release, 3 June 2014.* However, a survey conducted a year earlier by Börsenverein and GfK – which evidently focused on a narrower definition, based only on revenues from fiction and non-fiction – had already shown that publishers earned almost 10% of their revenues from e-books in 2012, a market

Reported share of e-book revenues for the Big Five English-language publishing groups

% revenues e-books	Penguin Random House	Random House	Penguin	Hachette	HarperCollins	Simon & Schuster
FY 2013	20.0			10.4	19*	27.0
3Q 2013				9.4		
1HY 2013		20.0				
FY 2012		20.0	17.0	8.0	16*	23.0
3Q 2012				6.4		
1HY 2012		22.0				
1Q 2012						
FY 2011			12.0	6.0	12.0	17.0

Table 2: Revenue from e-books as a percentage of major trade publishing groups’ total revenues. Source: annual reports, trade press, compiled by Rüdiger Wischenbart, Global eBook report 2014. www.global-ebook.com

* April to June 2014



Case study, United Kingdom: digital growth only partially compensates for print losses

■ 2012>2013
 ■ 2011>2012
 ■ 2010>2011
 ■ 2009>2010

Fig. 6: Development of print and digital sales in the United Kingdom, 2009 to 2013.
 Source: Publishers Association Handouts.
<http://bit.ly/16qJdWA>

share consistent with various estimates from distributors

→ Börsenverein, GfK, June 7, 2013, quoted in Börsenblatt, <http://bit.ly/18BQX93>.

At first glance, these digital publishing revenues seem much greater than in countries like France (around 3% of total market share in 2013) and Italy (4–5%). Interestingly, however, for all these differences, some genres, such as romance and fantasy, and some selected bestselling new fiction titles achieved e-books revenue shares ranging from 20% to over

“After four years of deep economic and financial crisis across all sectors in Italy, 2014 might be the year in which GeMS (and other digitally active publishers) compensate for the decline of physical books with the growth of e-book sales for an overall increase in revenues.”

STEFANO MAURI, PRESIDENT, GRUPO EDITORIALE MAURI SPAGNOL (GEMS),
IN A COMMENT FOR THIS REPORT.

30%. One key lesson, therefore, is that the evolution of e-book sales is highly fragmented and diverse, with the differences between territories probably being less significant than specific characteristics of genres or even individual titles and authors.

Evidently, it will be very important for future projections of the book industry to assess the extent to which the recorded losses in print revenues can be compensated by the gains made from e-books. One robust case study is available from the United Kingdom, where the annual statistical reports by the UK Publishers Association allow exactly this kind of tracking. Developments over the past four years, from 2009/10 to 2012/13, show that only once, in 2012, were falling print sales successfully balanced by digital revenues.

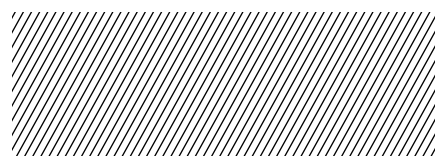
It is not possible to pursue a similar exercise for any of the book markets in continental Europe, as the corresponding data is missing. This obviously poses an additional challenge to industry actors, who lack a highly desirable map of this kind to help them navigate their business. How-

ever, there is robust anecdotal evidence that in some of the markets hit most strongly by the recent economic crisis, such as Italy or Spain, e-books are playing a significant role in balancing the dramatic loss of print revenues.

In the case of Spain, digital exports have been gaining considerable momentum, above all to Latin America.

“Several big publishing houses have indicated that more than 50% of their digital sales take place in Latin American countries. In this growing export context, several sources indicate that the digital market will be worth more than €20 million by the end of 2014.”

JAVIER CELAYA, CEO DOSDOCE.COM
IN A COMMENT FOR THIS REPORT.



7.

Conclusions

The ongoing transformation of the book publishing industry is driven by a number of fundamental forces, chief among which are digitization and globalization. This is leading to consolidation as well as the emergence of new players, both from within the sector and from outside. These processes are similar across all markets, where they pose similar challenges.

At the same time, however, significant regional differences can be identified. The presence or absence of the major global players (in the book sector, above all Amazon and Apple) has an important impact on the competitiveness of local or regional players. Economic growth provides a helpful fillip for publishers, who can cater to the rising demand on the part of the emerging middle classes for both education and entertainment. This is the case in China, India and – despite a recent slowdown – Brazil; in Russia, on the other hand, readers and book buyers are already struggling to get by.

Print publishing is declining almost universally, but it is only in a few markets that players can hope to compensate for the loss through the growth in digital products. It is a hard but vital question to ask, if a reluctance to embrace digital publishing, as is the case in France, will ultimately harm one of the strongest publishing industries in Europe.

Most importantly, it is becoming less and less possible to consider book publishing and reading as a cultural sector separate from the adjacent content and media sectors, be they music, video or games, or from distribution channels (and therefore business models), such as subscription-based content streaming. In all, digitization may not be the radical “unifier” and threat to traditional culture it was once considered. In fact, the new digital landscapes – with their varied offers of content and diverse consumer practices – tend to be more fragmented and more complex than ever before.

Meanwhile, the driving forces presented in this report are transforming and redefining every element along the value chain that connects authors, publishers and retailers with readers. This is not a future projection, but a fact of today.



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markets and book culture. He is Director of International Affairs for BookExpo America and a director of the Publisher's Forum Berlin. He is the author or co-author of several reports on the international publishing industry, including the Global Ranking of the Publishing Industry (with annual updates since 2007), the Global eBook report (www.global-ebook.com, since 2011), and a statistical survey of publishing markets for the International Publishers Association. He coordinates an informal network of international trade publishing magazines, PubMagNet, and has been appointed to the editorial board of the journal Logos. He served as head of communication at the Frankfurt Book Fair from 1998 to 2001. Details and references at www.wischenbart.com

