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E-books: a new business model for publishers?

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E-books: a new business model for publishers?

Summary

1. Problem definition and research question

    The e-book is a disruptive innovation that is quickly changing the world of publishing, in addition to accelerating a few other changes such as the transition to digital sales channels, self publishing, etc. In the USA the revolution is in full force while in Flanders it's still growing very quietly. Trade publishers in Flanders will have to deal with this sooner or later though and this will change their business model. With this thesis I hope to give some insights were the biggest changes will take place and in what form.

2. Research method

    I have used a qualitative multi-approach method by combining data from the Belfirst database with a literature study of the sector and the e-book evolution (in the USA, Netherlands and Flanders) and in-depth interviews with a heterogeneous sample of 4 Flemish (and one Dutch) publishers about the current and future business model.

    a. Justification of the research method

    The analysis of the Belfirst database and the literature study on the publishing sector was necessary to gain insights into the business.

    Research about the evolution in the USA was necessary to get insight on how the market in Flanders might evolve. The probability that we will see a similar evolution (taking the market size differences into consideration) is high because we can see the same in the Netherlands, where they are about a year ahead of Flanders in terms of e-books.

    Finally, in depth interviews with publishers were conducted to gain personal insights on their view of the future. This was crucial, because as e-books are still relatively new, there hasn't been done a lot of studies, especially about small language regions like Flanders. I conducted interviews with experts before I interviewed the publishers to make sure that I understood how the business works and that my question list was complete.

    b. Collection and processing of the data

    The interviews were held with 4 Flemish publishers and 1 Dutch publisher, because Flemish fiction authors often get published by Dutch publishers. The sample consisted of 2 larger companies and 2 smaller companies. The interviews were conducted face to face (and in case of the Dutch publisher, by Skype) and contained a mix of open and specific questions.

3. Findings and conclusions

    My main conclusions were that publishers need to work on their relationships with readers, treat them like customers, use more niche and less mass marketing. They should build a real brand (as a publisher, or by their imprints), look into diversification, improve the special sales department and not forget about print books.

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1 Introduction

"The e-book is the most important development in the world of literature since the Gutenberg press and is destined to change the reading habits of many over the next several years." (Rao, 2003)

Fortunately for publishers, book publishing is a trade that has remained mostly the same since the invention of print, hundreds of years ago. The most disruptive change must have been the arrival of the paperback, as an addition to the hardcover. But publishers shouldn't let their traditions restrain them in the future.

With this thesis, I hope to give some insights into what Flemish trade publishers should do to remain profitable in the coming years. The goal is to help publishers move forward into the era of e-books and study the required changes in their business models, which are now mainly focused on hardcovers and paperbacks.

The e-book is a disruptive innovation that is shaking the industry upside down and publishers are afraid to move. They don't know what they're doing and are afraid of doing it wrong. They are worried about lots of "details" like pricing and digital rights that they forget to look at the big picture. They seem unable to think like an entrepreneur or a start-up. They forgot that anything is possible. And they do not seem to realize that the future of publishing industry will soon be completely different than its past.

Publishers need to radically rethink their business models: who are their customers? It will become essential to know what motivates them and to engage with them. How are they going to maintain a certain bargaining power if the selling channels become an oligopoly? Do they need to diversify to remain profitable? How will they make their books stand out in an ever increasing book market?

As an avid reader, book collector and gadget lover, e-books have been a fascinating topic and a great conversation starter. The biggest challenge for me was to see the business from the viewpoint of the publisher as a company instead from the viewpoint of the reader and customer.

This thesis has been divided into two big parts: the literature review, and the empirical analysis. In the first part I will cover an overview of the Flemish book publishing business (chapter 3), a history and status quo of the e-book (chapter 4), and an overview of business models (chapter 5).

The second part of this thesis, the empirical analysis based on in-depth interviews has been divided into two additional chapters (chapters 6 and 7) covering the current and future business model in nine building blocks and the publishers awareness and readiness for e-books.

2 Methodology

As stated in the introduction, the goal of this is to discover what publishers should do so that in ten or fifteen years, they will still be profitable. How should they adapt their current business model to a business model that can include publishing e-books?

The first part is the literature review. It starts with Chapter 3 which is an **overview of the Flemish book publishing business as it exists** today. The analysis uses data on the publishing sector drawn from Belfirst database[1], as well as scientific literature in order to build an understanding of the economics of selling books (e.g. Canoy et al., 2005; Vasileiou et al., 2008).

Chapter 4 is about **the e-book as a product** and how it is influencing publishers in **the USA, the Netherlands and Flanders**. Although the American market is much bigger than the Flemish book market, it still gives interesting insights on how the e-book market might evolve in Flanders. A similar evolution in Flanders probable because we are seeing this in the Netherlands already, where the e-book revolution is evolving in the same way as it has earlier in the USA. However, the size differences of the book market in the USA and in Flanders have been kept in mind throughout the analysis.

The concept of a **business model** is chosen to tackle the question of the impact of e-books on the publishing industry because it has provided me with a clear and **comprehensive structure** including many relevant strategic and operational issues, such as revenue generating mechanisms and key activities. This structure has enabled me to compare the old business model and the emerging changes that the e-book is bringing along. In the fifth chapter, a review of the literature on business models provides the conceptual framework that underlies the empirical analysis. Different definitions of business models are discussed in order to identify its components, which are analyzed by means of a qualitative analysis in the second part of the thesis.

The second part of this thesis, the empirical analysis, has been divided into two chapters covering the business model (chapter 6)and the publishers' awareness and readiness for e-books (chapter 7).

As e-books are a fairly new and ongoing evolution, there has not been written a lot about their influence on the business model for publishers, especially when we look at publishers in a small language region such as Flanders. This is why I have opted to conduct qualitative, **in-depth interviews with publishers**.

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[1] The Bel-First database contains the financial statements of more than 330.000 Belgian companies

Both chapter 6 and 7 are built around the interviews I have conducted with 3 experts and 6 publishers in Flanders and the Netherlands. The sample is deliberately heterogeneous: there are fiction and non-fiction publishers, big and small publishers, ... to get an accurate overview of the evolution. A heterogeneous selection is necessary because e-books probably will not have the same impact on different types of publishers and books.

I used a qualitative multi-approach method by combining data from the Belfirst database with answers from the interviews and the literature study. This made sure that I asked the right questions to the right publishers.

The questions were based on my findings in the literature review and from blogs by the in-crowd (publishers, authors, etc). There was a mix of open and specific questions to gain a maximum insight in the publishers business.

To make sure that my list of questions was complete, I interviewed experts to gain additional insights and further refined my question list for the publishers. This helped me tremendously to see certain points from different perspectives.

The interviews were semi-structured (Saunders, Lewis and Thornhill, 2008) so that I had the same questions for everybody but was able to adapt according to their answers. I personally conducted these interviews face-to-face to ensure that additional questions could be added when necessary. The interviews with AW Bruna, Wiebe de Jager and Bas Vermond however had to take place via Skype.

I interviewed publishers about their current business model (for print books) and asked them about their view on the future, what their plans are (both short- and long term) and how they think they can (or will) survive the transition to a digitalized publishing world.

Their answers are coined against findings from the e-bookmarket in the USA that is more developed already and papers about disruptive technologies, etc. Most of these findings come from online sources within the publishing world such as boek.be, and the blog of Mike Shatzkin, a renowned digital publishing consultant.

Some of the publishers asked to anonimise their data, which is why sometimes I cannot write specifically which publisher said what and why some tables mention Publisher A, B, C, D and E instead of their names.

This thesis **focuses on the Flemish market**, but because most Flemish fiction writers work with Dutch publishers, I also interviewed a Dutch publishing company.

The combination of the literature review and the interviews with the publishers enabled me to give recommendations to publishers on how to deal with the changes in the publishing industry.

3 An overview of the Flemish book publishers sector

Book publishing is a trade that hasn't changed much since the invention of print, hundreds of years ago. The most disruptive change must have been the arrival of the paperback, as an addition to the hardcover. (cfr chapter 7)

With the arrival of the e-book however, much is about to change, as we can see in the US market. This thesis however is about the Flemish publishers and thus this chapter gives an overview of the Flemish book publishers sector today. How much is the sector worth? Are there many players? Is it a heterogeneous sector with big and small players? etc.

To begin with a selection of publishers was made with the help of the Belfirst database. First all Flemish and Brussels publishers were aggregated, which gave 379 results. Then I did some filtering to make sure that only relevant publishers stayed in the selection. All publishers without Flemish books, publishers that only publish one book a year (Lexycom for instance), publishers that are only marginally occupied with books (e.g. Sanoma Magazines Belgium) and publishers of which I couldn't find any relative data (e.g. Centrum voor Management Consulting) were filtered out. This left us with a selection of 65 publishers.

The data collected from Belfirst contained turnover, added value, profit, employees (in FTE), current ratio, solvency ratio and profit margin. The other numbers are calculated based on these figures.

Something else to keep in mind is that there are **a lot of mergers and acquisitions within the sector** which makes it hard to give an accurate overview. In 2010 alone, Lannoo bought Meulenhoff Boekerij which now enables them to publish fiction books as well (Absillis, 2010), and A.W. Bruna and Standaard Uitgeverij were acquired by WPG Uitgevers België. In 2012, two of the WPG publishers (De Arbeiderspers and A.W. Bruna) will merge, just as De Bezige Bij & Balans. (Boek.be, 2011a)

Between 2000 and 2008 the number of publishers in this selection grew from 43 to 65, this should be taken in account when looking at the data. Now, we will discuss an aggregation of the data of this selection of publishers.

Table 1 Turnover

	2000	2001	2002	2003	2004	2005	2006	2007	2008
# Publishers	19	23	21	22	22	22	21	21	23
Total turnover (x € 1000)	136.821	148.003	159.773	178.773	181.547	184.280	189.925	216.579	234.895
Average turnover (x € 1000)	7.201	6.435	7.608	8.126	8.252	8.376	9.044	10.313	10.213

In Table 1 we can see information provided about the turnover between 2000 and 2008. Unfortunately, not all of the publishers have published all this data. For turnover, between 19 and 23 publishers have revealed this information, and the average turnover has been calculated based on this number. We can see that the turnover has risen with 70% over the years, while the average turnover per has increased with about 40%.

Table 2 Added value

	2000	2001	2002	2003	2004	2005	2006	2007	2008
# Publishers	43	44	50	50	54	57	60	64	65
Total Added value (x €1000)	56.783	60.730	68.727	73.109	76.037	77.424	83.445	97.084	106.644
Average Added value (x €1000)	1.385	1.446	1.636	1.589	1.584	1.461	1464	1.541	1.616
St. Dev. Added value (x €1000)	2.336	2.401	2.593	2.725	2.811	2.813	2.962	3.261	3.416
Median Added value (x €1000)	307	371	372	293	208	238,5	241	234	222

The figures for added value give a more complete picture: we can see that the added value has almost doubled from € 57 million to € 107 million, but the average added value has risen only slightly from € 1.4 million to € 1.6 million and the median has even lowered from €307 million to € 222 million.

Table 3 Profit

	2000	2001	2002	2003	2004	2005	2006	2007	2008
# Publishers	**43**	**44**	**50**	**50**	**54**	**57**	**60**	**64**	**65**
Total Profit (x 1000€)	14.991	14.001	17.189	18.834	21.995	22.493	23.274	34.342	31.175
Average Profit (x 1000€)	366	333	409	409	458	424	408	545	472
St. Dev. Profit (x 1000€)	1.240	1.427	1.110	1.202	1.260	1.425	1.619	2.077	1.529
Median Profit (x 1000€)	23	23	36,5	25	42	33	36,5	18,5	5

Similarly, the total profit in table 3 has doubled, while the average profit has only increased with 28%. The median is much lower than the average again, suggesting that most of the companies are much smaller than the average.

Table 4 Number of employees (in FTE)

	2000	2001	2002	2003	2004	2005	2006	2007	2008
# Publishers	**43**	**44**	**50**	**50**	**54**	**57**	**60**	**64**	**65**
Total # employees	748	773	790	789	796	814	900	1014	1060
Average #employees	18	18	19	17	17	15	16	16	16
St. Dev. # employees	31	32	32	31	31	32	33	35	36
Median # employees	4,5	4	4	3	3	1,5	2,5	2	2

The total number of employees has risen with the amount of publishers, but the average amount has slightly gone down.

However all of these figures show large standard deviations and medians that are considerably lower than the average, which is why we will divide this pool of publishers into small, medium and large companies. But first, let's have a look at the ratio's.

Table 5 Current ratio

	2000	2001	2002	2003	2004	2005	2006	2007	2008
Average Current Ratio	2,64	2,48	3,02	5,57	2,70	2,57	2,75	3,81	3,32
Standard Deviation Current Ratio	2,65	3,34	4,58	12,54	2,93	2,69	3,14	7,77	7,13
Min Current Ratio	0,27	0,17	0,23	0,21	0,07	0,39	0,32	0,15	0
Max Current Ratio	14,04	24,23	33,27	98,46	16,74	13,99	15,14	49,68	53,48

In table 5 we can see that the current ratio[2] has risen from 2,64 to 3,32. We can definitely call this a healthy number, the sector in general is easily able to meet their creditor's demands. The standard deviation and the extrema show that there are large differences between the companies.

Table 6 Solvency ratio

Solvency Ratio (%)	2000	2001	2002	2003	2004	2005	2006	2007	2008
Average Solvency Ratio (%)	37,82	32,88	34,79	37,30	38,06	34,88	35,56	36,90	40,24
Standard Deviation Solvency Ratio (%)	28,08	27,62	29,99	33,06	32,12	33,34	33,28	36,02	33,90
Min Solvency Ratio (%)	5,18	-40	-57,95	-85,83	-59,04	-57,38	-49,31	-58,39	-36,51
Max Solvency Ratio (%)	93,96	96,05	97	99	94,28	93,03	93,52	97,99	99,33

The solvency ratio[3] in table 6 has risen slightly since 2000 and looks very healthy. Again, the standard deviation and extrema show that this is definitely not the case for all publishing companies in the sector.

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2 The current ratio is a financial ratio that measures whether or not a firm has enough resources to pay its debts over the next 12 months. It compares a firm's current assets to its current liabilities. For a profitable company the advice is to aim for a ratio between 1 and 1,5
3 The solvency ratio measures the size of a company's after-tax income, excluding non-cash depreciation expenses, as compared to the firm's total debt obligations. It provides a measurement of how likely a company will be to continue meeting its debt obligations. A solvency ratio larger than 20% is considered financially healthy

Table 7 Profit margin

	2000	2001	2002	2003	2004	2005	2006	2007	2008
Average Profit Margin (%)	10,76	14,83	14,15	13,35	15,49	6,58	9,97	10,78	6,24
Standard Deviation Profit Margin (%)	8,75	14,54	14,88	16,16	15,13	13,71	10,39	11,46	11,14
Minimum Profit Margin (%)	-10,36	-9,92	-14,87	-51,76	-18,74	-68,74	-23,03	-30,32	-35,65
Maximum Profit Margin (%)	49,49	97,37	99,15	98,72	95,5	51,49	56,71	59,87	44,66

The profit margin in 2008 is considerably lower than it was in 2000, though the numbers seem to be very volatile year to year. The minimum and maximum data again show that there are big differences between all publishing companies.

Together, all these numbers show a very heterogeneous sector, which is why it is interesting to look at the differences between small, medium and large publishers. Because few publishers have revealed their turnover, the division was made by their number of employees (in Full Time Equivalents). Publishers without employees are categorized as small, publishers with more than 15 FTE's are categorized as large.

In table 8 we can see the division of small, medium and large publishers over the years.

Table 8 Division: small, medium and large publishers

	2000	2001	2002	2003	2004	2005	2006	2007	2008
All publishers	43	44	50	50	54	57	60	64	65
Small	11	11	16	16	17	20	22	23	23
Medium	17	18	19	19	22	22	23	25	26
Large	15	15	15	15	15	15	15	16	16

Next, I compared the average value, profit, and I calculated the standard deviation, median, minimum and maximum for each of these figures and each category. The tables with these figures can be found in the appendix.

These more detailed figures showed a very heterogeneous sector. Even within the categories of small and medium publishers there were still very large standard deviations and medians that were nowhere near close to the average. The figures do indicate that most publishers are healthy companies.

The category of large publishers shows a less heterogeneous selection, and even more companies in a healthy financial state.

Because Belfirst only has data until 2008, I searched for more recent data at other sources. These should also give a view of the impact of the crisis on the sector. In 2008 Boek.be made an agreement with GfK Benelux Marketing Services to collect book sales numbers and thus I was able to retrieve some data about 2009 and 2010. Unfortunately, there was no data to be found prior to 2009, so it is hard to make valid comparisons.

Boek.be states that **2009 was a good year for book sales**. Despite the crisis sales grew 10% in turnover and 5,9% in numbers. Most of the growth can be found with the children's books and cookbooks. Flemish publishers are mainly present in the top-10 lists of non-fiction free time (mainly cookbooks), children's books and comics. They are less represented in fiction book sales. (boek.be, 2010a and GfK ,2010)

Book sales in 2010 were slightly lower. Turnover shrunk with 1,1% and total booksales with 3,3%. (Boek.be, 2011b) This isn't bad according to Geert Joris 2009 was an extraordinarily good year (Boek.be, 2010b).

Remarkable is that the **decrease was primarily visible in the department stores**, and that the **bookstore has increased its share in fiction and literary non-fiction**. **Only 4% of print books were bought in web shops**, though it must be mentioned that this is a growth of 95% compared to 2009. (Boek.be, 2011c)

The share of the top 100 has decreased from 15,4 to 14,2%. Among the top 100 the amount of sold items per title has shrunk with 12%. This might be due to the "long tail" principle[4], but unfortunately there is not enough data available to conclude this with certainty. About 70 000 different titles were sold. **General trade publishing** (and thus excluding educational and scientific publishing) **in Flanders is worth € 25 million** , good for 16,2 million books sold. (Boek.be, 2011c)

Of course book sales in Flanders do not uniquely represent Flemish publishers. However, in general about **half of the titles in the top 100 are from Flemish publishers** while the other half comes from Dutch publishers. (Boek.be, 2010c)

A positive trend is seen at the yearly Antwerp Book Fair as well. The total visitors record from 2004 was broken with 182 000 visitors and almost 40% of the booksellers (both bookshops and publishers) sold significantly more (>5%) than in 2009. Only 20% of them sold less than last year. (Boekenbeurs, 2010)

Publishers themselves also give some interesting information. For instance, in 2009, Standaard Uitgeverij/Manteau (now part of WPG Uitgevers België) broke their sales record for the eighth year in a row. It is important to note that the biggest growth of 38% was achieved in the general trade market with top sellers such as the Millennium-trilogy and the Twilight-series. From their own titles they sold 7% more thrillers. (Boek.be, 2010d)

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4 The Long Tail Theory is derived from Pareto's thinking that low demand can effectively and collectively make up a market share that exceeds the few of those that are in high demand.

One more important change for the publishing industry is the increasing competition from other sectors and substitutions. **Books no longer compete with just each other but also with tv, games (online, on the pc and even mobile), music, the internet, etc.**

When we look at e-books it is obvious that this novelty has not yet penetrated the Flemish publishing industry. **Only one third of the top 100 of the biggest publishers are releasing e-books** (in our selection of publishers there are even less: only seven out of 64). (Boek.be, 2010e) At e-boek.org you can see that there are no more than 9100 Dutch books available in e-book version, compared to the availability of no less than 200 000 different titles across online and offline booksellers, this is indeed a fairly poor result. We will further discuss the e-book in the next chapter.

4 E-books

E-books are **not a novelty**. Their story began in 1971 when Michael Hart started Project Gutenberg by digitalizing public domain books, free to download for anyone who is interested (Burk, 2001). At the end of the twentieth century, the first e-readers arrived. PricewaterhouseCoopers predicted e-books would take up a market share of 17% by 2004 (Thompson, 2010, p 313) and digital advocates were urging publishers to start publishing e-books right away, else they would miss the boat.

In March 2000, Stephen King released an e-book only version of his newest novella Riding The Bullet. He sold more than half a million books (at $2.50) in just two weeks. It seemed like there was a big and hungry market waiting for more. (Thompson, p 313)

But the world wasn't ready for this breakthrough for several reasons. First of all, the **early e-readers were expensive, heavy and awkward to use**. Why buy an expensive e-reader that isn't practical to carry around if you can buy a cheap pocketbook?

Second, no one knew (or knows) what the **definite e-book format** will be, which is confusing for consumers. They feel reluctant to buy an e-reader that might not be compatible with the definitive format and might be outdated soon after the purchase, or e-books that might not be suitable for their e-reader

The third problem is a problem with **rights**: who owns the rights to publish and sell the e-books? Because this issue wasn't foreseen years ago, this usually isn't included in contracts.

Fourth, **publishers simply did not publish enough e-books** and consumers did not feel like there was enough choice. On top of that e-books were also **priced too high**, sometimes higher even than hardcovers. Publishers try to justify this by stating that print costs are only a small part of the process and is partly replaced by the transformation to e-book formats. However, consumers feel that the perceived value of an e-book (which is just data) is significantly lower than that of a print book (something you can actually hold). (Thompson, 2010, p 331)

Finally, there is the issue of avoiding piracy by installing the user-unfriendly **DRM** (Digital Rights Management) which will be explained further.

Publishers were not keen on jumping on the e-book train either because they've heard "that tale" before with electronic books on CD's, etc ... And thus, the e-book revolution was postponed.

4.1 E-books in the USA

In 2007, e-books got a new chance when **Amazon released their Kindle** and **priced e-books at $9,99**. It might not have been a revelation like "the iPod moment" but it definitely got the e-book started. Publishers' e-book sales rose from 0,1% of overall sales in 2006 to 8,32% in 2010 and even 18,7% in the period between January and May 2011 (Thompson, 2010 and Association of American Publishers, 2011).

In January 2011 **monthly e-book sales had overtaken hardcovers** on Amazon. (Sachs, 2011) Amazon itself is now selling twice as many e-books as print books in their top 10. (Deahl, 2010). Unfortunately, as e-books sales are climbing, the cannibalization effect has appeared as well. This means that print sales are currently down about 25 percent, and it is not clear if e-books will be able to close the gap of lost revenue any time soon (Katz, 2011). It is suggested that publishers are keeping e-book prices artificially high because they are afraid the rise in e-book sales will never make up for the cannibalization of print books.

The start of the **iBook store by Apple** started an important discussion in the e-book world revolving around **the agency model**. In the agency model, the publisher gives one price equally across all stores and gives each bookseller a certain percentage on this price. Before this, publishers gave the booksellers a discount on an advised selling price, after which the shops could choose the price they wanted.

That is how Amazon was able to price all of their e-books at $9.99. The publishers didn't like this offer very much, they were afraid it would lower the value-perception e-books (and books in general) in the eyes of customers. They were also afraid of Amazon gaining a monopoly position in this market. This way, when e-books were unavoidable, Amazon could force a higher discount from the publishers, reducing their profit.

So when **Apple** offered them the **agency model**, most publishers jumped at this opportunity to set their own prices. Amazon tried to enforce their way by not selling the books from one of these publishers, MacMillan, anymore but had to back down after just one day. (Stross, 2010A, Caridad Ferrer, 2010 and Stross, 2010B)

Early December 2010 **Google launched their own e-bookstore**, ready with 3 million e-books (of which 2 million are free). This also gives an opportunity to publishers and booksellers who now easily can open their own e-bookstore via Google, without too much hassle or technical knowledge, although they still have to make the conversion from print book to e-book of course . (Boezeman, 2010a)

Statistics show that **romance and science fiction are the most successful genres** among e-books. Sales in these categories doubled in 2010 while the physical sales of these genres shrunk with 7%. (ebook.nl, 2010). It is not clear however if total revenue for these genres was higher too. More in general, fiction accounts for about 61% of unit sales in 2010 and 51% of revenue. (Milliot, 2011)

A survey by Aptara in 2010 showed that **74% of trade publishers are producing and distributing e-books**. When asked how important e-books are to their company strategy and growth plans, 55% percent answered highly important and another 28% moderately important. Almost one third are producing more than 75% of their titles as e-books. However, 79% either did not know what their average return on investment for e-books was or claimed it was worse than printed books. (Aptara, 2010)

40% of e-book readers say they read more now than they did with print books. Moreover, this trend might stay since the reason for the elevated reading is mainly the portability: people read more, especially at times a print book normally is not an option: in the doctors waiting room, on the bus, … (Fowler & Baca, 2010)

E-book sales can even help the biggest authors with propelling their sales, as "The Confession" by John Grisham has shown: the first-week sales topped his last book. (Trachtenberg, 2010)

At the end of 2010, about **1 in every 5 book readers in the US owned a digital reading device**. **26% of adult book buyers are reading digital. Another 34% percent is willing to try it out**, this means that about 60% could be reading digitally very soon. (Milliot, 2010)

All these figures taken together, it's safe to say that the e-book has taken off successfully in the USA, but what about the Netherlands and Flanders?

4.2 E-books in the Netherlands

In the Netherlands, **the market is in a crucial stage: e-book adoption is moving from early adopters to the consumer markets**. Some publishers are trying to adapt and are experimenting with prices, formats, bundling, ... (Vermond, 2010a) But only one in three publishers are already selling already (Vermond, 2010b)

Different organizations are fighting for a position in the e-book market. The first one that got engaged was **Bol.com**, an online bookseller. They now have **99,9% of the e-book market in hands, mainly because there is no competition**. Bol.com has also launched a thinking platform, to determine how the e-book market in the Netherlands should look like. (Vermond, 2010a)

Centraal Boekhuis, the biggest distributor, is said to have made a deal with Apple and possibly Google as well. They are also looking at the possibility to **launch their own platform**, in collaboration with the booksellers who feel a bit left out in the e-books development. (Vermond, 2010a and Boezeman, 2010b)

Among business people, 15% prefer e-books over print books, and another 20% would do the same if there were enough e-books available. 33% percent admitted that they hadn't really thought about it yet. (Starkenburg, 2011)

In July 2010, only 2% of the Dutchmen owned an e-reader, mostly rich and highly educated people. In August 2010 200.000 e-books had been sold, compared to about 31 million print books. (De Jager, 2010a)

E-book sales in Dutch web shops amounted to 3,7 million € (or 327.451 books) in 2010, and the same level has already been reached in the first half of 2011. The average price (including free e-books) is swinging between 9,5€ and 11€. Sales in the first two quarters amount to 2,7% of the total books sold, or in total profit : 1,2%. 86% of these e-books were fiction. (boek.be, 2011d)

These numbers show us that the e-book is still a minor part of the book market in the Netherlands, but is clearly growing.

4.3 E-books in Flanders

While the e-book may be catching on in the Netherlands, **in Flanders we are still way behind**. In 2009, the early adopters had to buy their e-books from Amazon and Bol.com. No Flemish web shops were selling them. Azur.be stated they were waiting for a new business model and cooperating publishers. (Leyman, 2009)

For e-books to make a viable **breakthrough** in Flanders a few **conditions** must be met: there must be **cheap e-readers** (these are available by now), there must be some agreement on what a **good price** is for both consumers and publishers, and there must be **enough e-books available in an easy way** so that consumers won't even feel the need to look for what they want in an illegal way. In short, this is exactly what Amazon has accomplished with their store and the Kindle e-reader in the USA. They convinced a lot of publishers to let them convert books to Kindle books and started offering them for reasonable prices (9,99$ and lower). Buying e-books can be done on your Kindle quite easily as the device offers internet everywhere for free. In Flanders however, these conditions are not yet met by either publishers or bookshops.

For starters, most publishers started **pricing their e-books at 80 percent** of print books and these prices haven't really evolved since. As an extra difficulty, the high e-book price is partly due to the high VAT on e-books (21%) as opposed to print books (6%). Unfortunately, this isn't something that publishers can do much about, although the "Vereniging van Europese Uitgevers" is lobbying for it. (Boek.be, 2011e)

Second, there are **not enough e-books available** yet. Only one third of Flemish publishers are already publishing e-books. (Boek.be, 2010e) For instance, when you look at data from Boekenbank.be and Bol.com, you find that Lannoo is offering 3.663 books, of which only 90 can be ordered as an e-book. While the offer is increasing steadily, for instance, the number of Dutch e-books at e-reader.net has doubled in 2010. (Boek.be, 2010f and e-boek.org) The question is – is this quick enough?

Relatively cheap e-readers are available, but are consumers willing to pay between € 100 and € 200 for a device if they cannot (legally) buy the books they want? Let alone at a reasonable price?

Between summer 2010 and summer 2011, about 3% of Flemish people bought an e-reading device. (Ilegems, 2011) Boek.be estimates that Dutch e-book sales were about 0,21% of total book sales, or about 30.000 e-books. The sales tripled after the iPad was launched and boek.be estimates that sales for 2011 will equal the lever of 2010 in the Netherlands. (Maes, 2011)

And last but not least, there is one way that is definitely the wrong way to go: the **decision not to publish e-books**. J.K. Rowling has shown us that this is the wrong approach. Her (print only) books have been pirated into digital copies within hours of being released in print format (Brad's Reader, 2010). How much sales has she lost because she didn't want to be present in this new market? In contrast, Stephen King earned over eighty thousand dollars, just from e-book sales in no more than three days (Trachtenberg, 2010). Similarly, the Beatles were always rejecting digital downloads up until recently when they started selling on iTunes for double the price at Amazon, and still they sold 2 billion downloads. (Williams, T., 2010)

Like Bol.com our Flemish government has also set up a discussion forum to start an **e-book platform**: e-boek.org. A successful Flemish e-bookplatform should help our publishers to sell e-books at their own conditions rather than be subject to those of Google, Apple or Amazon. The platform will be collaborating with both publisher, librairies and bookshops to offer sales, timereading (limited period reading) and e-lending via libraries to the consumers. (innovatiefaanbesteden.be, 2010 and Deckmyn, 2010)

For now, **Boek.be** is doing a fairly good job in the e-book world. They have started their own shop, e-boek.org and presented their own iPad app. (Joosse, 2010) The app was downloaded over 8700 times in just two weeks and they sold three times as many books in two weeks as they did in previous months. These figures show that there is a definitely potential with iPad owners for sales of e-books. (Maes, 2010)

A French study expects that **by 2015 about 20 to 25% of the market will be digital**. For Flanders (about 180 million bookprofit yearly) this means that digital sales will amount to 36 million, compared to sales of not even 1% in 2010. The study might be wrong about the timespan but these numbers will be reached sooner or later. (Maes, 2010)

Clearly, publishers cannot ignore the e-book. They will need to adapt their current business model to survive, especially if the rising e-book sales will not make up for the loss on print books. Some aspects, such as digital rights management (DRM), have already been discussed in many papers, but there is still much discussion whether it can reduce piracy and raise sales or rather the contrary. (Jonker & Mauw, 2004, Oestreicher-Singer & Sundarajan, 2006, Samuelson, 2010). Another problem is that publishers are no longer selling a private property (the print book), rather than a license to read, although customer might get used to this idea. (Lehdonvirta & Virtanen, 2010) Another article discusses possible price differences. (Jiang & Katsamaka, 2010). Publishers can also learn from the music industry and find inspiration in their new business models as suggested by Dubosson-Torbay, Pigneur and Usunier (2004) and Mortimer, J.H., Nosko, C. and Sorensen, A. (2010). (cfr chapter 7.3 Lessons to be learned)

4.4 Selfpublishing

The internet and other more recent evolutions have made it increasingly easier for authors to publish themselves. For one, there are several print **on demand organizations**, such as lulu.com and pumbo.nl, that allow authors to print small numbers of books and distribute them.

Amazon and its Kindle took self-publishing to an entirely new level enabling anyone to publish their e-book on world's largest bookstore.

Platforms such as **TenPages** help authors gather a minimal investment and prove to the partner publishers that there is indeed a market for this book.

There are two trends here: there are the **unknown authors** that become bestselling authors such as John Lock, Amanda Hocking and a few others. And there are the **renowned authors** who start selfpublishing.

Seth Godin would be an entirely different category since he started his own experimental publishing company **"The Domino Project"**. His publishing company is based on the relationship he built with his readers over the years. Many of them have subscribed to his mailing list, indicated that they are interested in the books he will be publishing (both by him and other authors). Just as important to his business are "special sales" and "collectibles", ideas that will be discussed more extensively later on.

Should publishers really be worried about selfpublishing as a trend? Further elaboration on this topic follows in Chapter 6.10 Key Partnerships

4.5 E-books as a disruptive innovation?

Before we can move on to the chapter about business models, I must explain why **e-books** should be considered **a disruptive innovation**: The appearance of online bookshops and social media helped publishers to sell more books to more people. We could call these supporting innovations; they elevate the success of the existing business model. E-books however are another matter.

Disruptive innovations, like e-books, don't change the rules of the game; they are part of an entirely new game, a game that needs a new business model. They create a new market through the introduction of a new kind of product or service, such as the e-book. The new product is usually judged as inferior compared to the old product and judging by the performance metrics that mainstream customers value. (Christensen & Overdorf, 2000)

When deciding about a new purchase, the buyer will take four product characteristics in consideration: functionality, reliability, comfort and cost. If a characteristic has reached the requested performance level, then there is no more competitive advantage in using differentiation based on that characteristic. This is why a surplus in performance levels will provoke a change at the base of competition. (Van Moorsel, 2011, p 14-15)

Managers are trained to react on the needs of their most demanding (and most profitable) customers in the 'higher' ends of the market. They do this by improving the characteristics of their existing products and services and lowering the costs so they can be sold with ever higher margins. At a given moment in time, a product characteristic will reach a level that is good enough for most people, or even a surplus. This relative surplus will appear first with the least demanding customers who are usually the most price sensitive as well. This fact opens the door for disruptive innovations that will attack the lower regions of the mainstream market with a cheaper product. (Van Moorsel, 2011, p 14-15)
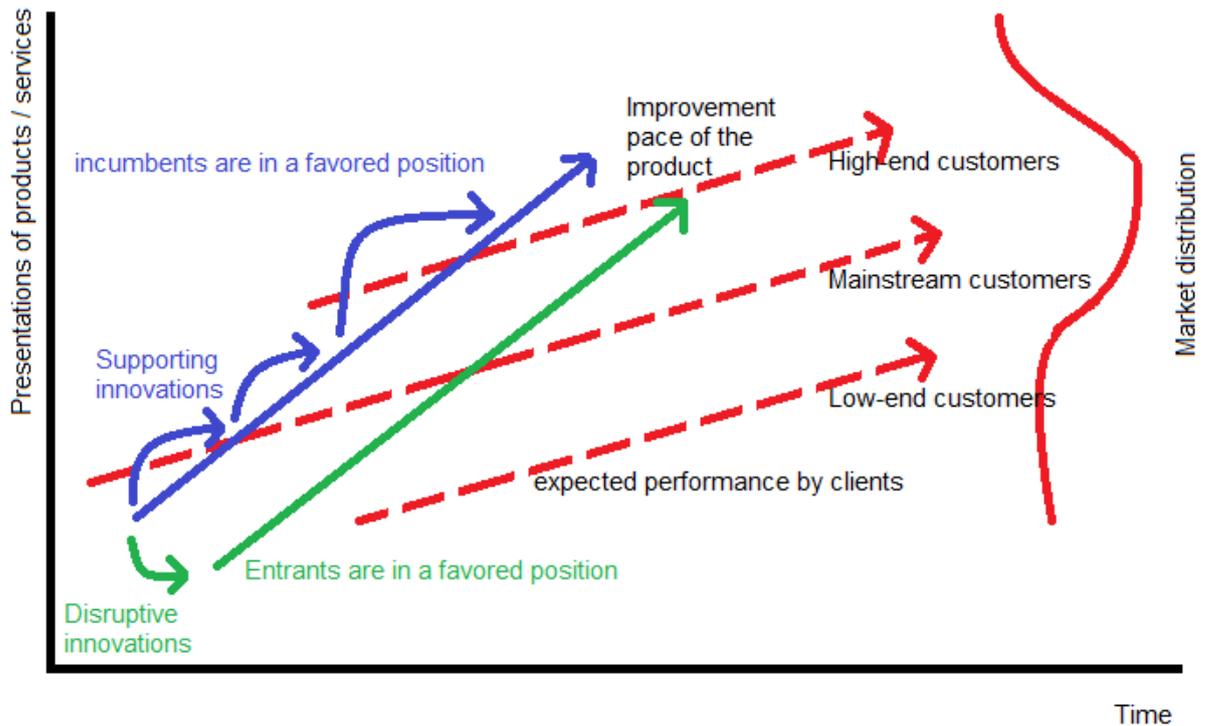
Illustration 1 Disruptive and supportive innovations

(Source: Van Moorsel, 2011, based on Christensen & Raynor, 2003)

Disruptive innovations demonstrate a few characteristics. Compared to traditional products or ways of working they will put the emphasis on different characteristics of these products. That's why, at the moment of introduction, they often **look inferior compared to existing technologies** and products (as seen in the green line in illustration 1) (Van Moorsel, 2011, p 14-15) E-books for instance are much more portable compared to hardbacks, and even paperbacks, a characteristic that was not considered much anymore before e-books. However, the quality (typos, layout, …) of e-books is not always of the best quality, compared to print books.

The first **demand** usually doesn't come from the existing mainstream customer segment but from a **small group of early adopters** who see possibilities in the new options of the products. They start to develop in **small and relatively volatile markets, mostly with lower margins**. After some time, these disruptive technologies will develop further and they will prove themselves in the market and attract new and existing customers. At a given moment the disruptive technology becomes interesting to the mainstream market. At that point the new business will attract more attention from the media and the regular players in the market. The old players can no longer afford to ignore this new development and they start to think about possible reactions and see that this new development is conflicting with the old way of doing business. (Van Moorsel, 2011, p 14-15)

In the publishing sector there are a few different disruptive powers at play at the same time. Although all of these powers have been noticed in the publishing business over the past few years, it seems the rise of e-books is accelerating these even more.

First is of course **the e-book**, giving publishers the chance to broaden their selling channels and experiment with new revenue and marketing models.

Second, the **transition to more digital channels** is **changing the fight for power in the value chain**. Big book chains have to hand over power to the new big players such as Amazon, Apple, Google, and bol.com. (cfr 6.5 Channels)

Third, **book shops are increasingly focusing on successful titles and are becoming more selective by giving fewer books actual shelf space**. (cfr 6.4 Value Proposition)

Fourth is the **possibility for authors to start self publishing with the help of for instance lulu.com**. This elevates the need for a better quality filter, a role that is perfect for publishers but is more and more played by social networks such as goodreads.com, or for instance the integration of Facebook in Amazon. (cfr 6.3 Customer Segments, 6.4 Value Proposition, 6.9 Key Activities)

Fifth, **e-books are hard to protect and the illegal distribution is much harder to control**. This also allows for new models to rise up such as Yindo. (cfr 6.7 Revenue Streams) Last but not least, **reading has been getting increasingly more competition from other infotainment such as movies, music, games, etc**. (Van Moorsel, p 45-47)

5 The concept of a business model

New products require a new way of thinking, which means reviewing the old business model and perhaps developing a new business model. It will be difficult for publishers to incorporate the e-book, a relatively new innovation, and the changes it is bringing with it into their old ways. Many of their earlier beliefs and practices will not apply anymore. (Chesbrough and bloom, 2002)

Teece (2010) mentioned the same issue. He states that companies might **fail to capture value from innovations if they don't carefully rethink their existing business models**. E-books might prove particularly challenging because, like news and music, consumers have many ways to obtain them without paying. Figuring out how to earn revenue, capturing value from these e-books is key.

As Magretta (2002) said: "creating a business model is a lot like writing a new story. At some level, all new stories are variations on old ones, reworkings of the universal themes underlying all human experience". Some publishers will base their new business model on the old print books business model. Others will invent an entirely new story.

But first, **what is a business model**?

Morris, Schindehutte & Allen (2005) name a few definitions of business models from other papers such as "a statement of how a firm will make money and sustain its profit stream over time", "the design of key interdependent systems that create and sustain a competitive businesses" and "the totality of how a company selects its customers, defines and differentiates its offerings, defines the tasks it will perform itself and those it will outsource, configures its resources, goes to market, creates utility for customers and captures profits". Ultimately, they define a business model as "a concise representation of how an interrelated set of decision variables in the areas of venture strategy, architecture, and economics are addressed to create sustainable competitive advantage in defined markets."

According to Morris et al. (2005) , **six key questions must be answered**.

- How do we create value?
- Who do we create value for?
- What is our source of competence?
- How do we competitively position ourselves?
- How do we make money?
- What are our time, scope and size ambitions?

Shafer, Smith & Linder (2005) divide the building blocks of business models into **four categories: strategic choices, creating value, capturing value and the value network**. This is their definition: "a representation of a firm's underlying core logic and strategic choices for creating and capturing value within a value network."

Casadesus-Massanell & Ricart (2010) simply state that a business model is a "story that explain how an enterprise works".

Demil and Lecoqu (2010) divide a business model in three parts: resources and competences, organizational structure and propositions for value delivery, with the value chain of activities and value network included in the organizational structure.

Chesbrough et al (2002) describe the different functions of the business model. First a business model should **describe the value proposition** which is the value created for users by the offering based on the technology. Second, a **market segment** should be identified, these are the users to whom the technology is useful. Next, the **structure of the value chain** should be defined. Then, it is important to estimate the cost structure and profit potential of producing these e-books. The value network, linking suppliers and customers, should be described. Last but not least the business model should formulate the **competitive strategy**.

In innovation, there are three types of business models: industry models, revenue models and enterprise models. In the industry model, the value chain is innovated by moving into new industries, redefining existing industries or creating new ones and finding unique assets. In the revenue model, the way of generating revenue is innovated and in the enterprise model the role in the value chain is innovated. (Giesen, Berman, Bell & Blitz, 2007)

Depending on how far the innovation might go, **the new business model for e-books for publishers will be either a revenue model innovation or an enterprise model innovation**. The new business model described in this paper will probably be a bit of both. Publishers will generate revenues for e-books in a different way, but their other products (audio books, hardcovers, paperbacks) will be influenced just as well. This, in turn, will have a profound impact on the value chain. Book sellers might disappear while new partners might arise.

Finally, **a business model is not a strategy**. A business model should describe a system, it will tell you how the pieces of a business fit together. A strategy tells how to deal with competition, how to do better, how to be different. (Magretta, 2002). Casadesus-Masanell et al. (2010) explain it differently, they argue that a business model should refer to the logic of the firm, the way it operates and how it creates value for its stakeholders while a strategy should refer to the choice of the business model through which the firm will compete in the marketplace. More precisely, they define a strategy as a plan of action that is designed to achieve a particular goal. And ideally, the strategy should resemble the business model, so that an outsider can know the strategy by looking at the business model. Finally, tactics refer to the residual choices open to a firm by virtue of the business model it chooses to employ. Chesbrough et al. (2002) also touches this subject by stating that the business model differs from a strategy because the business model tries to create value for the customer, not the shareholder.

This short review of different business models proves that different definitions in the literature use the same components for business models, although they categorize or define them slightly different. **In this thesis, I have used the business model as described in the book Business Model Generation** (Osterwalder and Pigneur, 2010). I have chosen this model because it is particularly extensive and very detailed. The book also contains a lot of examples that clarify the theory very well, and they include some about publishing.

This model is based on **9 building blocks: Customer Segments, Value Propositions, Channels, Customer Relationships, Revenue Streams, Key Resources, Key Activities, Key Partnerships and Cost Structure**.

In the next chapter I explain what each of these building blocks contain and provide an empirical analysis of the current business model of Flemish publishers for every building block.

6 Empirical analysis of publishers' current business model

6.1 Introduction

In this chapter I will be discussing the publishing business model as it is, how it is evolving, and how it might look in the future. The most important question here is: **what should publishers do so that in ten or fifteen years, they will still be a profitable company?**

Or to rephrase: **what should the publisher do to survive a growing and soon maturing e-book market and the expected shrinking of the print book market?** The emergence of the e-readers and tablets is ensuring that readers can choose, easier than ever, how they read, what they read, when they read, ... The expectations are higher than ever, but how can publishers meet the demands while still generating enough revenue?

As mentioned before, the business model I use in this thesis consists of 9 building blocks:

- Customer Segments
- Value Propositions
- Channels
- Customer Relationships
- Revenue Streams
- Key Resources
- Key Activities
- Key Partnerships
- Cost Structure

Some of these building blocks will change more than others obviously, but I'll go through them all to be able to offer a complete picture. The chapter is structured as followed: one by one, I will discuss these building blocks, as they were in the current business model, and how they might change in the future.

Of course, **the publishers that I interviewed already each have different business models**. For instance: some (bigger) publishers try to produce books they think people want to read, and try to keep them in the market as long as possible. Others (smaller) publishers sell books that they want the audience to read, books they think are worth reading. This difference in value proposition resonates in differences in customer relationships, customer segments, etc. Obviously, publishers that are that different from the start will also be treating e-books in a different way.

Apart from the interviews, I also use information provided by Seth Godin who recently started his own publishing company: the Domino Project, and papers, studies, blog posts and articles by other professionals in the industry both in Flanders, the Netherlands as the rest of the world.

Generally speaking, publishers are mostly **product-based companies**, but they might find themselves **shifting to a more service-based business model** (Kindström, 2010). The English publisher **Faber & Faber**, for instance, has stopped calling itself a publisher and **now describes itself as "a publishing house bringing services to readers, writers and others**." They have started giving **creative language classes** and are offering **services to help other publishers**. (Nawotka, 2011A) Pottermore and the Amanda Project are other interesting cases that prove that publishers can earn a profit with more than just regular books, but these will be discussed in greater detail in the building block Key Activities/Revenue Streams.

6.2 Overview of the interviewees

As stated before, I interviewed **three experts** about the matter to help structure my interviews with the publishers.

The first expert was **Jef Maes**, the head of the knowledge centre of Boek.be. Boek.be is the union of the Flemish book trade, it represents booksellers, publishers and book importers and is working on an e-book platform. I interviewed him on February 1, 2011.

The second expert I interviewed was **Wiebe de Jager**, publisher at Eburon Academic Publishers, a relatively small but very innovative Dutch publishing company. This interview occurred on February 2, 2011.

The third expert was **Bas Vermond**, a Dutch consultant to publishing companies. He advises and supports publishers in the area of new media and digital publications and accompanies them with innovative changes. This interview happened on February 3, 2011.

These interviews helped me give definitive structure for my interviews with the publishers. I interviewed **two big publishers and three small(er) publishing companies**.

On February 16, 2011, I interviewed **Steven Van Tittelboom at Lannoo** who is the product manager eBusiness Development. Lannoo is a large publishing company with several publishers in the group, including both fiction and non-fiction. The fiction publishers (Meulenhoeff Boekerij and Uitgeverij Unieboek | Het Spectrum) were acquired in 2010 and are located in the Netherlands. Lannoo has no fiction publishers in Flanders, something that definitely had an impact on our interview.

Because most Flemish fiction authors get published in Dutch publishing companies, I interviewed a large publisher in the Netherlands as well: **AW Bruna**. I talked to two people there: **Gwena Jaouen**, the online marketing manager and **Joop Boezeman**, the general director. Both of these interviews happened through Skype. The interview with Gwena Jaouen occurred on February 11, while the interview with Joop Boezeman was on April 22. AW Bruna is a publisher with a good track record, they seem to have a good gut feeling about the books they choose, both from manuscripts as foreign books to translate. They are definitely the most innovative publisher I spoke to, and I have a hunch that this might be because they are located in the Netherlands where the e-book is already much more popular.

On February 9, I also spoke with **Andre Van Halewyck**, publisher at Van Halewyck, a small publisher that got very lucky this year: they just published the first book of "Dagelijkse kost". Van Halewyck is a company that publishes non-fiction books that are controversial, artistic, original, … They only publish books they personally would like to read and think should be read by others as well.

At **EPO**, I had a duo-interview with **Lotte Lemoine** (responsible for marketing and distribution for imported books) and **Elisabeth Michiels** (responsible for marketing and distribution for EPO books) on February 15. EPO is both a publisher and a printer, they even stock their own books. They publish about 35 non-fiction books a year about political, economical, social, social-cultural, social-psychologic and historical themes. They are also the distributor in Belgium for quite a few Dutch publishers.

I interviewed **Frank Jaspers** on February 8. He is the director-publisher at **Linkeroever Uitgevers**, a fairly young publishing company with both fiction and non-fiction. The company was founded in 2009 as a joint venture between the Belgian Concentra and the Dutch NDC/VBK and it immediately inherited the imprint Houtekiet.

6.3 Customer Segments

6.3.1 Readers versus booksellers

The first building block of the business model (Osterwalder & Pigneur, 2010) discusses customer segments. In the publishing industry, we can see **two main customer segments: readers and (on- and offline) bookshops.**

In our interviews, 4 out of 5 publishers have made clear that they do not really view the readers as their customers. This is mainly because they hardly have contact with the readers. On the other hand, they don't think their company has any brand value. They think people relate to titles, subjects and authors, not to publishers. With one exception, these publishers see the **bookstores as their direct customers and readers as secondary, indirect customers**.

> *"I don't have a relationship with the reader, I don't know who the reader is."*
> *(André Van Halewyck)*

If e-books, like many other digital technologies, will cut out the middle man (bookstores), the current way of looking at the market could be fundamentally changed.

There are already publishers that see their readers directly as their customers. For instance Penguin, The Domino Project, or most recently, the project launched by JK Rowling, Pottermore, all of them try to communicate directly with the readers and find out more about them and their preferences. Likewise, these are also the publishers that find it important to brand their books with the publisher brand. A Flemish example of this would be Borgherhoff & Lamberigts who co-brands its books with the name of the author.

And **while most publishers I have interviewed say they see bookstores rather than readers as their customers, their activities say different**. While bookstores are the only ones that really buy from the publishers, but if these publishers don't view readers as their own customers then why send out review copies, why advertise? If readers really were not their customers but the bookshops, shouldn't this be the task of the booksellers?

Publishers try to reach all readers, without segmentation and convince them to buy their books in several ways:

- Convince the bookshop to showcase their books
- PR
- Advertising in general
- Extra attention at the bookshops (point of sale material, displays)
- Through the publishers website

In the rest of this thesis I will treat book stores as a channel and partner for the publisher, which they are evolving to more and more, not as a customer. Only readers will be considered customers.

6.3.2 New customers

Frank Jaspers (Linkeroever Uitgevers) does not believe that the reader market as it exists will change: *"**People won't start reading more or less**. There will not be people who will start reading because of e-books and e-readers."* He does not believe that e-books can trigger more total sales. If anything, he believes, sales will decline because books have more competition than ever from other things such as surfing on the web, movies, …

Frank Jaspers makes a valid point when he says that there is an increasing amount of **substitutes for reading** a book. Of course, movies and games have been around for a long time, but reading a book used to be the only reasonably portable activity. Mobile devices such as smartphones and iPads have enabled many to watch movies or play games anywhere.

On the other hand, this kind of **mental rigidity is dangerous for the future** of publishing. To be able to adapt, publishers must see possibilities and be able to adapt their business model. Believing that nothing will change, based on personal beliefs instead of research and facts is a prime reason why companies in the past have failed. As we will discuss later, the first bookstores have already filed for bankruptcy after ignoring the e-book for years.

And there is plenty of research to counter these rigid ideas. For instance, **In the USA it has already been proven that e-book readers buy more books than print readers**. Simba Information released a report that found that 60% of iPad owners read books on their device. People might start reading more, just because e-books are easier than ever to carry around, because they are (or might become) cheaper, because they (might) become less reading intensive by adding rich content such as high quality pictures, web links, video's, possibilities for interactions, etc.

6.3.3 Mass or niche?

Another thing that publishers might have to look into is their **mass communication**. Right now, publishers mostly target their books to readers in general. **Authors who self publish on the other hand usually target to a very small niche**. John Locke, for instance, says that publishers always try to push to broaden the appeal of a book, while he focuses on his core niche audience that he believes is key to successful author brand-building. (Shatzkin, 2011A)

Knowing their customers better could enable publishers to be a better content curator to these niches (cfr. 6.9 Key Activities). Amazon has a head advantage here with their sheer endless supply of customer information. But publishers too could let their readers know about upcoming books that interest them and know that the selling probabilities will be higher than if they spread the message to all of their customers. Seth Godin does this for instance by offering an e-mail newsletter to anyone interested.

Jacqui Small Publishing had a social media campaign that fits into this line of thinking as well. They published a cookbook about cakes, by an author with really good credits in the industry, but unknown to the big public. They set up a campaign at bakingmad.com, a social network about baking centered around a competition to find Britain's best cake decorator. The winner got a real life master class with the author at the Langham Hotel, a signed book and a large goodie bag. The customer engagement it created was of a real benefit to the social network and the publisher had access to the community, a targeted audience for which this book was perfect. A trailer with the author showing technique from the book was added on several sites as well. While I couldn't find any precise sales numbers, it is mentioned in the article that the book sold three times as many copies in its first three months as a previous title by the same author. (Mullish, 2011)

Manteau is another publisher working on this. For instance, their young adult imprint Edge is composed in collaboration with the young adults themselves. Free chapters are available through using QR-codes in the advertisements, a popular tool in this segment. (Boek.be, 2011f)

Knowing your audience gives possibilities for feedback as well. The decision to publish a book is often based on a gut feeling, but this could be supported by early support from possible readers. For instance, similar to Ten Pages, a publisher could put a chapter online and let possible readers judge if they want to read a book or not. Then, when a book has received a "go", the publisher could keep the attention of possible buyers by offering them snippets and building the anticipation for the release.

Even though selling books to the masses will always remain important, knowing the audience and using segments to promote certain books will deliver higher success rates and more sales.

6.3.4 E-books, paperbacks and hardcovers

As e-books are still relatively new and a marginal product in Flanders, I wondered if readers ever contacted publishers about this.

The smaller publishers claim that they hardly ever get requests from readers about e-books, and as such they are not planning to try and reach these "electronic" readers in a different way than "print" readers yet. They might change tactics when e-books reach the tipping point of 5% or even 20% in sales. This stance of wait-and-see is very typical for incumbents, as we will discuss later.

The big publishers do receive more and more requests for e-books from readers, especially since the iPad has been launched. These publishers are already targeting these people in a different way. They work more with Facebook and newsletters, and want to expand this in the near future. This also happens indirectly through the retailers, such as bol.com.

Something to consider is the question if **e-book readers will be the same people as those who (used to) buy paperbacks and hardcovers**. Think about what the competition is for e-books: it's not hardcovers, but rather movies, games, comics, … anything else that can be done on a tablet. If pricing were based on this kind of substitutes, publishers might be able to reach a new or different audience. As e-books gain more traction, hardcovers too might change and become different products for different readers: of course people can read them just the same, but hardcovers also offer prestige and are a kind of interior design item or part of the collection. (Godin, 2011a)

In this first building block, customer segments, I have discussed the transition of readers (rather than bookshops) as customers and the necessity to start targeting more niches and a little less to the masses. This subject will return in chapter 6.6 as well.

6.4 Value Proposition

The value proposition of the publisher should create value for the readers through a mix of elements catering to their needs. Values may be quantitative (eg. price, speed of service) or qualitative (eg. design, customer experience).

6.4.1 Gatekeepers

Publishers have always been gatekeepers, and this will remain an important role for them. In the past, their role as a gatekeeper was to reject the books that they didn't think were good enough to hit the market. Authors of these books can now publish their own books (as they have in the US, looking for instance at the Amazon bookstore). This means that the amount of books yearly published will be exploding and choosing a book to read will become even harder. Then, publishers will certainly give an added value to the books they do decide to publish.

In time, publishers (or more specifically their imprints) might become more known as gatekeepers, known for their good selections. They have already **filtered out "the noise",** something that will become increasingly important in the overdose of information we already get.

This is something that was only mentioned by Andre Van Halewyck, though he does think that this will be more of an issue to bookshops rather than their reader. I heavily disagree with the view of Andre Van Halewyck on this point and refer to for instance the Penguin Classics or Quirk classics, both imprints that are known for a certain kind of books.

Publishers however will not be the only gatekeepers, services such as Facebook integration and Shelfari integration into Amazon will also serve as a measure for what to read or buy next.

6.4.2 What do readers want?

If publishers want to offer value to readers, they need to know what their readers want. There are several questions to be answered here: what books do they want to read? How do they want to read them? Where do they want to read? How do they read? How do they find new books? Answering these questions will help publishers to sell the books to the right audience in a more efficient way.

According to a survey in New York in January 2011, the most important features of e-books are **affordability, readability, ease of acquisition, portability and speed**. (Nawotka, 2011b)

Lostbooksales.com en gemisteboekverkoop.nl are great sources for information about what readers want (or don't want) from their e-books. With e-books the biggest problem is availability (as an e-book, or on the right platform). Often enough, these books are available illegally and readers who really want the book will find it, though it must be mentioned that Dutch e-books are not very common on torrents compared English e-books. Another solution for many of these readers is that they start reading more in English, which is just as big a loss for publishers who might have paid for translation rights already.

The problem of **availability** is relatively easy to solve. When publishers publish a new book, they offer it in all possible flavors straight away: hardcover, paperback, beautifully designed e-book, cloud services, maybe a free txt-version of the book as a teaser, etc. Publishers should make it easy for readers to find and buy their books. (Boezeman, 2010c)

The second problem is **convenience**. One of the big advantages of e-books is that you can buy them from anywhere, as long as you have an internet connection. But many (potential) e-book readers are not the most tech savvy, they do not want to deal with DRM[5] and any extra hassle to get the book from the PC to their e-reading device. Publishers (and their authors) are the ones to give permission to publish without DRM, but the most of the convenience issue can only be solved by booksellers or lending services like Yindo. The only thing publishers can do is collaborate with these channels to make their books available in the most convenient way possible.

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[5] Digital rights management (DRM) is a term for access control technologies that are used by hardware manufacturers, publishers, copyright holders and individuals to limit the use of digital content and devices. The term is used to describe any technology that inhibits uses of digital content that is not desired or intended by the content provider.

Table 9 Use of (social) DRM by publishers

	Van Halewyck	EPO	Linkeroever Uitgevers	Lannoo	AW Bruna
DRM?	Yes	Yes	Yes	Yes	Yes
Social DRM?	No	Interesting	No	No	Not yet

When I did the interviews all of the publishers were using (or were planning to use) DRM (cfr Table 9). Some because they were personally convinced it was the only way to protect their books, others because the author demands it. They were all hoping it would become more user friendly soon. When I suggested the possibility of social DRM[6] they believed it wouldn't be safe enough to protect against piracy.

Frank Jaspers (Linkeroever Uitgevers) was quite pessimistic about this: *"You can't keep it under control anyway, you'll just have to count on the goodness of people and sensibilisation by the government that piracy is going to ruin the industry leading to lesser quality books"*

Since the interviews a few things have happened though. JK Rowling for instance, announced that the Harry Potter series will be available in October with only social DRM as protection, something that might serve as a positive example for other authors and publishers alike.

Closer to home, publisher Meulenhoff Boekerij has announced that it has switched to social DRM as well. (Van Duuren, 2011)

The third problem signaled was the **price**. Complainers here usually state that the book was more expensive than either the hardcover or paperback version which they find unacceptable. (cfr 6.7.1 Price)

The fourth problem is a **legal** one. When a new book of a series comes out, readers want to be able to buy it straight away. If the publisher in their country doesn't sell it yet, they try to buy it abroad which isn't always possible due to **legal restrictions**. After all this most of these potential customers who complained on lostbooksales.com and gemisteboekverkopen.nl then download the book illegally.

There are three other issues that haven't been addressed on lostbooksales.com and gemisteboekverkopen.nl, but that are no less important: **quality, risk reduction and time.**

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[6] Less obtrusive version of DRM, no real protection against piracy, only some kind of "watermark" indication who originally acquired the e-book

A beautiful layout and typography are a standard and the norm for printed books, and typos are out of the question. For e-books however, it's an entirely different matter, often these are just printbooks that have been published as e-books without checking if the conversion has been done well, new typos might have been created, tables that are not readable, it's a common occurrence. Readers who pay a price that is usually at 80% of a print book (or more) however expect equal **quality** to print books…

The next issue is **risk reduction**. When a customer is in a book store, he can read and go through the contents of a book quite easily, something that often cannot be done with an e-book. This elevates the risk for the buyer. The risk can be lowered in two ways: lower the price (and the customer will care less about the risk), or let the user read a part of the book before purchase. On Amazon for instance, most Kindle (and print) books have the "look inside" option, and on the Nook (an e-reading device from Barnes & Nobles), every first chapter can be downloaded for free. Research in the UK has indicated that sampling free content is convincing one fifth of UK readers to buy e-books, a number that is even higher in the US where more than a third of book buyers said that free content inspires them to buy e-books. (Campbell, 2011)

One final issue that publishers should take into consideration is **time**, and when these readers might want to read. As books have increasingly more competition from mobile games, movies, music, etc., (as mentioned before, cfr 6.3.4) it might become interesting to offer bite-sized reading experiences, something that is more easily offered in the form of e-books than print books. Readers might prefer a small novel for a one hour trainride, or novels in five minute chapters to read on the metro. (Snoeren, 2011)

6.4.3 Publisher as a brand

First, **reputation is a huge problem for the publishing industry in general**. Both readers and authors seem to think that publishers catch all the value, authors don't get paid enough, and books are too expensive for the customer. The industry is being attacked for being **greedy**, for exploiting consumers and authors. Publishers are being accused of **dinosaurs**, unwilling to participate in the new innovation possibilities. In short, they have a serious branding issue to be solved. (Blofeld, 2011)

Amanda DeMarco gives us a few great ideas to resolve this: "*Let a high-profile editor or agent give a sneak-peak into a hectic day, follow ones book complete publishing life-cycle, have an author talk about working with a publisher — do anything to make the publishing process visible, vivid, and worthwhile-seeming. And talk about money. In my opinion, you could give seminars morning, noon, and night on why a book costs what it does. Börsenblatt recently reported that the price of books in Germany hasn't increased for 13 years. The industry deserves great respect for that, and they would get it if anyone knew.*" (DeMarco, 2011)

Second, **individual publishers (or their imprints) should develop a reputation for picking the best books**.

As publishers, they play a vital part in the life of a book, they select promising manuscripts, work with authors to make it the best book possible and they bring it to the market as well as they can.

Many publishers have several imprints that specialize in one type of book (business books, science fiction, vampires, etc), but readers have no idea. The only brand that readers really know is Penguin Classics, and then maybe a few others, such as Quirk Classics mentioned before (cfr 6.4.1 Gatekeepers).

In the US and the UK, publishers are onto this already. Random House for instance is working on its brand image by producing a podcast in which they interview their authors and talk with book readers. (Hudson, 2011)

Why is this branding important? Three reasons: First, as the bookmarket becomes more flooded, readers can turn to a specific publisher for books they know will be good. Second, writers will be more enthusiastic to work with a publisher successful in a certain niche. Third: it will be easier to convince book sellers to buy the books and as these booksellers are becoming increasingly selective in buying books, this is vital!

In this building block, value propositions, I have argued that publishers have always been gatekeepers, and will remain so in the future. However, they will also need to brand themselves in that way and figure out what the reader, their customer wants exactly. This too will come back in 6.6 Customer Relationships.

6.5 Channels

In the current business model books reach the customers through two main channels: **physical bookshops and online web shops**.

Some publishers are **experimenting** with new ways to get books to readers. AW Bruna for instance, recently supported the launch of "Doorbraak" by Niels Aalberts by giving books away through **Repudo**. Repudo is an iPhone app that allows users to leave digital content behind in the physical world. (AW Bruna, 2011)

Other new channels will include the **app stores** of Android and iPhone.

Physical bookstores on the other hand will become less significant for sales as e-books take up more of the pie. It is unclear how fast this development will take place and how severe it will be. In the USA, this process is already very visible with Borders, one of the biggest chains, closing their doors (Boek.be, 2011g). The strain on bookshops has even appeared in Flanders as some independent bookstores, such as Liber Mundi are closing as well. (Boek.be, 2011h)

Increasingly, **publishers also maintain their own web stores** where they sell their own e-books (and audio books), a must to survive the changes in the world of books.

The biggest issue for this building block however is the question: who will the biggest booksellers be in the next 5, 10, 15 years?

If the world of booksellers becomes an oligopoly with just Apple, Google, Amazon and Bol.com, publishers will be in a difficult bargaining position which will again lower their margins.

Publishers in Flanders might not be very worried about this because, there is no bookseller that has that kind of power in Flanders (yet). The situation is entirely different in the USA where Amazon was building a monopoly position in e-books and publishers were severely worried that Amazon would take this advantage to the negotiation table (Post, 2011). No wonder they jumped at the opportunity when Apple started their own bookstore with the ability to set their own prices.

In the Netherlands, bol.com is a market leader in e-book sales: 84% of Dutch customers has bought a book at this online shop. (Stichting Marktonderzoek Boekenvak, 2011)

But in Flanders, this is still an open question. Publishers should try to influence the outcome and shape the industry structure to capture more of the value for themselves by keeping as much power in their hands as possible. If, for instance, the VEP (Vlaams E-book Platform, an initiative by boek.be) becomes a success, this will enlarge the bargaining possibilities of publishers with other sales channels. Hopefully this way they can keep the discounts for booksellers low.

One could make the remark that **book sellers need book publishers**, and vice versa. They can't survive without the other, and therefore they must grant each other enough of the revenue pie to stay alive. **But do book sellers really need publishers?** Amazon, for instance, is now starting their own publishing department (Haq, 2011). And if Amazon has one big advantage compared to publishers, it's their knowledge of the customer.

Since **online book sales account for only 4% of the total book sales in Flanders**, our publishers may not really feel worried about this trend, but it is definitely something to keep in mind. Especially now that bol.com has its eye on the Flemish market as well. (Romeny, 2011)

In this building block, channels, I have discussed the rise of new channels and the war of power this will evoke in Flanders. Although this is not an urgent issue right now, it might become so very soon and publishers should remain wary.

6.6 Customer Relationships

As mentioned before, the publishers I interviewed, except for AW Bruna, see booksellers instead of book readers as their customers. (cfr 6.3.1) Publishers choose to publish the books that, based on historical evidence, they hope will sell well. Publishers are often wrong in predicting what books will be successful and which won't be. Often they also publish books that might not have much potential (because of the topic or because the writer is unknown) but they believe these books should be read. They can only hope these books will prove to be a good investment. But, for most publishers, **there is in no way interaction with readers**, to check if they would want to read such a book, or why they aren't interested.

"Publishing is a commercial activity, we make books that we think will sell well. How do we know if there is a market? It's a matter of responding to hypes, looking at similar books, ... Off course it's easier if you know your customers, but that's difficult for a publisher, books are unique projects." (Frank Jaspers, Linkeroever Uitgevers)

Whether readers will like a book is never known before it is published and the "likeability" can only be measured by the sales coming in. (cfr 6.3.3 Mass or Niche?, 6.4.2 What do readers want?)

Or at least, that was the way it was. For instance, **web shops** technically have the ability to keep **statistics** on what kind of customer looks at what kind of books and what they eventually buy. These web shops often use these data to give recommendations to readers as to what other books they might like, but these data might be valuable to publishers too.

The publishers who have their own web shop are already getting (some of) this information, but they are not doing anything with it yet, because the sheer volume just is not big enough yet to justify spending time analyzing the data. And since they do have access to this data through their own web shops none of them are interested in buying that kind of data from external web shops.

Moreover, as services such as Spotify will become popular, it might even become possible to see how quick someone reads, if and where they quit certain books, what passages they are marking and commenting on. These are all possibilities for publishers to help optimize their book selection. Off course, some publishers will keep publishing books that they believe should be read, rather than just obey the readers.

But none of the smaller publishers I spoke with are planning to maintain closer relationships with the readers. They are on Facebook, and sometimes even Twitter, but these channels are more marketing and PR driven than really a means to communicate with readers. Actually spending time to communicate with these readers is considered too expensive and not worth the effort.

Only Gwena Jaouen (AW Bruna) and Steven Van Tittelboom (Lannoo) said that their relationship with the reader is changing. They are communicating more through newsletters, e-marketing and they use gathered data to know these readers better and to be able to communicate more effectively with them.

However, they also mentioned that they do not wish to really build a relationship with the reader as the publisher, because that happens more through certain imprints (such as Orlando), book series, and authors themselves.

The publishers at EPO, Lannoo and Linkeroever did stress that more and more of their authors are finding contact with their readers through social media (blogs, Facebook, Twitter) and they are certainly encouraged to do so.

But publishers should go much, much further in building relationships with their readers.

Real relationship building would help publishers on two fronts: first, if they knew more about their readers, they could **adapt their books better** to them, and second, if readers knew the publishers (or imprints) better, they might **keep in touch in a better way and discover and buy their books quicker and easier**.

But how can publishers build relationships with their readers apart from web shops and social media? (cfr 6.3.3 Mass or niche?, 6.4.1 Gatekeepers, 6.4.3 Publishers as a brand)

Several others have already shown it is possible, even in Flanders. Think for instance about the book "Geluk: The World Book of Happiness", which is featured on events and workshops, it has a blog, Facebook page, iPhone apps. (http://www.theworldbookofhappiness.com) "The Conversation Manager", by Steven van Belleghem, even builds a real **community** around the book by allowing (almost) anyone to become a guest blogger, next to the many guest lectures and events taking place. The team behind the book regularly shares their presentations on slideshare.net and takes feedback from others with them to the next presentation.

Platforms such as Pottermore take relationship building to the next level. With this newly released website, JK Rowling provides fans with new information, … But the real gain for Rowling is that it gives her control over the fanbase, demographic info, email addresses, … When she will publish a new book, she can contact all these fans straightaway, a very powerful marketing tool. (Geere, 2011)

Seth Godin is doing something similar with his new experiment / publishing company: **The Domino Project**. Before releasing the first book, he promised to sell his book for $1 (for a limited amount of time) if a certain number of people signed up for his newsletter. Though this didn't give any guarantee that anyone would actually buy his book, he did get about 50 000 e-mail adresses. 50 000 people who he can e-mail every time he has a new product to sell, 50 000 people who have shown interest in what he has to say that he can reach directly, at any given time. (Godin, 2010)

Another idea to engage directly with your readers is through **transmedia storytelling,** but more about that in the section 6.7.8 Transmedia storytelling and interactive e-books.

In this building block, customer relationships, I have discussed possibilities for the publisher to build closer relationships with the reader through newsletters (using data and statistics from webshops etc), communities and Transmedia storytelling.

6.7 Revenue Streams

"For what value are our customers really willing to pay? For what do they currently pay? How are they currently paying? How would they prefer to pay? How much does each Revenue Stream contribute to overall revenues?" (Osterwalder & Pigneur, 2010)

Publishers generate revenue mainly through **selling books** (hardcovers and paperbacks) and in a lesser way through selling **foreign rights**.

Table 10 "Pricesetting is based upon..."

	Publisher A	Publisher B	Publisher C	Publisher D	Publisher E
Expected sales	X	-	-		-
Competition	X	-	-		-
What consumers want to pay	X	-	X	X	X
Cost-based	X	X	-	X	X

As shown in table 10, the interviewees all mentioned that most of their **price setting decisions are based on what they think the public wants to pay for a certain book**. The real cost per book is more of an afterthought and although they do keep costs in mind, it is certainly not a priority.

The **average number of books sold varies wildly** between the publishers, the numbers range anywhere between 1.000 and 5.000. **The definition of a bestseller varies as well**, between 3.000 and 35.000 books. And extreme cases (think Piet Huysentruyt or Pieter Aspe) might sell even 100.000.

Publishers usually do not publish a book if they do not think it won't sell a minimum number of books. This minimum varies between 500 and 2.000 books for different publishers.

Foreign rights deliver about 3.000 – 5.000€.

Table 11 The Pareto rule

	% books sold	equal % revenue
AW Bruna	40 %	60%
Lannoo	50%	80%
Van Halewyck	10%	80%

While table 11 shows us that some of the publishers fall under some kind of a **Pareto rule, in terms of profit and books sold**, they definitely don't all do. For some, like AW Bruna, **avoiding this is a strategy, they sell commercial books.**

For others like Van Halewyck, it's **impossible to avoid, but it is part of their strategy as well**. At Van Halewyck, **they choose books that should be read and they hope they will sell well too**. Some, like "Dagelijkse kost" sell extremely well and make sure that Van Halewyck can continue its mission to publish books that should be read.

The revenue stream is one of the building blocks of the business model that definitely will be influenced by the e-book. Print books now are usually transaction revenues resulting from one-time customer payments, but e-books bring possibilities for a second type of revenue stream: the recurring revenues resulting from ongoing payments to deliver a value proposition.

Furthermore, there are several ways to generate revenue streams. Print books fall under asset sales since they are physical products while e-books fall under licensing: readers are permitted to use the protected intellectual property. Other possibilities with e-books are usage fees, subscription fees, advertising and renting.

6.7.1 Price

Right now, most revenue from e-books still come from transaction revenues: one-time customer payments. Interviews revealed that **most publishers base the price of e-books on a percentage of the print book**, around 80%. Gwena Jaouen (AW Bruna) and Frank Jaspers (Linkeroever Uitgevers) think this price should be lowered to about € 10, but Gwena Jaouen admits she is not sure this would be financially viable for all books, especially those from new authors. It would also mean that authors would gain less per book.

Andre van Halewyck supposes the price will settle at about 70-75% of print books and will be based on competition as well. He too says that this price should probably be lower, but he doesn't know how much yet, it all depends on how much the consumer wants to pay.

EPO, a publisher who isn't working with e-books yet, thinks they will base their e-book price on cost + margin, but they will compare to others too so that their price isn't too different. They do think that the price will be much lower than the current 80% of print books, which they really think is too much, considering all the disappearing costs.

AW Bruna is **already experimenting with e-book prices**. The goal of these experiments is to see if they sell more e-books if the price is lower, and if this rise in sales is consistent, or drops again after a certain time.

Publishers at EPO do believe that this is the case and that the number of sales will rise as the price lowers. Steven van Tittelboom (Lannoo) believes that possibilities to play with prices are limited, but that Amazon shows that price really can make a difference.

Andre Van Halewyck disagrees and argues that: "People who want a book will pay the price. No matter how low the price gets, if the reader doesn't want the book, the price will be too high."

In June 2011 for instance Amazon launched the "Sunshine Deals" where they lowered prices of 650 e-books to $0,99 - $2,99 during two weeks. The number of lower prices e-books in the bestsellers list increased dramatically and the average price of this list plummeted from $7.75 to $6.43 during one week. Though Amazon has proven that they can influence sales through price, the effect of extreme low prices seems to be temporary as the effect didn't even last during the two week experiment. (Lubart, 2011))

But there have been other interesting experiments. Publisher Verbum for instance sold all e-books of the imprint Verbum Crime for €4.99. After two months and a half the publishers concluded that it was a good decision economically, partly because the sales of the e-books also pushed the sales of print books up. (Elzinga, 2011)

What the average price will eventually become, will not depend on a percentage of print books but rather on the usual interplay of players in the market (readers, booksellers & publishers), something that none of the interviewees even mentioned during the interview. While publishers might be able to save on the cost structure, they might try to capture this extra value for themselves, rather than transferring it to the customers or booksellers. (cfr 6.5 Channels)

6.7.2 Collectibles

While e-books might be replacing print books, that certainly won't be the case for all print books. Some people will keep enjoying filling their home library, the same way vinyls are becoming more popular again too. Print books will become collectibles and people will be willing to pay more than they currently do. Hardcovers, and special editions will become more valuable. The demand is already there, as Seth Godin is proving with his experiments. (Godin, 2011b and Godin, 2011c)

6.7.3 Special sales

Special sales are another favourite subject of Seth Godin on his blog of the Domino Project, and a neglected department in many publishing companies it seems. The special sales department is charged with **selling books in volume to groups and corporations**. And while negotiating special sales might seem like a lot of work (and thus fairly expensive), if publishers put the right people on this spot, it will mean extra lucrative income. And as a nice bonus: people who wouldn't normally buy the book will have the chance to read it anyway, and maybe even spread the word? (Rivera, 2011)

6.7.4 Cannibalization

Gwena Jaouen (AW Bruna) thinks that e-books will start cannibalizing printbooks, but she's optimistic because in the USA it has shown that e-bookreaders tend to buy more e-books than they used to buy print books. She hopes that this trend will be big enough for the loss in revenue because of the lower prices.

Andre Van Halewyck disagrees that e-books will cannibalize all genres of books, he supposes that the two will reinforce each other.

E-books are estimated to take up between 5% and 25% in 5 year of the total number of booksales, and eventually about 30% -50%.

So far I haven't made a **distinction** in cannibalization of **hardcovers and paperbacks**, but it seems that hardcovers aren't suffering nearly as much as paperbacks are from this cannibalisation. The e-book is not much of a rival for the hardcover, simply because it lacks the bragability and attractiveness of a well stocked book case. E-books create a distinction between books which are keepers and those which are disposable. (Blofeld, 2011)

To take it one step further, publisher might decide to **drop paperbacks** all together. This will eliminate some of the pricing issues because readers can no longer compare e-books to paperbacks, but only to hardcovers, which will make a bigger difference more easily. On top of that, it should save additional development costs and it might stimulate hardback sales for those who really want to put an edition in the bookcase. (cfr 6.3.4)

6.7.5 Diversification

Some publishers agree that they should make revenue in other ways as well (think about events for instance). Others, such as Van Halewyck, want to stick to their core business. Again, it depends on the type of books the publisher has, what the possibilities are. Andre Van Halewyck for instance, believes that this is interesting for publishers such as Lannoo but prefers to focus on his core business (the books) in his own company.

Steven van Tittelboom (Lannoo) then added that they even have their own **event department** and that they are trying to gain money with other things as well. For instance with **communities**, they have started a happiness community around a book they published. They have started building **travel applications** as well, but he admitted that Flanders is too small to make this profitable, so that they have to sell in other countries as well, to make this possible.

Joop Boezeman (AW Bruna) also mentioned that they have started to offer **guest lectures** and readings of their authors to companies, schools, … which also brings in some extra revenue.

And as mentioned before, publishers can take it even further and become a more **service oriented company** by offering their knowledge to the world. They could start **writing classes** for writers (professional and amateur alike) and **publishing services** to self-publishers and smaller publishing houses, like Faber & Faber is doing (see chapter 4 introduction).

6.7.6 Spotify for e-books

Spotify is a Swedish **music streaming service** offering streaming from a range of record labels including Sony, EMI, Warner Music Group, and Universal. It was launched in October 2008 by a Swedish start-up, and now has about ten million users, of which one million are paying members. Users can register either for free accounts supported by advertising or for paid subscriptions without ads and with a range of extra features such as higher quality and offline access to music. A paid subscription is required to use Spotify on mobile devices. Spotify is funded by paid subscriptions, adverts in the Spotify player for non-subscribers and music purchases from partner retailers. In October 2010, Wired reported that Spotify is making more money for music labels in Sweden than any other retailer. (Wikipedia, 2011)

Ideally, a **Spotify for e-books** will stream books in the cloud, which users will be able to access on a variety of e-reading devices for a monthly fee, or limited use for free with advertisements. It will eliminate the need for downloading, but might still allow users to keep a "library"—and might have a social-networking or community component, so that users can swap notes, find reading buddies and, of course, integrate their accounts with Facebook or other reading communities such as goodreads.com.

The first **experiments** with Spotify-like models have already appeared. In Spain, **24Symbols** has been released in April 2011. The website combines freemium content—allowing users to read and browse books for free, as long as they put up with ads, or pay for ad-less reading—with a cloud-only model. It involves no downloads of titles into reading devices of any kind, but allows reading, via the website or desktop and mobile apps. The paid-for model is provisionally priced at € 9,99 a month, € 19,99 for three months or € 59,99 for a full year (Roman, 2011). In the Netherlands, there is the online library and webstore **Yindo** and Bol.com is looking at the possibilities as well.

None of the interviewed publishers is against the idea of working with a company to deliver their books through a Spotify model. That is however the only thing they agree on. One of the publishers had never heard of it before I mentioned it. Another thinks readers will not be interested, or that they will never want to pay enough so that the model would be financially viable for the publishers. Another publisher is already negotiating with a third party, he thinks that this will go live in 2012.

Publishers only want to cooperate if the **conditions** are financially viable, but on the other hand, they do realize that they might not have much to say in this, depending on the size of the company.

None of them really believes in an advertising-sponsored Spotify model, because they believe that the Flemish market is not big enough to be interesting to advertisers, and they don't think the prices could ever be high enough to compensate for lost book sales.Additionally, Steven van Tittelboom (Lannoo) does believe that advertisements could help make this model cheaper (but not free) to users.

Since the interviews, one publisher, Meulenhoff Boekerij has actually revealed a cooperation with Yindo, a book lending service similar to Spotify. Meulenhoff Boekerij is the first literature & fiction publisher that is offering a substantial part of its list through Yindo. (Joosse, 2011)

The **2 biggest challenges** for this kind of model to take off will be **rights** and revenue. Spotify, for example, has to deal with unavailability ofsome tracks in certain countries, because the rights for that country are not covered. If and when users are faced with this issue too often, the model won't work and users might turn to illegal downloading again instead of legally buying or lending e-books.

Revenue is an issue because it won't be easy to find advertisers. The key to success of a platform offering free content in streaming resides in getting a large number of users to listen to music throughout the day. In other words, the high frequency of access to the platform by a broad number of users makes it very attractive for advertisers. Unfortunately, books do not even raise half the interest created by music, something that will especially be an issue in a small language area like Flanders/the Netherlands. Finding these advertisers is extremely important to these kind of business models since studies have indicated that no more than 5 to 15% would be willing to pay for access to content. This also explains why Spotify has decided that the number of hours of free access should be limited to ten hours per month. (Celaya, 2011)

Off course, there are **alternative** Spotify-like possibilities. A service that would offer books **à la carte** for instance, offering readers access to books a chapter at a time, for a price that, if you read the book completely, would reach a price equivalent to a standard e-book. The model has proven to work for academic and professional markets where there is often an urgent need for access to a specific portion of a book. In this case, there is no urgent need, but readers will be inclined to keep reading (and thus paying the full price) if they like the content. (Nawotka, 2011B)

6.7.7 Bundling

When I asked the publishers about bundling, 3 out of 5 were against giving an e-book away for free with a print book, either because they were against the notion of free (this would raise wrong price expectations) or because they believe readers won't find this interesting. Steven Van Tittelboom (Lannoo) thought it would be interesting to help launch a new book. When I asked if it would be more interesting to sell the e-book for an extra 2€ in combination with the print book, the reactions were the same: price too low, or not interesting to readers.

Data suggest that there is demand for this. Eburon Publishers for instance has tried this and claim that about 15% of the buyers bought the bundle for 2€ extra. Publishers O'Reilly and National Academies Press too found some buyers appreciated the bundling offer at 20%-30% more than the print retail price, although they were fewer in numbers: only 3%. (Woll, 1998, p 304-305)

Again, the rigidity of publishers might hinder them to experiment with different ways of gaining revenue, and in the end this might actually cost them money.

6.7.8 Transmedia storytelling and interactive e-books

Traditionally, stories would be told through one medium. A film would exist as a film. A book would exist as a book. Now, the internet and new forms of technology are enabling storytellers to tell their stories not through one medium, but through every conceivable form of media. (Smith, n.d.)

I first heard about transmedia storytelling in the interview with Jef Maes, head of boek.be. He told me about the Amanda project(by Fourth Story Media). The Amanda Project is a combination of a social network, creative writing project, interactive game and book series in one. The social network was launched in 2009 and is designed and written in the voices of characters from the Amanda novels. It encourages readers to enter the novels' world by joining the search for Amanda, following clues and reading passages that exist only online. Their interactions have helped shaping the books and the first one was published in September, moving the story to the offline world. Impressed by the big success, the same platform has been introduced in France, Spain, Turkey and Norway.

When I talked to the publishers about **the Amanda project,** not all were equally enthousiastic. One publisher admitted that they are already working on a similar project where the platform would be free and the book would be for sale. They are hoping to release this project in 2011. Van Halewyck and EPO thought that this kind of interactive online platforms would only be interesting for fiction and educational books, and thus not applicable to their companies.

Publishers don't necessarily have to invest in their own platform, they can make **use** of **existing communities** ("Fish where the fish are"). Random House for instance made use of the community of Stardoll.com, a popular doll-dressing site for girls between 7 and 12 years old, it has 90 million users. When Random House started feeding 1500-word segments on the website on a daily basis, the girls were hooked and suddenly there was a market for a series of books: Mortal Kiss. (Hudson, 2011)

It doesn't need to go as far as transmedia storytelling, as there are more possibilities between transmedia stories and regular e-books. For example: **Wolfie, by Ianka Fleerackers, the iPad app**. Kids can choose what happens in the story: how does Wolfie wake up? Does he go through the door or not? And along the way, there are puzzles and riddles to be solved. (Hellemans, 2010) And then there is the Suske and Wiske app, the first audiovisual comic for iPhone & iPad, that has been downloaded over 103,000 times, (Boek.be, 2011i)

It's not just about fiction "books" here, **Libroids provides a good example of possibilities for non-fiction**. Libroids are still about the written word. But moving images, noises, audio recordings, etc give them an edge but what is really interesting about Libroids are the social options. You can set your share links together with your notes and comments with other readers. Libroids can be updated, extended,... by authors themselves, even after the purchase has been made. (De Jager, 2010b)

6.7.9 Digitalising backlist

Depending on the kind of publishing company, some are planning to digitalize and **bring their backlist back to the market**. 2 Publishers claim that they won't do this, thinking their backlist is no longer interesting for the current market, because they are outdated. Another publisher will only do this for a selection of books, only those that will hopefully gain back the investment of the digitalization.

The other publishers, including Lannoo, have started the process already. Lannoo is very careful and is only republishing those that are clearly in demand, but they will probably expand this procedure as the e-book market grows to 5% or 10% of total book sales.

6.7.10 Reverse royalties

This last part of the revenue streams building block is actually about NOT publishing. The idea was coined by Bob Mayer: if a book is not selling a lot anymore but still enough not to let it go out of print, neither publisher not author will be encouraged to raise sales. Publishers are hoping to keep rights if they sell just enough, authors are not promoting because they are hoping sales will fall below the minimum to get the rights back automatically, which is doing neither a favor. So Bob Mayer proposes reverse royalties: **give the rights of the book back to the author, if he manages to sell, the publishers gets a 25% royalty**. Being a writer himself he has proven that it can be worth it, but of course this can only work with authors who are willing to put in the work to promote their books. (Mayer, 2010)

In this building block I have listed numerous ways for publishers to start earning revenue in new ways including different flavours (hard back, paperback, e-book, streaming, ...), collectibles, special sales, dropping the paperback, diversification, transmedia storytelling, digitalizing the backlist and reverse royalties.

6.8 Key Resources

Key resources describe the assets needed to make this business model work, what do the other building blocks require? This building block includes physical, intellectual, human and financial assets.

E-books definitely need some other resources than print books. In physical assets, the need for printers disappears. Intellectual resources are mainly influenced by licenses: e-books need an extra license to publish these books (like a license for different languages, for hardcovers of paperbacks).

Human resources will change too: to develop e-books there is a different expertise needed, for which some new employees should be hired. Financial assets will change too as there will be no returns, gross sales are automatically equal to net sales, there are no print invoices to pay in advance, …

However, I do not believe that any of these changes will be critical to the business model. These are only minor changes and will probably evolve easily. As such I will not dive into this deeper.

6.9 Key Activities

This building block is made up by three categories: production activities, problem solving activities and platform activities. Obviously, both print books and e-books belong to production activities. That isn't to say that nothing here will change. There might be a great deal of changes here depending on how far a publisher wants to go in renewing his business model. Do they make e-books by converting the print book? Or do they change their way of working by delivering one book type that is then converted to the different products (epub, kindle, print book,…)

Currently most publishers have **three key activities**. First, they serve as a **gatekeeper**: publish good books, find potential bestsellers and refuse the rest. Second, they help to make the selected books better by **editing** in coordination with the writer. When the book is written, the third activity comes to mind: the **marketing and selling** of the book.

Some of the publishers I spoke to **also print, bind, store and distribute** the books (especially the smaller ones such as EPO and Van Halewyck) but others prefer to delegate this task to other companies. Usually, illustration work is done by freelancers. Sometimes, the typo-correction is also done by freelancers.

When I spoke about the digitalization of the process (from editing to printing) that has started before the rise of e-books, they were unanimously that this would not change these key activities. As e-books will change more of the process from manuscript to book, they do not want to start outsourcing more or less. Some however, have changed their workflows and work more digitally now.

In the USA, publishers are definitely broadening their activities. Random House for instance has teamed up with Games People THQ, ready to exploit successful book series and sell spin-off online/console/phone games. (Hannaford, 2011)

One other activity that might be added is the **fight against piracy**. The opinions here were fairly varied. Some publishers are worried about it but they realize that they cannot really avoid it, except by using DRM on their books, but others were not worried by it at all. Steven van Tittelboom (Lannoo) for instance argues that piracy will not be an issue for most of the books they publish because their readers see the added value in them and want to pay for it.

If not in Flanders, book piracy is a big deal in the USA. For instance, one in eight women over 35 who own an e-reading device have admitted to illegally downloading e-books, compare to one in 20 when we're talking about music... (Williams, C., 2011B)

According to sources on Twitter, the e-bookversion of The Lost Symbol of Dan Brown could be downloaded within 14 minutes of the release illegally. (Pelkman, 2009)

But even Flemish authors such as Pieter Aspe, Geert Mak, Arnon Grunberg, Kristien Hemmerechts, or Luc Deflo are easy to find on torrent sites, sometimes in batches with other Dutch books. As an experiment, I looked for some e-books and it took me little more than half an hour, to download over 2000 e-books in Dutch.

There is a cheap and dirty solution: "Flood the market with masses of bad pirated copies. Flawed editions – with the wrong ending – you get to chapter 23 and suddenly you find you are reading a section from Tristram Shandy, or indeed the words "you are a thieving bastard" over and over again." (Agent Orange, 2011)

But some people in the industry do not want to fight piracy, they think they can avoid it. Instead of scaring consumers into buying because downloading is illegal and can have serious consequences or convincing them to buy because it is the right thing to do, not because they want them to believe they're supporting something worthwhile. They want to convince consumers with extraordinary quality and the convenience of paid e-books. (Doctorow, 2011)

Other key activities such as **writing courses and services to other publishers** might also prove interesting. (cfr 6.7.5 Diversification)

And sometimes, it might be more profitable, to stop publishing and give the rights back to the author with a **reverse royalties** deal. (cfr 6.7.10 Reverse royalties)

In this building block, key activities, I have explained that publishers have and will keep three key activities: gatekeeper, editing and marketing and sales. They might want to diversificate and start earning revenue by giving writing courses or sell their expertise as a service to other publishers

6.10 Key Partnerships

Key partnerships include the **network of suppliers and partners**. In the transition to a new business model, some partners might disappear as publishers might start selling e-books directly to e-bookshops instead of going through the distributors.

In the business model for print books the partnerships have not changed for a long time. **These partnerships include authors and agents, storage facilities & distributors (Centraal Boekhuis), booksellers, freelancers, printers,...** The only recent addition has been the **online bookshops**.

Now the whole landscape is changing. Transmedia projects such as the Amanda Projects let **readers** participate in the narrative story or submit their own opinions about restaurants for a travel guide. (cfr 6.7.8 Transmedia storytelling and interactive e-books)

Booksellers obviously need publishers to provide (good) books they can sell to their customers, the readers. Because (most) booksellers want all kinds of books they buy their books from various publishers each known for different imprints, different types of books, each with a certain quality. More books are being published every year but the space on bookshelves is not increasing, and **it becomes increasingly difficult for publishers to convince booksellers to buy their books**. New publishers can thus have a hard time convincing booksellers that their books have good potential and deserve a spot.

As e-books will become more popular, **bookshops will get into financial troubles**. In fact, this has already begun in the USA, and there is no doubt that the same evolution will be found in Flanders. These bookshops will partly be replaced by new ways to consume books, **new partners will include Apple, Amazon, boek.be, Google, Kobo, ...**

Half of the interviewed publishers are **already negotiating about the conditions under which these partnerships will exist.** The other publishers are certainly open to the idea, but are not involved in conversations with these partners yet. (cfr 6.5 Channels)

Authors then again will have to be **convinced not to switch to self publishing**, this might especially be an issue with renowned authors, as they are milk cows for these publishers, the books of these authors support the (sometimes doubtful) investments for debutants. Without these authors, a publisher cannot survive. Here are lessons to be learned from the USA as well: if publishers invest in the backlist of fiction authors and show interest in these instead of shelving them, authors might not be that tempted to go somewhere else, as they have done already in the USA.

In the business model as it exists an author can hardly publish a book without a publisher's help. **Working with a publisher has several benefits including**:

- The **financial risk** is taken by the Publisher (printing, editing, marketing is not cheap!)
- The publisher can **make the book better** both content- and language wise.
- Publishers have more experience with how a book should look to be **attractive** to potential buyers
- Authors cannot **sell** their book in physical bookstores, these only work with distributors and publishers directly
- Publishers have an extensive network to **promote and market** books
- Sometimes it is not just about the book, there might be **other elements** included (for instance: the movement of happiness)
- Printing, storage and distribution is a **time- (and space) intensive** job, that most authors gladly give out of hands

Publishers take the work out of the hands of authors, so that the only thing they have to do is write the book.

2 of the non-fiction publishers also mentioned that they often take the initiative to publish a book. They come up with a subject and then look for an author to write it.

In a digitalized world, where most of these tasks become doable for authors who want to invest the time and money, publishers have to prove their worth.

One of the publishers sounded even bitter about these authors deciding to do it on their own, as if it was their fault if publishing would die. But most of the publishers have already realized that their most important task is to guide the authors with the book writing, to make the book better. And marketing-wise, the publishers keeps the advantage as well, they simply know more ins and outs in the business. Steven van Tittelboom (Lannoo) also added that a new added value might be the **technological knowledge** to develop entire communities and applications. But mostly, publishers think that their value to the author will not change.

Gwena Jaouen (AW Bruna) did mention that it might be important to **be more transparent to the authors**, so that they will realize better what the publisher does exactly and why this is such an expensive job to do.

The newest trend in publishing is going global. **Partnerships across the world** are being set up, which could enable publishers to sell their books worldwide, rather than selling the rights. These global publishers will profit from local expertise, while local publishers can profit from these global connections to get their books translated and profit from scale and possible cross-subsidisation. It could also reduce the problems with rights across different markets. (Shatzkin, 2011b)

In this building block, key partners, I have told you about several partners. Readers will probably increase their role in this value chain by contributing to content, offline bookshops will lose power to online bookshops, authors might move to self publishing and publishers will find themselves in an ever more globalised world.

6.11 Cost Structure

The cost structure describes all costs incurred to operate a business model. Print books are driven by **economies of scale**. It is obviously cheaper the more copies you print, but there still is a price per copy to pay. E-books are even more driven by economies of scale. Print costs are replaced by a conversion costs that only has to made once, no matter how many copies you sell. Costs of stocking print books are reduced to a fraction of the cost for e-books. So the cost structure of e-books is dominated by fixed costs: most of the variable costs (printing, stocking) of a print book disappear or diminish when we are talking about the e-book.

6.11.1 Print Books

Table 12 Cost distribution of print books

	Publisher A	Publisher B	Publisher C
Royalties	12,5%	10% -15%	6-15%
Design (cover, interior)	Max 25%	3/5000€	1-2%
Printing		15 – 20%	10%
Marketing	10%	10%	6%
Discount bookseller	40 – 50%	40 – 46%	42-49%
Distribution & stock	CB	4-5%	8%
Margin for publisher	8% (incl overhead)	?	30% (excl overhead)
(Returns)	17-20%	20%	6-8%

When books are the result of a collaboration with media houses such as the VRT, the royalties are usually much higher (up to 20% for media houses, VRT, writers combined), but this is then compensated because these books are guaranteed best sellers.

One publisher added that publishing is not an exact science, some published books are total flops, but they usually try to **make profit on 90% of the books they publish**. This publisher usually goes breakeven at 800 books sold. One of the publishers even admitted that it has become cheaper to use offset printing for 500 books than print on demand for 100 books.

Most publishers do not use printing on demand because it has become too expensive compared to offset printing. Publishing company EPO who have their own printing company in house as well use it for reprints when they think it will sell less than 750 books. Joop Boezeman (AW Bruna) added that this helps them to prolong the lifecycle of their books, a vital aspect of their strategy.

6.11.2 E-books

Table 13 Cost distribution of e-books

	Publisher A	Publisher B	Publisher C
Royalties	12,5%,	10% -15%	6-15%
Design	Max 25%	3000€ - 5000€	1-2%
Conversion e-book	50-200€		
Marketing	10%	10%	6%
Discount bookseller	About 30% - 35% (Apple, bol.com)		
Distribution	+/-1€ per e-book		
Margin for publisher	8% (incl overhead)	?	30% (excl overhead)

With e-books the cost for **printing is replaced by the conversion** to e-books, and of course they **no longer need to keep a stock** of the books. There are **no more returns** either.

Something that is not a cost for the publisher, but should be considered when looking at the selling price is **VAT**. For print books, this is 6% but for e-books this is currently 21%.

With lower e-book prices, authors see their income dwindling and are demanding **higher royalties** or escalating royalties[7]. (Williams, C., 2011B)

An extra cost could be the extra time spent by employees for dealing with the greater amount of sales channels.

Some of the publishers I spoke to also complained about **the lifecycles of books becoming shorter and shorter**. Books used to stay in bestsellers lists for over a year, but it becomes increasingly difficult to even keep books in the store until the first reviews come out. Even bestsellers are being returned now.

Some costs could be eliminated in time if publishers would **quit** printing and selling **paperbacks** (as they are being increasingly replaced by sales of e-books). And this is something that would also **avoid the price-comparison** between paperbacks and e-books. (Adin, 2011)

In short, yes, e-books are cheaper than print books, but not as much as some would hope. Although printing, storage and return costs have disappeared, distribution cost is considerably lower, we have to take into account the higher VAT, the cost of conversion and possibly higher royalties, and let's not forget that no one can guarantee that the rise of sales will make up for the loss of revenue in print book sales... However, since the price war in Flanders will mostly be determined by book shops, publishers should not worry too much about this issue.

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[7] royalty rate changes according to the level of sales

7 Publishers' awareness and readiness for e-books

In the interviews I also asked a few questions to the publishers that do not belong in the chapter about business models but are more about **attitude, awareness and readiness for e-books**. I asked them how they see their own future as a publisher, how they see the future of the sector in general and what they think publishers can learn from the music industry. Their answers give some insight in the capabilities and willingness of these publishers to deal with the disruptive innovations at hand.

While the publishers I interviewed all admitted that e-books are not yet financially interesting, some are definitely more ready for this disruptive innovation than others. The publishers at EPO for instance stick with the fact that because it is not financially interesting they should wait until the market has embraced the e-book more. Larger publishers such as AW Bruna and Lannoo on the other hand are already experimenting and try to embrace the opportunities.

If publishing companies don't step into the e-book business quick enough, other (new) publishing houses will and authors may move to them. Something similar happened in the publishing industry in the UK and the USA when paperbacks first appeared after the Second World War. **Paperbacks were originally published by separate publishers** who acquired the rights from hardback publishers and paid them royalties in return. At first, the paperback business was regarded as second class, but as it gained traction, the **hardcover houses depended more and more on the royalty income** from these paperback sales. When paperback publishers started to originate their own titles in the 1970s in both paperback and hardcover versions, they **applied some of their paperback techniques to hardbacks**, such as using more attractive packaging, extending distribution to more traditional outlets. This helped them to achieve never unprecedentend sales records in hardcover sales, partly because their **hardbacks were a lot cheaper**. The old fashioned hardcover publishers felt threatened. Many of their editors and publishers had to either **adapt** to the values and practices of mass-market paperback publishing, sometimes acquire paperback publishers or get out of the business. (Thompson, 2010, p 35-40)

What happened with paperbacks can happen with e-books to if publishers don't grab every opportunity there is. And it is happening already. The only book app in the iPad market top 40 at the time of writing (The Fantastic Flying Books of Mr. Morris Lessmore) was not developed by a publisher but by Moonstone, a company that calls itself "a collective of outstanding individual talents that will sometimes create books" (Jones, 2011)

The last part of this chapter (7.3 Lessons to be learned) is about what publishers can learn from other industries, but even within the history of its own trade, there are lessons to be made: publishers should not dismiss the e-book!

7.1 Position publisher

The two large publishers, Lannoo and AWBruna decided to start publishing e-books early in 2009, whereas the smaller publishers I interviewed started early 2010, a year later. One publisher mentions that his reason to start with it is simply because one of his authors asked.

"We're not starting with e-books because readers are asking for it, or because it will bring a lot of money. The fact is, one of our authors asked for it, and we wanted to do him the favour." (Andre Van Halewyck)

Frank Jaspers (Linkeroever Uitgevers) explains why they're not eager to jump on the e-book train: *"Right now, e-books are not interesting from a financial point of view, it's not a priority at all. The reason we're doing it is just to prove that we can and to stay up to date with the innovation, and after all, it's not that expensive as long as your design is open for different final formats from the early development stages."*

This view is confirmed in the research "De uitgever aan het woord" where Dutch trade publishers admit that their **innovation budget** as a percentage of the total budget has **lowered from 13,9% in 2009 to 8,6% in 2011**. When asked how they differentiate themselves from the competition innovation ranks first (quality and portfolio rank second and third). How that rhymes with the ever lower innovation budget is not clear. (Van Moorsel, 2011)

4 out of the 5 interviewed publishers have published or are planning to published enhanced / hybrid e-books. But as Frank Jaspers (Linkeroever Uitgevers) mentions, cost is a big issue for hybrid e-books. Creating little instruction movies included in cookbooks is expensive, and in Flanders this is a problem: our market is very small compared for instance to the US and the UK where it is more financially viable to offer these hybrid books at a relatively low price. And as Steven van Tittelboom (Lannoo) adds: *"Offering these apps is complicated as well, there is no Belgian iPadstore, and there is no real format standard yet".* Only EPO is not looking at this, though they are planning to start releasing normal e-books for the Dutch books they are distributing in Flanders. When asked when they will be doing this for their own books, they answered that for their kind of books, it wouldn't be interesting before e-books reach a market share of 20%. Van Halewyck and Linkeroever Uitgevers think their e-books might become profitable when the market share of e-books in general reaches 5%.

Publishers usually choose one out of three possible digital strategies. The offensive change agent who is a market leader, The strengthening defender who won't innovate until the improvements have been proven by the market or the moderate change agent who is a bit positioned between the two extremes. However, all three types seem to agree that they will need new people with new competences to handle these changes. (Van Moorsel, 2011)

Table 14 Characteristics of 3 digital strategies

Offensive change agent	Moderate change agent	Strengthening defender
New business model	Slightly different business model	Existing business model
New business clients	Some new business clients	Existing business clients
New readers	Some new readers	Existing readers
New employees	Some new employees	Some new employees
Independent	Partly integrated, partly independent	Integrated
Focus on acquisitions	Focus on alliances	In house development
Big conflict with existing company	Big conflict with existing company	Big conflict with existing company

(source: Van Moorsel, 2011)

Based on the characteristics in table 14 and information from the interviews, I would define the **small publishers** that I interviewed as **strengthening defenders**. For now at least, they are sticking with the existing business model. They keep up to date with evolutions on the e-book story but won't get very involved until it's business as usual in the sector. **The bigger publishers look more like moderate change agents**, they're adapting as well as they can, experimenting with e-books and applications without turning the whole business around. It's an extra on the side that in the future might become more important.

With e-books as barely one percent of sales it wouldn't be wise to become an offensive change agent and turn the whole business model around already, there just isn't enough money to be made there yet.

7.2 Expected changes in publishers sector

Van Halewyck has seen the disruptive changes occurring in the sector for a long time, and they are not due to the e-book as he says. There is an overproduction, the life cycle of books becomes shorter and shorter, buyers are more volatile, the business is under pressure.

"Sure, getting in the business becomes much easier with e-books, so maybe there will be more publishers, but you'll still have to create trust with writers and media to gain a spot in the book world". (André Van Halewyck)

E-books will enlarge the current trends and publishers will depend more and more on really big hits, the top 10 will dominate even more. Publishers without hits are going to get into trouble.

2 of the publishers think that not the publishers but the bookstores will suffer; they will need to reposition themselves.

Gwena Jaouen (AW Bruna) thinks that publishers will start working more with partners outside the book world, such as hardware manufacturers, or Apple and Google, or the entertainment sector in general. Publishers that don't adapt in time will disappear, it doesn't matter if they are big or small.

Joop Boezeman (AW Bruna) agrees with this and says: *"Publishers need to adopt a new mentality: they need to focus more on the readers and think what they want. All the while, they need to maintain quality of course but focusing on the reader is the key to survive."*

The publishers I spoke with don't see a very positive future for the sector, but they feel confident about their own company.

It seems they are aware of e-books as a disruptive innovation, but they think it will not affect them, or that they will 'naturally' adapt when these innovations become mainstream. This seems like a fairly characteristic reaction for an incumbent confronted with a disruptive innovation.

To survive, publishers need to realize that their own publishing company is at risk as well. They need to look at what they do best and how those skills will be useful in the coming years and they will need to acquire new skills (for instance: learning how to develop relationships with their readers).

Publishers will need to adapt, become less rigid. One way to do this is to become a little less aligned, and a lot more adaptable. They should strive for building more ambidexterity into their businesses. Ambidexterity balances the capabilities alignment and adaptability that a company needs to move quickly toward new opportunities, to adjust to volatile markets and to avoid their current complacency while also having a clear sense of how value is being created in the short term and how activities should be coordinated and streamlined to deliver that value (Birkinshaw & Gibson, 2004). Alignment will help them continue the print book business model as it is, while adaptability will simultaneously help them figure out how to deal with e-books and build their new business model.

7.3 Lessons to be learned

My last question in the interview was: "What can publishers learn from the music industry?" Van Halewyck says it's important to **be alert, to keep up with the news and to get on the train in time, while on the other hand the publishers should try not to lose too much with experiments**.

Another publisher adds that the **evolution will be impossible to stop**, so rather than push it away, ignore it or run behind, publishers should **embrace it and make the best of the changes**. Steven van Tittelboom (Lannoo) argued we should remember that publishers **shouldn't want to control it all**: the high prices, unfriendly technological protection (DRM), etc.

Joop Boezeman (AW Bruna) states that publishers should **focus more on the readers, be more strict in choosing which books to publish and become better in selling their books to the bookstores**.

Frank Jaspers (Linkeroever Uitgevers) adds an interesting parallel to the paper publishing industry:

"Some of the newspapers were quick to jump on the "online" train while Persgroep waited and waited and waited, and when everyone thought it was too late, they jumped on the train. The learning curve was less steep for them as they had had the chance to learn from their competitors, they had to do less investments (less experimenting) and they are the number one now. It's a matter of choosing the right time..."

8 Conclusions and recommendations

The book publishing industry in Flanders finds itself at the end of an era. Some of the publishers are still denying it. They don't believe in the e-book. Others don't really see the problem, supposing that they will naturally adapt. A few of them know that the industry will change, and that if they want to survive, they'll need to change with it.

In this thesis I tried to give an answer to the question what publishers should do to remain a profitable company, now but also in the future? This requires re-evaluating the whole business model that their company is currently based on.

To find answers, I interviewed both experts and publishers on how they do business now and how they see the future developing. I compared and contrasted their ideas with what is happening in the USA and what has happened in other industries (such as the music and the paper publishing industry) that went through similar disruptive innovations in the past decennium.

Obviously, because different publishing companies have different approaches, there cannot be one obvious miracle answer. I have however come up with a few general conclusions.

Across the building blocks of customer segments, customer relationships there is one common point: publisher do not know the readers, they have no idea who they are or what they want. The only clue they have in this direction are their sales numbers, which is not much information.

First, and perhaps most important is the relationship with readers. If publishers would gather more information about their readers and from their readers they could use this to make a better book selection, use more targeted marketing and sell more. If they will not do it, others will. In the USA, for instance, Amazon is one company who has had access to that kind of information for years, and they now use it to publish books too.

Secondly, publishers (or their imprints) should become a brand. They should become known for good books in certain genres (or, for small publishers, generally having a good book selection). Publishing better quality e-books is necessary here. E-books right now are too much simple translations of print books with layout mistakes and typos, which is not good for a publishers reputation at all. Especially if these e-books come at a price of 80% of a print book. Having a good reputation as a publisher will help get attention from their readers when a new book is released. It should help them attract new authors who have heard about a publisher that knows how to sell his kind of book. And it might help to get media attention, if a publisher is known for his books, the media might be more curious when they release another book and give it more publicity.

Third, to keep customers from pirating e-books it is important that books are easily available for purchase, without too much hassle. Collaborating with companies such as Yindo or Kobo (as soon as they enter the Flemish market) will help in this area and might prevent some e-book piracy.

Fourth, e-books are only a minor part of the sales revenue for now. Publishers shouldn't forget that print books are not dead and will probably keep a big stake of the total book market. There are plenty of readers who are proud of their bookcase and will keep expanding it. They should keep promoting hardcovers and make sure they are worth "collecting".

Fifth, publishers should revive their special sales department. If this is done right, the costs will definitely make up for the gain in revenue.

And sixth, publishers have a lot of interesting skills in their company. They could make money by teaching others. If worse comes to worst and e-books cannot make up for the loss of revenue because of print book cannibalization, they won't have to rely on the revenue from books alone.

If publishers want to be around in ten to fifteen years, they need to start moving and acquire these much needed new skills, before someone else does and gets a head start. The publishers I've interviewed seem to be aware, although especially the smaller publishers seem very reluctant to get on board already. The larger publishers seem more prepared and are already investing more in e-books, planning to connect a little more with readers,…

As the e-book is still a relatively marginal phenomenon in Flanders, this attitude is not a recipe for disaster, as long as they will embrace the e-book and the other disruptive changes it is bringing soon enough. If they don't, someone else will.

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Lotte Lemoine	EPO	15/02/2011
Elisabeth Michiels	EPO	15/02/2011
Steven Van Tittelboom	Lannoo	16/02/2011
Joop Boezeman	AW Bruna	22/04/2011

Appendices

Appendix A: Added value of small publishers

	2000	2001	2002	2003	2004	2005	2006	2007	2008
Average Added value (x €1000)	62	95	96	103	78	75	115	104	117
Standard Deviation Added value (x €1000)	69	104	97	161	119	138	264	282	316
Median Added value (x €1000)	35	24	29	28	35	22	27	24,5	22

Appendix B: Profit of small publishers

	2000	2001	2002	2003	2004	2005	2006	2007	2008
Average Profit (x €1000)	22	40	37	46	34	36	61	15	48
Standard Deviation Profit (x €1000)	29	53	48	99	68	76	152	103	127
Median Profit (x €1000)	5	9	11	1	7,5	4,5	2	4,5	1

Appendix C: Current ratio of small publishers

	2000	2001	2002	2003	2004	2005	2006	2007	2008
Average Current Ratio	4,81	4,65	6,43	10,98	4,09	3,42	3,77	6,40	5,39
Standard Deviation Current Ratio	4,00	5,18	7,31	20,47	4,33	3,70	4,15	12,19	11,40
Minimum Current Ratio	0,27	0,17	0,23	0,21	0,07	0,39	0,32	0,15	0
Maximum Current Ratio	14,04	24,23	33,27	98,46	16,74	13,99	15,14	49,68	53,48
Median Current Ratio	4,04	1,47	1,47	1,97	1,525	1,585	1,65	1,835	1,59

Appendix D: Solvency ratio of small publishers

	2000	2001	2002	2003	2004	2005	2006	2007	2008
Average Solvency Ratio (%)	52,93	41,51	44,12	44,25	44,63	40,99	45,12	45,80	48,78
Standard Deviation Solvency Ratio (%)	35,90	34,90	38,54	42,04	40,04	37,60	35,73	39,37	39,54
Minimum Solvency Ratio (%)	6,13	-40	-57,95	-85,83	-59,04	-55,72	-22,05	-34,69	-36,51
Maximum Solvency Ratio (%)	93,96	96,05	97	99	94,28	93,03	93,52	97,99	99,33
Median Solvency Ratio (%)	69,93	31,58	32,07	49,15	47,205	44,08	45,84	58,16	63,47

Appendix E: Added value of medium publishers

	2000	2001	2002	2003	2004	2005	2006	2007	2008
Average Added value (x €1000)	231	259	309	276	273	259	324	317	446
St. Dev. Added value (x €1000)	180	245	272	233	291	362	322	351	732
Median Added value (x €1000)	182	173	253	209	196	239	241	238	248

Appendix F: Profit (loss) of medium publishers

	2000	2001	2002	2003	2004	2005	2006	2007	2008
Average Profit (x €1000)	-19	34	35	-26	43	-16	12	3	82
St. Dev. Profit (x €1000)	89	74	57	215	100	345	248	256	473
Median Profit (x €1000)	16	25	37	31	49	43	48	16	5

Appendix G: Current ratio of medium publishers

	2000	2001	2002	2003	2004	2005	2006	2007	2008
Average Current Ratio	1,73	1,50	1,57	1,65	1,76	1,87	2,04	2,03	1,88
Standard Deviation Current Ratio	1,07	1,05	1,01	0,97	1,14	1,45	2,34	2,55	1,81
Minimum Current Ratio	0,93	0,8	0,78	0,83	0,29	0,51	0,37	0,56	0,41
Maximum Current Ratio	3,64	4,71	4,33	3,08	4,5	6,6	10,16	13,04	9,46
Median Current Ratio	1,475	1,355	1,36	1,41	1,53	1,375	1,17	1,2	1,3

Appendix H: Solvency ratio of medium publishers

	2000	2001	2002	2003	2004	2005	2006	2007	2008
Average Solvency Ratio (%)	31,63	25,34	27,63	29,14	31,89	26,00	23,45	21,16	26,15
Standard Deviation Solvency Ratio (%)	21,35	19,52	21,74	23,12	23,77	29,81	30,12	32,48	27,94
Minimum Solvency Ratio (%)	5,18	-10,12	-5,79	-5,5	-4,5	-57,38	-49,31	-58,39	-35,54
Maximum Solvency Ratio (%)	73,15	58	77,12	67,77	77,9	85,35	91,18	92,92	89,94
Median Solvency Ratio (%)	27,535	27,075	32,87	20,65	22,78	26,605	14,93	18,155	18,09

Appendix I: Turnover of large publishers

	2000	2001	2002	2003	2004	2005	2006	2007	2008
Average Turnover (x €1000)	14.396	12.651	14.909	15.182	15.565	15.637	17.447	20.374	18.381
Standard Deviation Turnover (x €1000)	9.684	9.656	9.594	10.795	10.830	11.169	11.608	12.113	12.789
Median Turnover (x €1000)	11.851	8.859	11.960	10.481	12.058	11.809	15.943	20.523	17.311

Appendix J: Added value of large publishers

	2000	2001	2002	2003	2004	2005	2006	2007	2008
Average Added value (x €1000)	3.759	3.966	4.458	4.776	4.991	5.045	4.920	5.430	5.771
Standard Deviation Added value (x €1000)	3.752	3.802	4.010	4.155	4.238	4.207	4.496	4.722	4.864
Median Added value (x €1000)	2.034	2.227	3.226	2.681	3.272	3.100	2.993	3.189	4.316

Appendix K: Profit of large publishers

	2000	2001	2002	2003	2004	2005	2006	2007	2008
Average Profit (x €1000)	1.075	930	1.156	1.328	1.476	1.583	1.457	2.083	1.746
Standard Deviation Profit (x €1000)	2.111	2.511	1.844	2.003	2.120	2.455	2.922	3.701	2.642
Median Profit (x €1000)	283,5	122	531	463	581	565	358	903	1.023

Appendix L: Current ratio of large publishers

	2000	2001	2002	2003	2004	2005	2006	2007	2008
Average Current Ratio	1,90	1,90	1,99	2,26	2,27	2,49	2,49	3,02	2,67
Standard Deviation Current Ratio	1,56	1,77	1,82	1,86	1,88	2,29	2,24	2,64	2,13
Median Current Ratio	1,25	1,32	1,46	1,63	1,43	1,42	1,52	1,67	1,61

Appendix M: Solvency ratio of large publishers

	2000	2001	2002	2003	2004	2005	2006	2007	2008
Average Solvency Ratio (%)	32,57	32,35	35,63	39,18	38,03	39,70	41,23	49,26	50,88
St. Dev. Solvency Ratio (%)	23,14	25,06	25,00	29,07	29,06	29,43	29,57	25,88	24,72
Min Solvency Ratio (%)	9,19	0,94	6,43	-1,12	6,42	4,02	1,33	11,51	4,72
Max. Solvency Ratio (%)	88,65	89,81	90,4	91,18	90,53	91,92	91,77	91,72	86,51
Median Solvency Ratio (%)	25,81	25,81	30,85	31,54	28,33	34,18	44,48	41,60	43,44

"E-book prices have been in flux in recent years because publishers are still finding their digital footing and deciphering how e-books will work within their business model," McGinley said. "Publishers are in a unique position among print media industries, where they have at least some control over the extent of the digital competition they face. The licensing model for libraries and e-books itself is complex and difficult to explain to outsiders. "It's too much detail and also takes you out of your mind," said the ALA's Inouye. "It's like, 'First of all, it sounds crazy, and then it sounds egregious. E-book - E-book - E-books and publishing companies: The proliferation and increasing popularity of e-books are changing the publishing industry, although the nature and extent of those changes vary a great deal from company to company and genre to genre. Further changes to the industry emerge when companies that have technical skills and infrastructure but have not traditionally acted as publishers—for instance, online retailers, technology companies, telephone service providers, and large educational institutions—perform the traditional curation, promotion, and distribution roles of publishers, as easy e-book production lowers their barriers to entry. Business Model Design Compass: Open Innovation Funnel to Schumpeterian New Combination Business. 238 Pages·2017·5.35 MB·1,822 Downloads·New! This book reveals how open innovation utilizes the developing circle of business models The Business Model Navigator: 55 Models That Will Revolutionise Your Business. 521 Pages·2015·9.19 MB·1,248 Downloads·New! A strong business model is the bedrock to business success. But all too often we fail to adapt ... Financial Modeling for Business Owners and Entrepreneurs: Developing Excel Models to Raise Capital Business Model Pioneers: How Innovators Successfully Implement New Business Models. 215 Pages·2017·4.2 MB·803 Downloads·New!