

Print or Pixels?

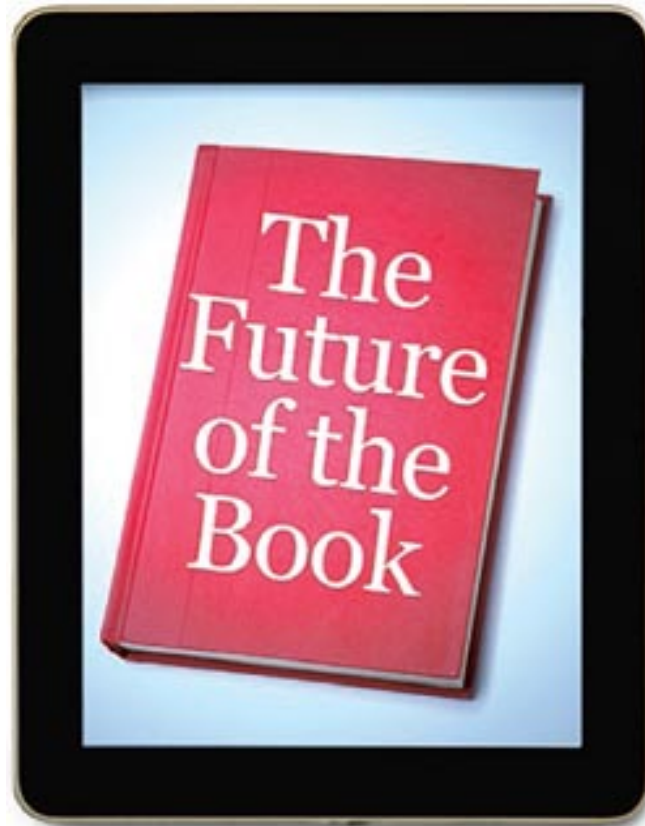


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Executive Summary: The Disappearing Reader

In 1997, The Houston Business Journal reported that the entry of, “*Online information, CD-ROM capabilities, searchable databases, interactive resources, multimedia books, chat rooms and virtual reality adventures,*”¹ were drastically changing the game of print publication. The publishing industry scoffed at such outrageous claims.

In 2002, e-book revenues topped \$1.5 million dollars.² Five years later, the first generation of e-readers and smart phones were introduced into the mainstream consumer market.

Digital books, once regarded as a technological impossibility and with subjective disdain, had become a reality. By the end of 2007, e-book revenues reached \$31.8 million dollars and readers began vanishing from mainstream bookstores. By August 30, 2010, year-to-date e-book revenues spiked to almost \$263 million dollars.³

The New York Times reports that, “*By the end of 2010, 10.3 million people are expected to own e-readers in the United States, buying about 100 million e-books. This is up from 3.7 million e-readers and 30 million e-books sold last year.*”⁴

The scoffing stopped and the worrying has begun.

Since 2007, the big six publishing houses (The Hachette Book Group, Harper Collins, Macmillan, Penguin Group, Random House, and Simon & Schuster) have faced increasingly retreating profit revenues. Readers battered by a dragging recession and tightened personal budgets, are opting out of expensive hardcover books in favor of cheaper, digital books from smaller, tech-savvy book presses.

The publishing heavyweights now face the market-changing paradigm of print or pixels.

Or is it print *and* pixels?

Answering this question requires two things: understanding first why readers are abandoning traditional publishing and second, how the publishing industry can win them back.

¹ Perryman, M. Ray. “Reading habits change in new online revolution.” Houston Business Journal, July 28, 1997: <http://www.bizjournals.com/houston/stories/1997/07/28/editorial4.html>

² International Digital Publishing Forum. “EBook revenues from 2002 – 2010: US Trade Wholesale Electronic Book Sales.” http://www.idpf.org/doc_library/industrystats.htm

³ Ibid.

⁴ Richtel, Matt and Cain Miller, Claire. “Of Two Minds About Books.” The New York Times, September 1, 2010: <http://www.nytimes.com/2010/09/02/technology/02couples.html?th&emc=th>

The Changing Face of Books



Big publishing houses such as Hachette Book Group, Harper Collins, Macmillan, Penguin Group, Random House, and Simon & Schuster, face inexorably retreating sales revenues as readers continue to opt out of expensive, hardcover books in favor of cheaper, digital books.

Publisher's Weekly reported in August that, *"E-book sales jumped 172.4%, to \$39 million. For the year-to-date, e-book sales were up 192.9%, to \$263 million. Revenues in the January to August period were \$2.91 billion, making the [total] e-book sales 9.0% of trade sales. At the end of 2009, e-book sales comprised 3.3% of trade sales."*⁵

Yet despite these numbers, digital book publishing is still seen as too expensive, too bulky for the bigger houses to pursue. On September 28, 2010, Publisher's Weekly once again reported on digital publishing but this time, the focus was on a panel discussing digital royalties and expenses.

*"Neil DeYoung, director of digital media for Hachette, asserted repeatedly that the creation of digital books is a costly one for houses...he argued that the costs may be less visible, but they're there, from the price of conversion (ranging from "affordable to expensive") through the cost of sustaining servers to the cost of tracking sales."*⁶

Is this really the case?

Or are publishers simply refusing to see the real reasons behind a now-flawed sales model?

⁵ "E-Book sales jump 172% in August." Publisher's Weekly. October 14, 2010: http://www.publishersweekly.com/pw/by-topic/digital/content-and-e-books/article/44836-e-book-sales-jump-172-in-august.html?utm_source=Publishers+Weekly%27s+PW+Daily&utm_campaign=e03bb6766a-UA-15906914-1&utm_medium=email

⁶ Deahl, Rachel. "Agents, Publishers, Others Talk Digital Royalties and Strategy at PW Panel." Publishers Weekly, September 28, 2010: http://www.publishersweekly.com/pw/by-topic/digital/content-and-e-books/article/44626-agents-publishers-debate-digital-royalties-and-strategy-at-pw-panel.html?utm_source=Publishers+Weekly%27s+PW+Daily&utm_campaign=3b5e19d5c2-UA-15906914-1&utm_medium=email

The Problems with Book Sales

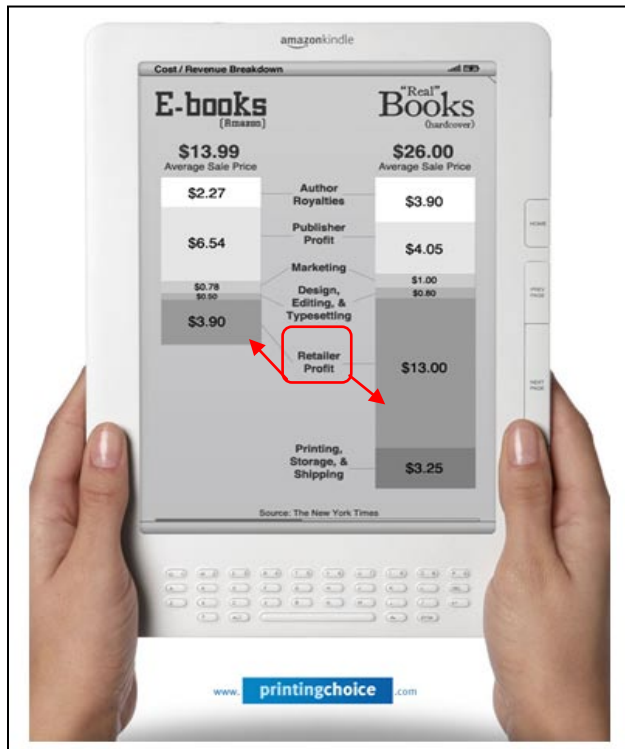
Decreasing sales are usually the first indicator of problems. A closer look at how traditional publishing operates reveals some of the deeper reasons behind the lost revenues.

Extended Time to Market

A book can take anywhere from one to several years to get to the market. Publicity is one reason. Distribution schedules are another.⁷ Book distributors like Barnes & Noble, Borders, and others have specific purchasing and distribution schedules set six months in advance. This ensures placing the right books on the shelf at the right time. For example, horror stories for Halloween, love stories and poetry for Valentine’s Day, heartwarming family reunion stories for Christmas. Miss this cycle and it means waiting for several more months for that book to appear on shelves.

Rewarding the Middleman

Consider the following profit analysis comparison between retailers, publishers and authors.⁸



⁷ Donadio, Rachel. "Waiting for It." The New York Times Sunday Book Review. February 3, 2008: <http://www.nytimes.com/2008/02/03/books/review/Donadio-t.html>

⁸ Printingchoice.com infographic. "E-books versus 'real' books." <http://www.printingchoice.com/e-books-vs-real-books/>

- Retail distributors can earn between \$3.90 per e-book to \$13.00 per hardcover book;
- Publishers can earn between \$6.54 per e-book and \$4.05 per hardcover book;
- Author's earn only between \$2.27 per e-book and \$3.90 per hardcover book.

Obviously, this rewards system fails the most important link in the chain; the author. If expensive distribution costs were cut down or even cut out, overall profits to both publishers and writers would increase even as the overall retail book prices drop.

The Quick Fix

Rather than developing a long term relationship with established writers through multiple book contracts, publishers have instead, chased short-term earnings by publishing celebrity authors, many of whom will only write one book.

New Writers Are Risky Writers

Some publishing houses consider new writers such a high risk, their works are not even considered for publication. In an interview with Author Online, memoirist, Jessica Maxwell recalled how the editor and publisher at Harper One (an arm of Harper Collins) canceled the purchase of her manuscript after senior management in New York mandated that, "*We cannot buy another book by another non-famous spiritual writer.*"⁹ The inference was clear. Only those authors with a guaranteed audience and sales level need apply.

In an ironic twist, Maxwell's book, *Roll Around Heaven* was later published through a competitor and won The Gold Award for Best Memoir in the 2010 Nautilus Book Awards.

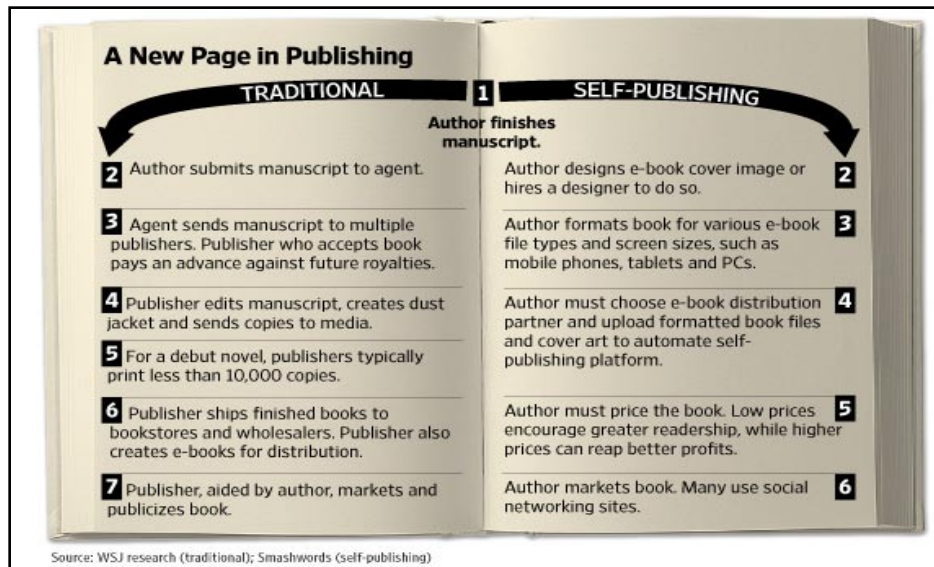
⁹ Author Online Interviews. The Pacific Northwest Writers Association. "An interview with Jessica Maxwell." July, 2010: http://www.authormagazine.org/interviews/interview_page_maxwell.htm

Other Options: Self-Publishing and E-Publishing

Considering e-publishing's and self-publishing's growing popularity among today's writers and smaller book presses, consumers can be excused for wondering why the big publishing houses have seemed so reluctant to embrace such a potential profit bonanza.

Self-Publishing Meant Poor Quality

Possibly the biggest hesitation to self-publishing was its Wild West reputation. Self-publishing was a by-word for 'rush job' where writers shouldered the entire burden of designing, formatting, pricing, and marketing their book. All too often, authors were in such a hurry to get their books 'out there' that formatting, fact checking, and even spell checking errors were often overlooked.¹⁰



Publishing through the big publishing houses meant the book was a quality product.

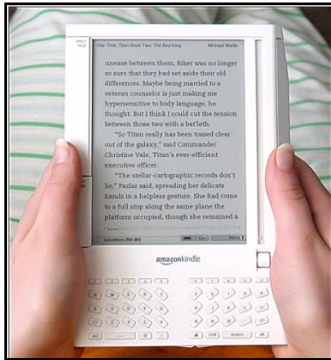
A Lack of E-Readers = E-Publishing Remains a Fringe Market

E-publishing had potential but a lack of portable e-readers doomed it to the fringe.

Prior to 2007, e-book writers used Microsoft Word and Adobe Acrobat to professionally polish their prose and decreasing e-book creation turn-time. Email speedily transmitted the final product quickly and efficiently to eager new readers. However, a continuing lack of portable reading devices on the market still restricted e-books to bulky, home-based PCs.

¹⁰ The Wall Street Journal. "The Vanity Press Goes Digital." June 3, 2010:
<http://online.wsj.com/article/SB10001424052748704912004575253132121412028.html>

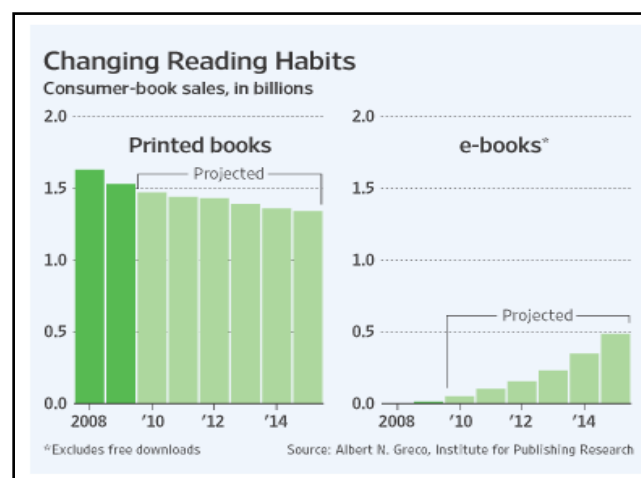
The Solution: Amazon's Kindle E-Reader



On November 19, 2007, Amazon introduced The Kindle e-reader, a portable software/hardware solution for the consumer e-reader market. At the same time, Amazon's digital rights management partnership with publishers helped sweep away e-publishing's former bad boy reputation. Through Amazon, publishers could retain their strict editorial control over any new e-books published. Through Amazon, authors could now quickly get their work to the reading markets.

Finally, traditional publishers had a viable e-book publishing option through a well-known bookseller. Better yet, high distributor overhead costs were reduced, drastically *increasing* book sales revenues.

Booklovers took notice. The first generation Kindle sold out in just five and a half hours, prompting some researchers to predict e-book sales would hit half a billion dollars by the year 2015.¹¹



¹¹ David Derrico. "Cost breakdowns: Ebooks versus printed books." October, 2010: <http://www.davidderrico.com/cost-breakdowns-e-books-vs-printed-books/comment-page-1/#comment-1036>

They were off by five years. As of August 2010, e-book sales had already breached the \$2 billion dollar mark.

The Future's so Bright...

Amazon does not rest on its laurels.

Within the past three years, the company has come out with several new Kindle readers specifically designed for a variety of book fans.

- For general audiences, the \$139 Kindle Wi-Fi;
- For the tech-savvy reader, the \$189 Kindle 3G (Wi-Fi and 3G wireless connectivity provided courtesy of Amazon);
- For students, \$379 Kindle DX, a larger sized e-reader easily capable of handling the most complex college textbook.

Today's Kindle e-reader offers even more features:

- Incredible storage capacity (up to 3,500 books);
- Greater battery strength (up to one month);
- Adaptable font size and text-to-voice options
- An Amazon.com selection of over 650,000 e-book titles.

Probably the savviest move of all was the price. Ranging from a \$1.99 to \$14.99 per e-book, Amazon opened the door to an untouched, high volume profit market. Readers that previously balked at paying \$25 or \$30 for a brand new hardcover, now happily shelled out \$9.99 for the e-version. Then they bought more.

...The Competitors Wear Shades

A strict focus on e-readers, overall e-book selection, and e-reader applications are Amazon's strongest assets for publishers—assets against which other companies are currently struggling. Consider the following:

- While the HP Reader does have e-book reader capabilities, it's marketed as the small business answer to netbooks. Additionally, its \$800 price tag is prohibitive for most readers;
- An Apple iPad price is also steep, starting at \$500. Additionally, the iTunes store cannot match Amazon's e-book selection;
- The Barnes & Noble Nooks are reasonably priced at \$149 and \$199, but the company's financial troubles spook many consumers;
- The Sony E-reader is competitively priced at \$134 but only holds 350 books.

The Once and Future Book

Over the past several years, traditional book publishers have lost readers and revenues. Amazon's e-readers are a seductive marketing call for these sales-strapped publishing companies seeking to combine profits from both print and pixels while retaining strict quality control. Consider the following rich and untapped market possibilities:

The Brave New Markets

- The romance book market totals \$1.36 billion ¹² and only 5.4% ¹³ of all romance novels are e-books. *\$1.29 billion dollars* is up for grabs on the e-book table;
- The college textbook market;
- The visually-impaired reader market. Amazon's Kindle offers a varying font size plus a text-to-voice option for visually impaired book lovers;
- The short story market.

The Brave New Apps

For those just wanting to read whenever or wherever the spirit may strike, Amazon also offers a variety of free, downloadable Kindle Reader Applications to help make e-books truly universal. These apps are compatible with PCs, Macs, iPhones, iPods, iPads, and Android Smart Phones.

Easy access to digital books allows impulse shopping

The Social Media Boost



Social media is probably the biggest boost to e-book sales. In today's market, new writers establish their credentials through a 'platform', a marketing venue designed to attract public attention to the author.¹⁴ Social media options such as Twitter, Facebook fan pages, Goodreads, and even Amazon's own online book review section, help drive a writer's e-book and hardcover book sales deep into the public domain.

The overall cost to the publisher for this social media marketing surge? Zero.

¹² Romance Writers of America. Romance Fiction Sales Data:

http://www.rwanational.org/cs/the_romance_genre/romance_literature_statistics/industry_statistics

¹³ Romance Writers of America. Romance Reader Statistics: http://www.rwanational.org/cs/readership_stats

¹⁴ Articlesbase.com. "What's a 'platform' and why does a writer need one?" April 16, 2008:

<http://www.articlesbase.com/writing-articles/whats-a-quotplatformquot-and-why-does-a-writer-need-one-388086.html#ixzz13gPOtx00>

Recommendation: Pixels or Print?

Pixels *and* print is the new publishing market strategy and Amazon's Kindle E-Reader is the perfect, low-cost, high-profit way to achieve it. Publishers can retain their editorial quality control while speedily introducing brilliant new writers to an anxiously waiting reading public.

To learn more about Amazon's Kindle E-Reader and Amazon's Digital Text Platform for writers and publishers, contact:

Email: kindlepr-1@amazon.com

Website: <http://forums.digitaltextplatform.com/dtpforums/index.jspa>

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This paper was written for a Writing White Papers class at Bellevue College, WA