



PUBLISHING IN THE DIGITAL ERA

A Bain & Company study for the Forum d'Avignon



Summary

The written word—incised in clay, inked with a quill, printed on presses or transmitted as electronic bits in email—has always been at the heart of capturing and disseminating human knowledge. Now it is moving to dedicated e-readers, multipurpose tablets and other digital devices that could be in the hands of 15 percent to 20 percent of the developed world's population by 2015. This new format will trigger a profound change in the publishing ecosystem and spark new trends in content creation itself.

At first glance, the publishing industry seems unlikely to suffer the same jolting upheaval as the music industry experienced when new technologies hit it. Several factors suggest a fairly smooth evolution toward the digital age, including most readers' continuing attachment to paper, the complementary nature of e-books and paper, and limited electronic piracy, at least to date. But the power of the word may actually increase: A survey of almost 3,000 consumers conducted by Bain & Company across six countries and three continents (United States, Japan, Germany, France, United Kingdom and South Korea) shows that readers tend to read more when equipped with digital readers. And that's not the only encouraging news for publishers: The vast majority of those readers will pay for their e-books.

Nevertheless, with 15 percent to 25 percent of book sales shifting to digital format by 2015, the book industry is heading into wholly new territory. Authors, publishers, distributors and retailers all will need to rethink their business models and their relationships with one another. They will have to address several critical challenges: pricing policies that secure the industry's changing profit pools, redefined distribution networks that preserve format diversity and the reallocation of value among industry participants. Writers, in particular, may be able to carve out a new, direct role in consumer relationships.

In theory, the press should also benefit from the emergence of paid digital content. However, the newspaper and magazine industries continue to grapple with broader challenges. Our study shows that most online press readers want to continue to get information for free, whether on digital tablets or not. They will pay only for premium content—such as financial information, local news and deep analysis. Digital reading devices are thus an additional distribution channel for an industry that still needs to redesign its business model.

Whatever the sector, the emergence of new reading devices suggests an interesting evolution in writing itself. Creating long-term value will not come from simply reformatting print content into digital words. Rather, the greatest opportunity lies in experimenting with such new formats as nonlinear, hybrid, interactive and social content, electronic modes that add motion, sound and direct reader interactions through technologies we will discuss below.

Introduction

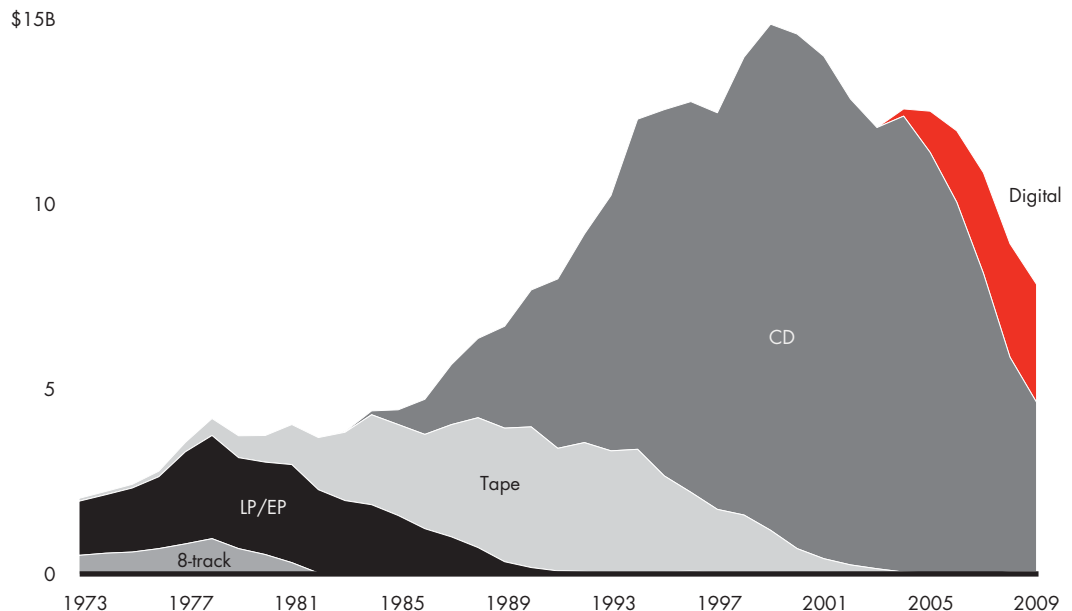
Over the past 20 years, the digitization of content has shaken the economic foundations of industries like the press, music and video. The absence of convenient e-reading platforms had protected books from such a revolution until recently. However, the emergence of new mass-market devices, such as dedicated e-book readers or multipurpose tablets, has put an end to that reprieve.

Critical questions arise: Is the publishing industry next in line to experience digital turbulence? Will new reading platforms provide the press with an opportunity to restore its economic equilibrium? Answers will take time. But the migration to digital publishing is happening, and managing the transition will be crucial for industry participants.

Bain & Company conducted a survey of almost 3,000 consumers across the United States, Japan, Germany, France, United Kingdom and South Korea to evaluate the migration of printed books and press content to digital formats. The findings help to decode new reading behaviors and begin to assess their economic implications on the book publishing and press industries.

More than that, our analysis provides some clues for the different segments of the “book ecosystem,” including authors, publishers, distributors and retailers. Much is at stake: the redistribution of value among players, a redesign of their roles and, potentially, an evolution in the way content is created—all of which could produce significant new value for the industry in the long term.

US recorded music industry turnover (1973-2009)



Sources: RIAA year-end shipment statistics; Bain analysis

Tablets, e-readers: What are the perspectives for adoption?

Technologies finally “ready for prime time”

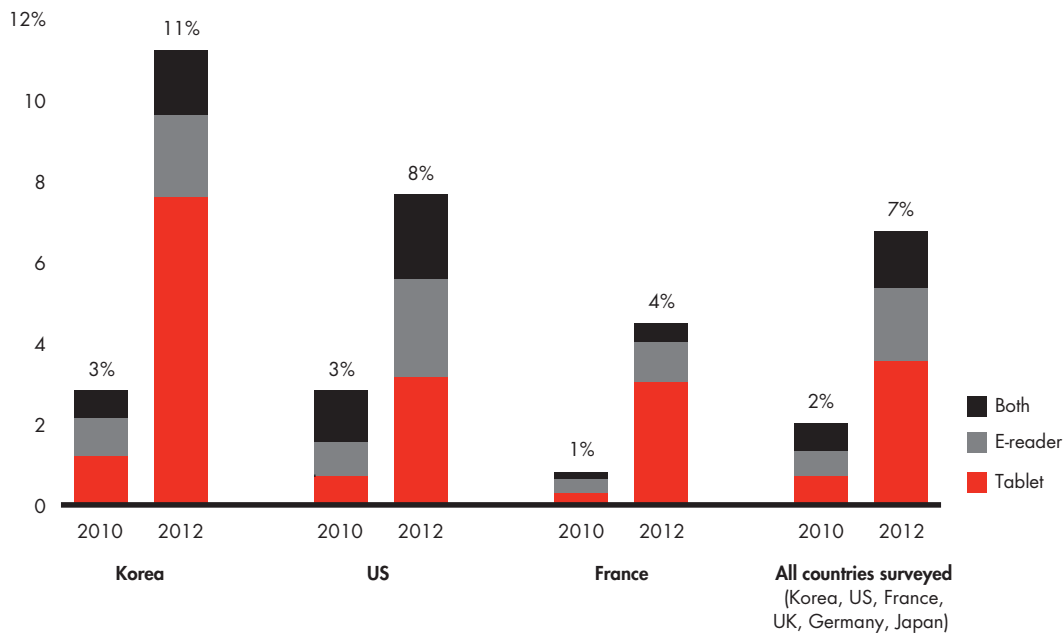
Dedicated e-readers and multipurpose tablets are finally becoming commonplace. A prerequisite to the digital publishing era, adoption rates are projected to reach 15 percent to 20 percent of the population in developed countries. The penetration rate could reach higher levels if multipurpose tablets continue on their current trajectory. The United States and Korea are setting the pace and could see such penetration rates by 2015. Other countries, particularly those in Europe, will lag but eventually catch up.

However long it takes, conditions are perfectly aligned for readers to embrace digital devices. Prices have sunk below consumers’ purchasing thresholds, with some e-readers already less than \$140. Meanwhile, the reading experience and ergonomic design keep improving.

Which devices will be favored? The emerging scenario suggests a shifting balance between e-readers, such as Amazon’s Kindle, and multipurpose tablets, such as Apple’s iPad. Early on, e-readers could capture as much as a third of the market, based on a price advantage and a reading experience that closely matches that of paper. Multipurpose tablets, priced above most consumers’ \$300 psychological threshold, are still too expensive for mass-market adoption. Yet over time, they could predominate by capitalizing on multimedia capabilities that appeal to a broader audience and as their prices inevitably decline. Indeed, access to other media and valuable functions may open the gates on e-book penetration rates.

Conditions are perfectly aligned for readers to embrace digital devices

Tablet and e-reader penetration (2010–2012)

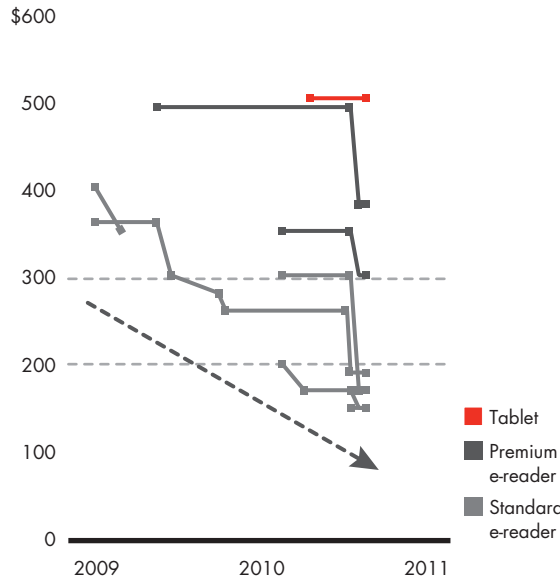


Sources: Bain survey “L’écrit et le Numérique”; Bain analysis

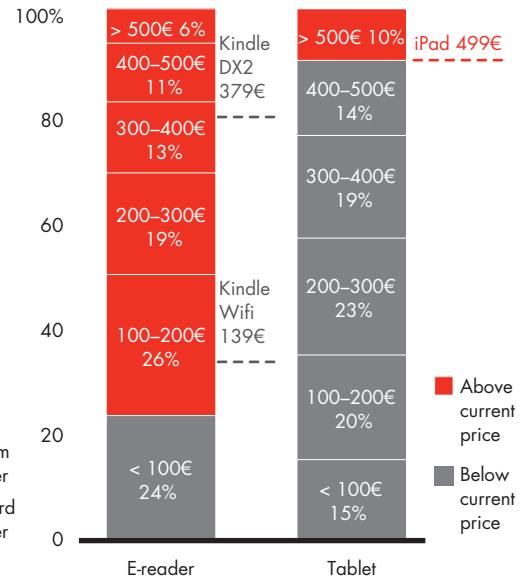
Adoption rates for digital books are expected to quadruple over just five years

Digital reading device prices

Evolution of e-reader and tablet prices



Price threshold to convert a purchase intent



Sources: Bain survey "L'écrit et le Numérique"; literature search; Bain analysis

Reaching the masses

As our study found, early adopters of digital reading devices and multipurpose tablets mostly are already heavy readers. In numbers, they are more often men than women. They also describe themselves as more affluent than average and tend to be in their 20s and early 30s. This group values the flexibility of reading in different settings and the new devices' ease of use. Their reading behaviors suggest that digital formats are bound for a promising future and will initially be used as a complement to paper.

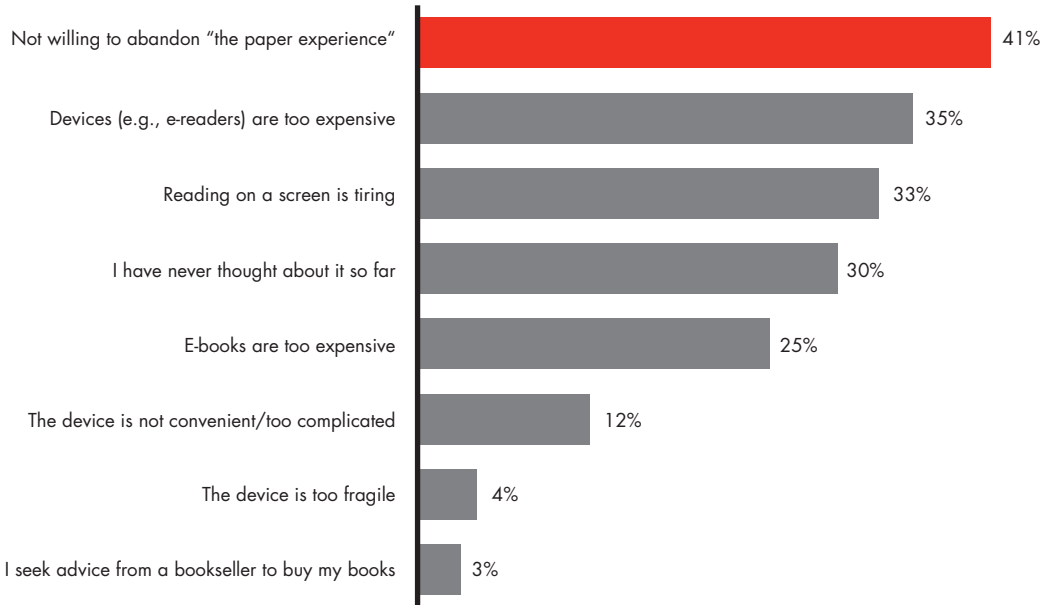
The second wave of the digital migration should broaden the e-readers' market. Readers who told us they are considering purchasing digital devices in the near future are mostly women and are older than 35 years of age.

Promising new reading habits

More reading?

Books won't go away any time soon. Several indicators from the study show why. First, respondents who have adopted digital formats say they continue to read printed books. This attachment to paper formats also holds for younger generations, even though they were born in the digital era. Unlike the music industry, the book ecosystem also can rely on some near-term stabilizing factors: limited options to "unbundle" content and low piracy rates—at least for the first wave of users.

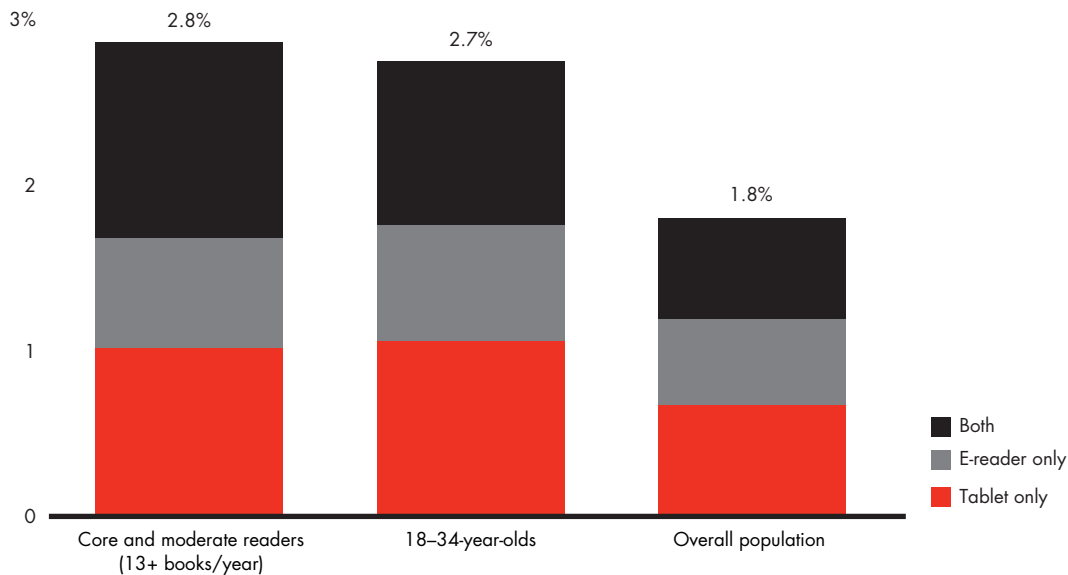
Main barriers to e-book adoption



Sources: Bain survey "L'écrit et le Numérique"; Bain analysis

Early adopters: Core readers and younger generations

Equipment rate by category of readers



Sources: Bain survey "L'écrit et le Numérique"; Bain analysis

70 percent of those with devices purchase the majority of their e-books

Adoption rates show that the appetite for digital books has been strong, even by the standards of the media industry. Today, e-books account for approximately 5 percent of books sold in advanced markets like the United States. These rates are expected to quadruple, or even quintuple, over just five years, meaning the industry has little time to prepare. True, some countries, such as France, will migrate more gradually before reaching about 15 percent of the market by 2015—in part due to the dense network of distributors making paper versions easily available. But make no mistake, the transition will be rapid and could trigger two positive trends.

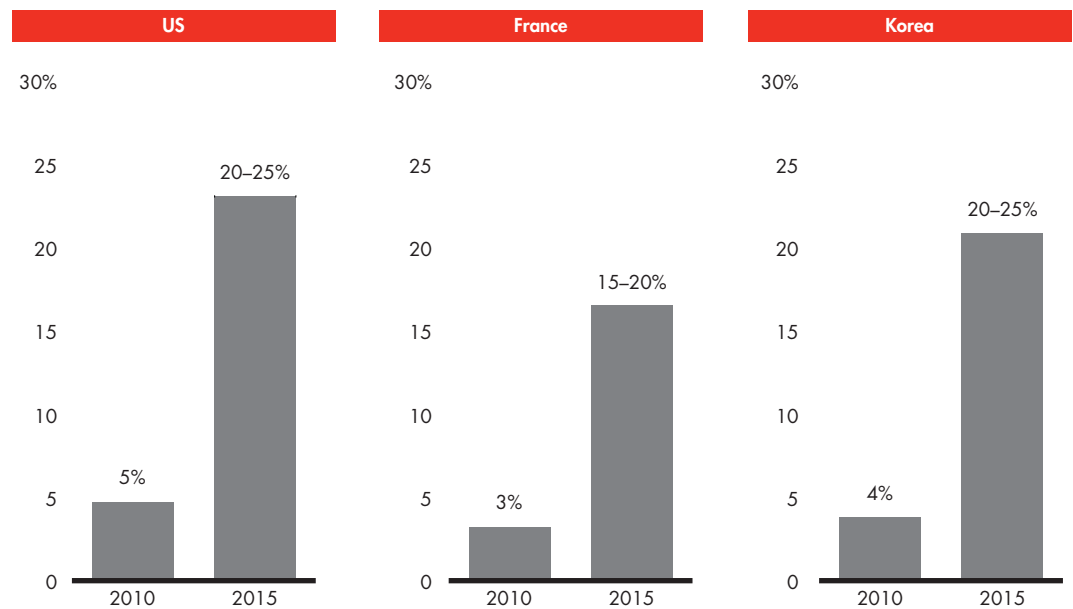
First, the shift to digital publishing could boost book consumption. More than 40 percent of readers equipped with a reading device say that they read more than before. Granted, the novelty of the experience may wear off. But users’ creation of alternative “digital libraries” could be as much of a boon to book publishing as was the wide upgrading of audio collections to CD for the music industry.

Furthermore, the study reveals that a majority of consumers are willing to pay for the e-books they read. Close to 70 percent of those with devices stated that they purchase the majority of their e-books. In contrast, the widespread reading of e-books on computers has not triggered significant purchases to date.

A story to each segment

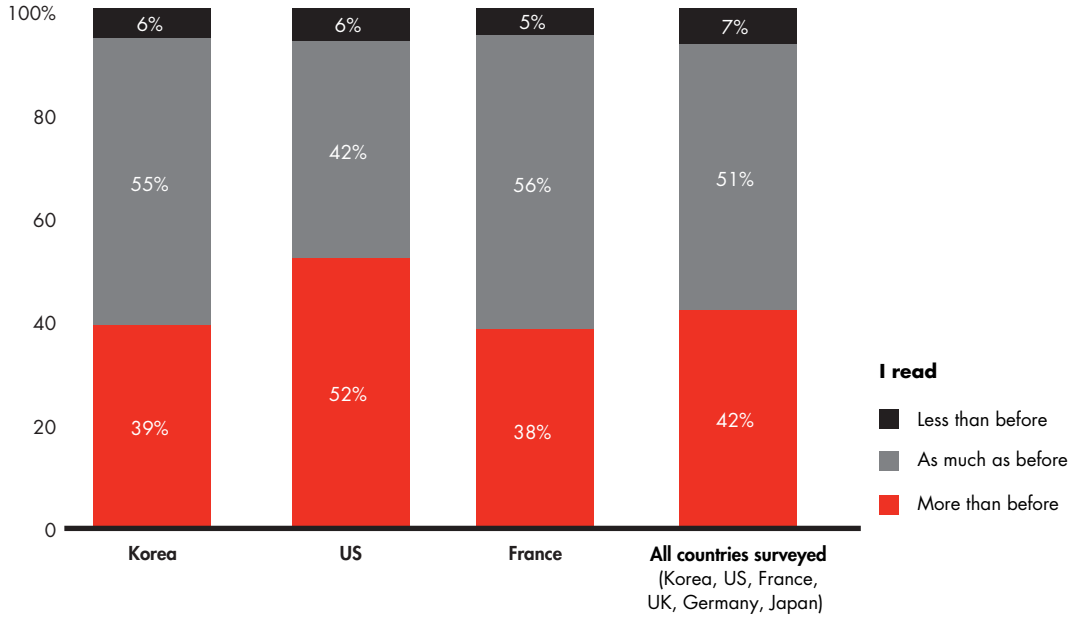
Emerging consumer behaviors will affect literary genres differentially. In other words, distinct adoption rates and business models will impact fiction and nonfiction works, guidebooks, illustrated books, children’s literature or information.

E-book market share (book volume)



Sources: Bain survey “L’écrit et le Numérique”; Bain analysis

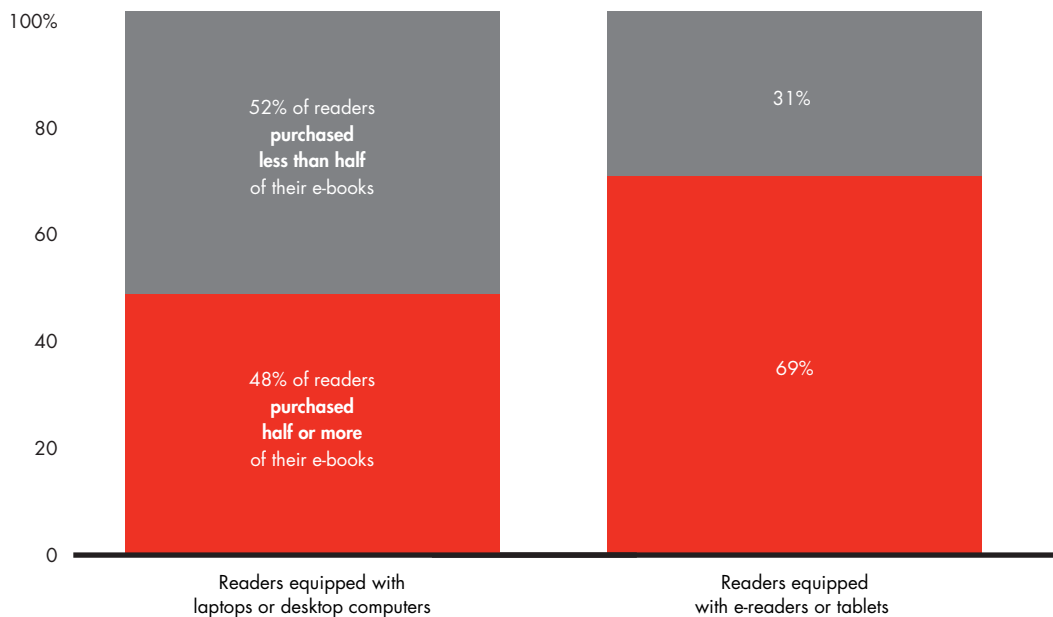
Total number of books read by e-book readers



Literature will likely remain the most widely read digital genre through 2015

Sources: Bain survey "L'écrit et le Numérique"; Bain analysis

Share of e-books purchased over the last 12 months



Sources: Bain survey "L'écrit et le Numérique"; Bain analysis

90 percent of consumers only read free news content online

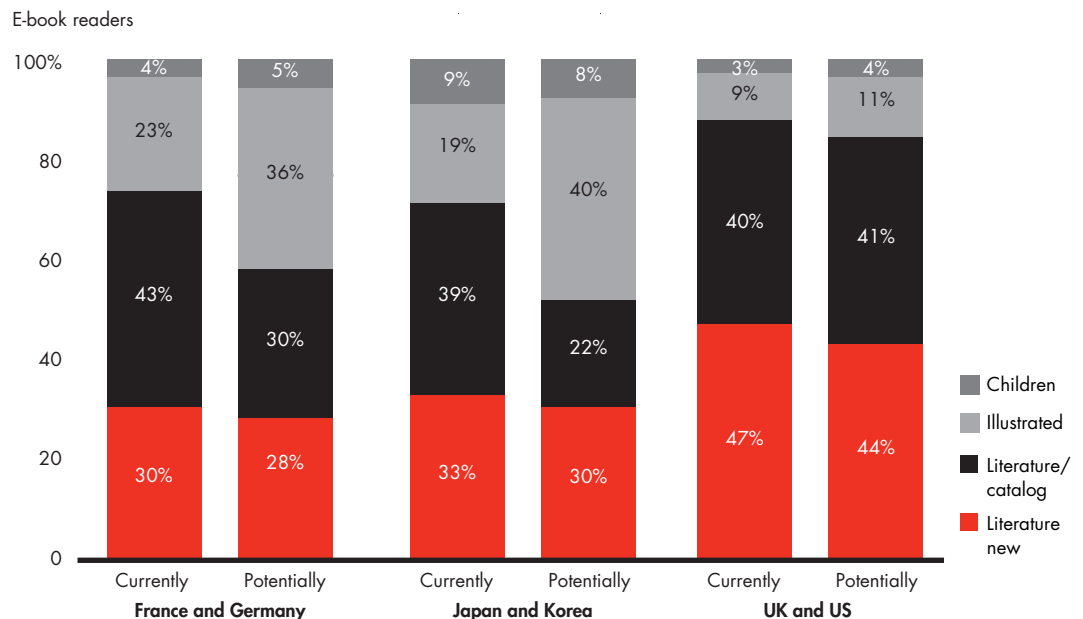
Reference books, such as encyclopedias and maps, have already migrated to digital formats. Almost all are now available free on the Internet, which has dramatically depressed print sales.

Today, the static nature of first-generation electronic formats has made both publishers and consumers focus first on fiction and nonfiction. And through 2015, such works will likely remain the genre that is most widely read on digital formats.

Digital offerings for other genres, such as lifestyle guides, illustrated books and children’s books, remain limited today. But their production could accelerate to meet the strong consumer expectations that we discovered, particularly in Europe and Asia. Competition from today’s magazine and Internet companies could limit this potential, but a strong new demand is there to be met.

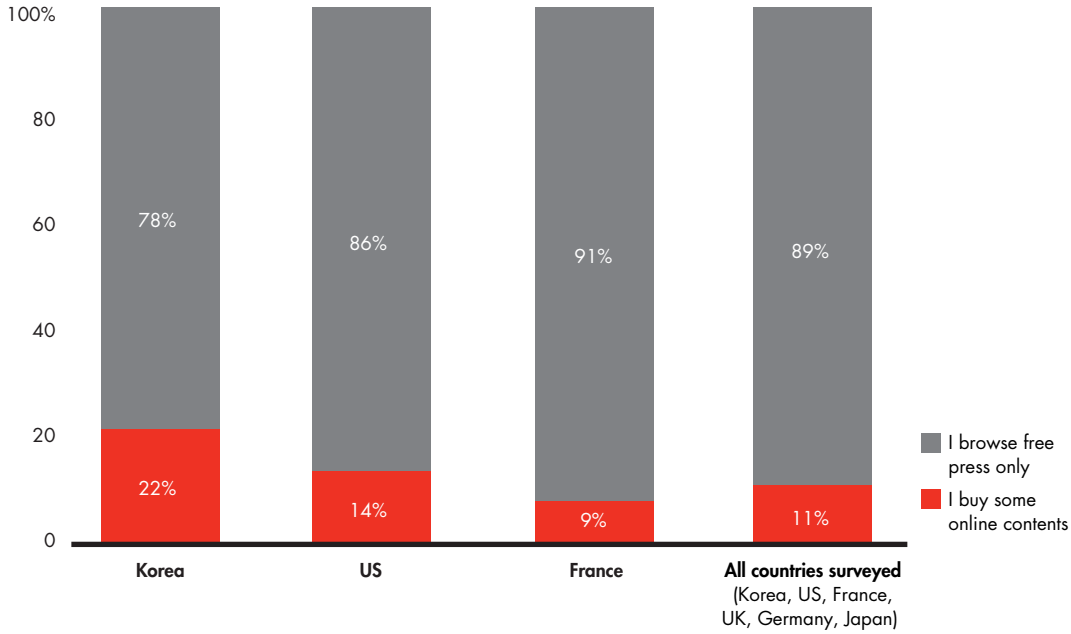
The press’s business model has already been disrupted. Regardless of device, consumers today expect ubiquitous, instantaneous and free information. Nearly 90 percent of those we surveyed only read free news content online. For those with digital tablets, only 10 percent say they would pay for news. Except for subsegments like micropayments in South Korea, the demand for paid content seems to be confined to such areas as financial information, local news or investigative journalism. However, even those willing to pay say they would spend three times less for digital news than for the print version.

“Which genre would you be more likely to read in digital format instead of paper format?”



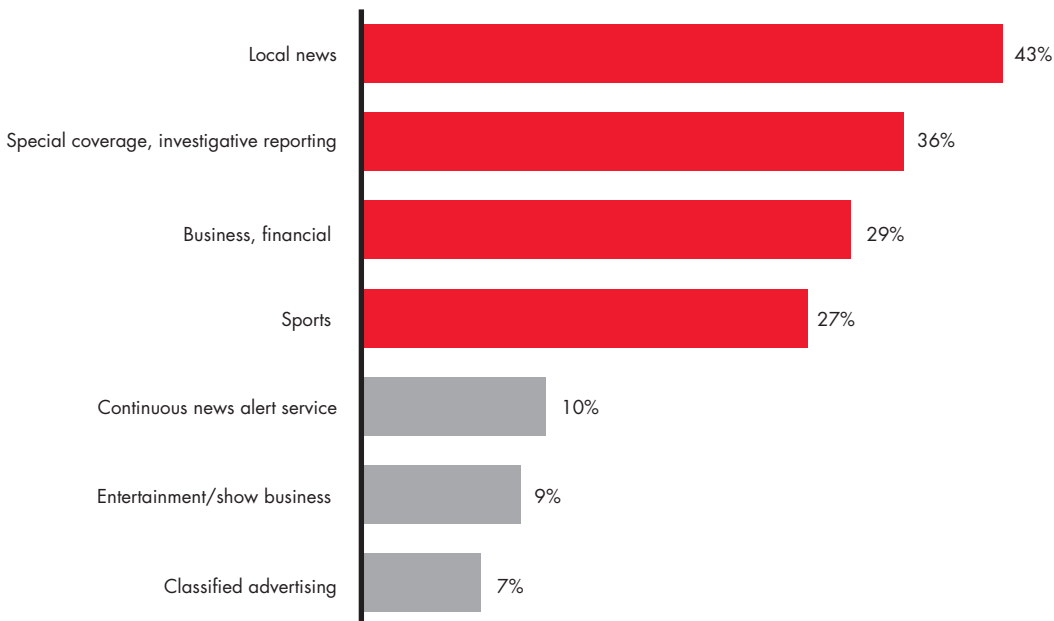
Sources: Bain survey “L’écrit et le Numérique”; Bain analysis

Share of consumers reading only free online newspapers



Sources: Bain survey "L'écrit et le Numérique"; Bain analysis

Content for which buyers of online newspapers pay today



Sources: Bain survey "L'écrit et le Numérique"; Bain analysis

How the new digital profit pool will be divided remains to be seen

Will this digital migration create value?

A new equilibrium

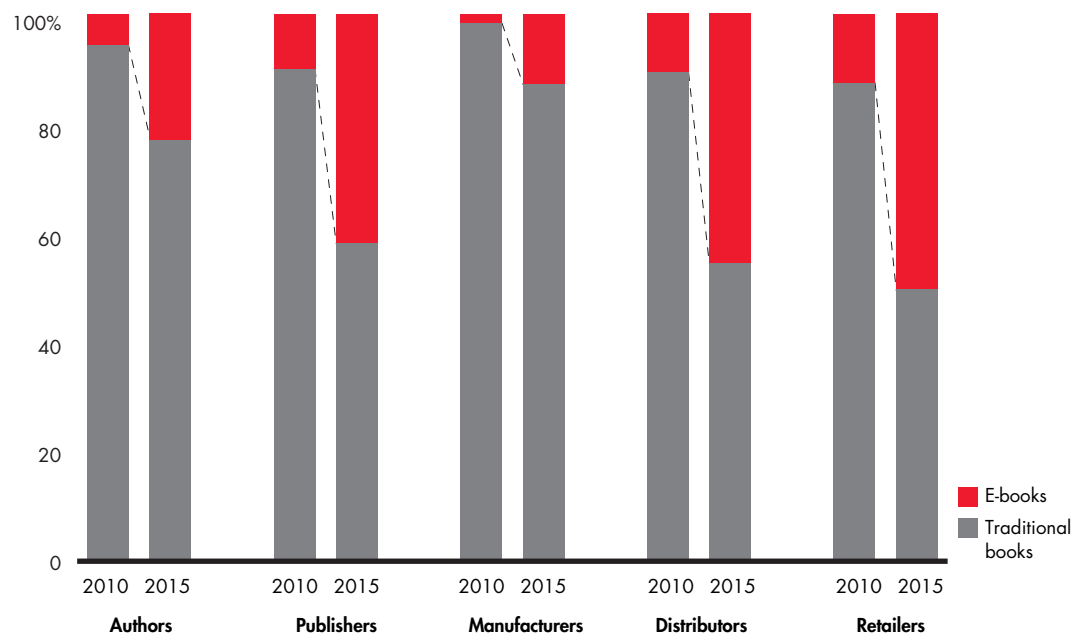
The book industry will not benefit economically from a migration to digital formats without a fundamental evolution that entails a redistribution of value across all participants, including retailers, distributors, publishers and even authors.

Vast change is in the wind, with digital formats representing 20 to 28 percent of industry profits in the medium to long term. How the new digital profit pool will be divided remains to be seen, but several players are taking positions.

Powerful digital distribution platforms have already emerged, with select players predominating: Amazon, benefiting from its first-mover advantage with the Kindle; Apple, riding on the success of iTunes; and possibly Google in the near future.

These platforms use data-mining algorithms to extract a new kind of consumer insight. In essence, they seek to step into the advisory role of the individual bookstore owner. More than that, virtual distributors could upend today's bookselling hierarchy, altering everything from its vast physical distribution networks to its emphasis on best-selling authors. They might even contribute to the emergence of truly global book publishing markets.

Evolution of the profit pool of book publishing—US



Source: Bain analysis

Obviously, digital distribution will have an economic impact on traditional publishers, whose business models are based on economies of scale and will therefore suffer from a decrease in physical volumes. The digital migration could therefore accelerate the consolidation of distribution networks around the players with the greatest economies of scale, including in the physical world.

Among retailers, a select few will be able to take advantage of their brand and scale to launch competitive digital distribution platforms. Among these are Barnes & Noble in the US. However, the digitization of 20 to 30 percent of today's printed volumes challenges the very nature of current physical distribution networks.

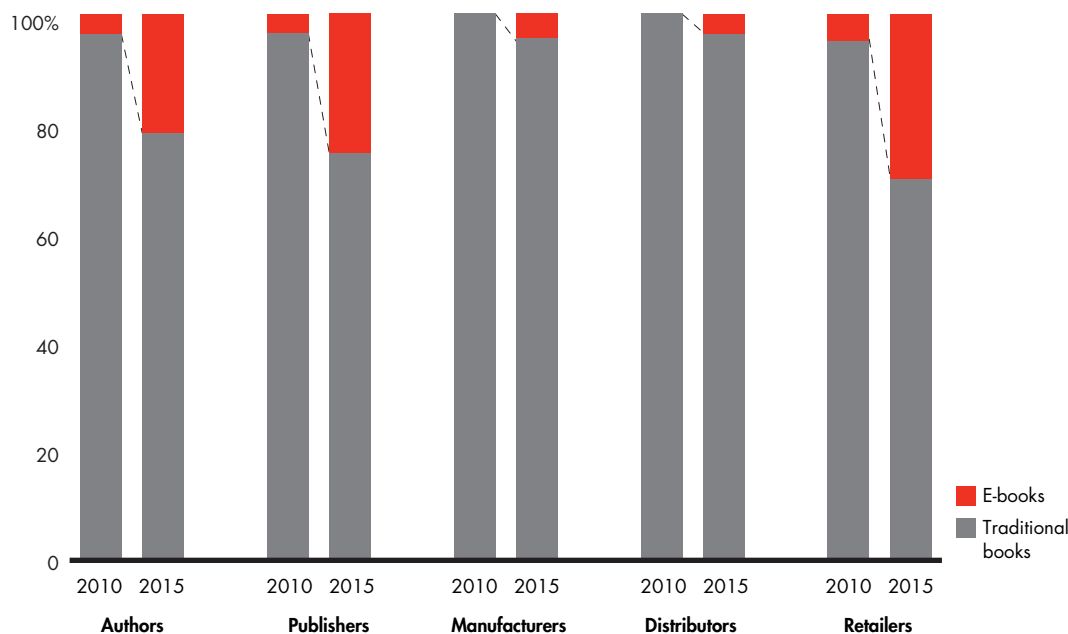
Even more fundamentally, new technologies could loosen the control that publishers have over the entire value chain. To maintain their leading role, publishers must not only redeploy resources to digital channels, but also create new services for authors and readers alike.

For authors, publishers must provide clear value. While best-selling authors might be able to manage their own distribution, emerging authors may value publishers that can provide online and physical marketing and distribution services.

Publishers must also scramble to develop products and services for online readers. Current examples include Vook.com, which offers short videos that accompany novels. Another, Leezam.com, sells novellas and short stories for mobile devices. And, offering a complement of online

New technologies could loosen publisher control over the value chain

Evolution of the profit pool of book publishing—France



Source: Bain analysis

Authors are in an ideal position to benefit from the digital era

offerings is the children's book *Skulduggery Pleasant: Playing with Fire* by Derek Landy, which was launched in conjunction with the viral game The Munchkin Army. This could be a harbinger of a whole new style of book club.

Indeed, the creation of websites and social networks for readers can not only stimulate demand for publishers, but also establish a direct link to consumers. Publishers now have an opportunity to become an even purer business-to-consumer business, selling products and services directly from their own platforms.

Authors, in the meantime, are in an ideal position to benefit from the digital era. Best-selling authors in particular should gain more bargaining power with publishers and distributors, which could increase their share of the profit pool over the next five years. A number of authors have already unbundled the physical and digital rights of their works to increase their negotiation power. Paulo Coelho, for example, gave Amazon exclusive distribution rights for the international online sales of 17 of his books in 2010. Ian McEwan, winner of the Booker prize, signed an agreement with Rosetta Books, a specialized e-book publishing house. In France, Marc Levy uses Versilio, a company specialized in book marketing, to manage the digital rights of his books, rather than his traditional print publisher.

Finally, newspaper publishers are living through a fundamental redefinition of their business. Expanding from the traditional role of news providers, they are now focusing on investigative journalism, editorials and opinion, and debate moderation—all while redefining the limits between free and paid content.

Beyond the “zero-sum game”

In the medium term, the book and newspaper industries must reinforce the “perceived value” of digital formats to unlock profitable growth. What will consumers be willing to pay, and for what features and services?

For books, in particular, the new economic model will rely on a pricing policy that remains within a reasonable range of paper pricing. This largely explains the reversal of Amazon's initial plan to retail e-books for \$9.99, a practice that has since evolved to the industrywide agency model, adopted in 2010. Under it, publishers now set prices within a set of distributor guidelines. E-book prices have thus moved to an average 30 percent discount compared with printed book prices. But it's still unclear how the publishing world will handle its traditional pricing time lines, which used to entail new-release and paperback “windows.”

In the long run, generating and sustaining profitable pricing for e-books will require providing additional services linked to new reading habits. More than just transitioning words to device screens, publishing's greatest opportunity lies with new formats, such as hybrid, nonlinear, interactive and social. Let's look at each.

Tomorrow: New formats?

Since the advent of Gutenberg's movable-type print hundreds of years ago, advances in printing and distribution technology have fostered a continual stream of new formats that address the changing needs of societies. For today's book publishers and press companies, the digital shift is placing the reader even more at the center of inventiveness.

From digital books to digital publishing

How do you improve on the printed page in a manner that people are willing to pay for? Among other ways, digital platforms can add videos, sound, music and various degrees of interactivity and collaboration to the reading experience. These forms of publishing go by various names.

Hybrid. The digital era opens up books and written content to cross-breeding with other media. For instance, nonlinear reading becomes a multimedia experience. The "vook," for example, adds a set of high-definition visuals to the reading experience. ScrollMotion and Sesame Street created children's e-books that enhanced the text with audio tracks (*Elmo's ABC Book*). Random House has also developed applications that mix text, music and narration.

Nonlinear. In new press services, websites such as Memorandum compile professional articles and political blogs, selected by an algorithm from among hundreds of sites from all ends of the opinion spectrum. The juxtaposition of such diverse content and sources offers a new reading experience, but also raises questions about the selection criteria and quality of the information.

Interactive. The reader's participation in book publishing may seem incongruous in such a supply-driven industry. After all, the creative thinking usually stems from the author. Yet some experiments suggest that new formats may succeed in attracting younger, creation-hungry generations to the world of literature. In *The Amanda Project*, the reader is actively involved in writing a collaborative script. Given a starting point, the Internet user is prompted to continue the tale, and the best contributions are then published in paper format. On his "How to Change the World" blog, venture capitalist and business author Guy Kawasaki asks readers to help shape the theme and story of his next book.

Social. Finally, digital publishing has created a feedback mechanism, whereby authors can communicate directly with their audience, and readers can communicate with one another. Authonomy.com, operated by HarperCollins, helps hopeful authors create their own webpage and upload their manuscript for all visitors to see. The readers can then vote and comment on a manuscript that, if successful, is then published in paper format. Amazon recently acquired Shelfari.com, which brings together a community of readers who share their favorite books through a virtual library—an initiative comparable to publisher Hachette Livre's website MyBoox.

The digital shift is placing the reader at the center of inventiveness

A good book,
is never what it
is expected to be

—Jean Cocteau

From transient to heritage

The advent of digital publishing raises another set of questions: In the aftermath of the digital migration, how are tomorrow's electronic words to be preserved? Who will preserve them? Which ones in the increasing flood of electronic verbiage will be selected for preservation? Under which criteria?

That raises a business opportunity unto itself. Countless libraries, national or private, have already begun digitizing paper-based content to secure its preservation. It is a colossal task requiring equally large investments. And it is unclear how digitally born content will be sifted, particularly in nonlinear, hybrid and social formats. What is transient and what is heritage? The great classics of the digital publishing age have yet to be written. But from the past we know that the kinds of words that change people's lives have always lived on—in whatever format.

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