

The future of the digital landscape

Digital publishing survey 2012



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Introduction

The Publishers Association reported in May that digital sales had increased by 54 per cent in 2011 despite a decline in publishing sector revenues overall*, and with Bloomsbury Publishing announcing e-book revenue growth of 159 per cent year-on-year shortly afterwards, this trend looks set to continue. One thing is for sure – digital has arrived and is here to stay. The London Book Fair, one of the major events in the publishing calendar, featured a digital zone this year, with an abundance of technology companies exhibiting their many service offerings and demonstrating how they can assist publishers seize the upper hand in the digital revolution. The impact and change in tone at the Fair was clear – publishers can no longer think of digital as a concept on the future horizon, but as something that is already firmly embedded in the sector.

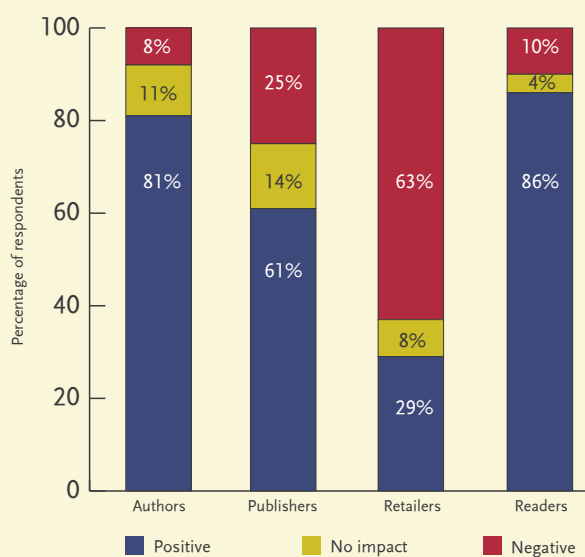
In the context of this rapidly changing environment, Mazars has carried out a survey designed to take a snapshot of current views from publishers, authors, retailers and others connected with the industry. It focuses on how digital has affected business and the sector to date, and how it is likely to evolve in the future.

* http://www.publishers.org.uk/index.php?option=com_content&view=article&id=2224&Itemid=1618

Not all doom and gloom for book publishers...

Unsurprisingly 81 per cent of respondents to our survey believe that digital will have a positive impact on authors and 86 per cent believe that readers will benefit from the e-book trend (see figure 1). Perhaps initially more surprising, given press speculation and frequent comparisons with the music industry, is that 61 per cent of all respondents believe that digital will also have a positive impact on publishing companies. A further 14 per cent expect no impact and only 25 per cent predict a negative effect.

Figure 1 – Taking into account the anticipated increase in digital activity, what do you think the effect will be on the key players in the industry?



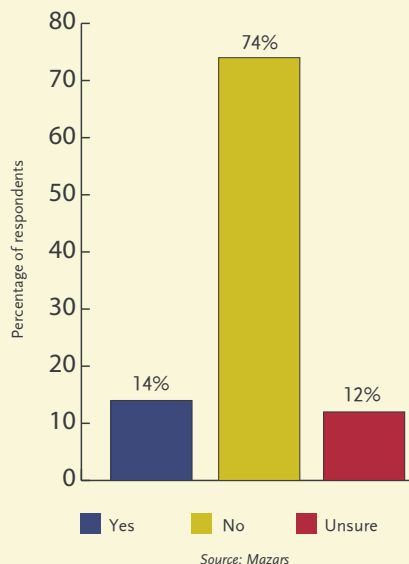
Putting this in the context of wider trends and statistics, however, these responses are not so unexpected. A recent study by Dr Rüdiger Wischenbart on behalf of the International Publishers Association revealed that the number of new titles published each year in the UK is increasing, and the number of titles published per one million inhabitants is significantly higher in the UK than in many other European countries. The number of people reading books is also frequently reported to be much higher now than it was 30 to 40 years ago.** There is evidence to suggest that digital is helping to shape these trends – the ease of downloading a new book to a reading device means that consumers are buying and reading more, and e-book devices themselves are opening the concept of reading books to completely new audiences.

If consumers are reading more, demand for reading material is greater, creating opportunities for publishers. But should they be concerned about the risk posed by 'self-publishing'?

Self-publishing not a major threat

Self-publishing is one of the current buzz words in the publishing sector and builds on the view that only two people matter in this industry – the author and the reader. If authors can connect directly with readers, is there any need for a publisher to act as the middle-man? It is undeniable that an increasing number of authors are taking advantage of the self-publishing service offered by Amazon and reaching out directly to their readers through effective self promotion and use of social media, cutting out the need for a publishing contract completely. In fact The Bookseller reported last month that more than half of authors are considering cutting out their publisher in order to self publish direct. However the results of our survey indicate that this is not a trend to be feared by publishing companies – only 14 per cent of respondents think that publishers will become completely extinct as a result of the move to digital (see figure 2).

Figure 2 – Do you think digital could lead to publishers becoming extinct in the future?



** <http://www.theatlantic.com/technology/archive/2012/04/the-next-time-someone-says-the-internet-killed-reading-books-show-them-this-chart/255572/>

The views provided in response to the survey suggest that despite creating the ability to publish work in record time, the disadvantages of self-publishing often outweigh this benefit. Quality editorial and the ability to reach a much wider audience are skills mastered by the traditional publisher, and are difficult to replicate in a self-publishing scenario, not to mention the hard work required to promote the book. The survey responses indicate that self-publishing may work in certain situations – if a writer simply wants to be published and reach a niche audience, for making titles available which are out of copyright, or indeed if a writer is seeking to create initial enthusiasm as a basis on which to attract a more lucrative publishing deal. But for the writer seeking invaluable editorial and a wider reach, a traditional publishing deal appears to be the favoured route, at least for now.

This view is supported by some of the major publishers. Tim Hely Hutchinson, CEO of Hachette recently commented in an interview for Mazars, “Very little quality business has gone to Amazon. It took over 100 years to establish Hodder & Stoughton, Amazon will find it takes a long time to build a publishing house and you have to work very hard to satisfy your authors”. Richard Charkin, Executive Director of Bloomsbury Publishing also noted “Amazon is seen as a threat because of their dominance as a distributor in the market, but not as competition from self-publishing.”

The respondents to our survey agree – only five per cent view self-publishing as a major risk for publishing companies.

But change is necessary

Given the growth in the number of potential readers, and the consensus that self-publishing is not a major threat, can publishing companies relax and proceed as before? Not according to our survey – 63 per cent of respondents see the failure of traditional publishers as a likely development in the future shape of the sector, unless they are prepared to make changes and adapt to the digital environment (see figure 3). The CEO keynote speech at the London Book Fair debated this point and the conclusion from even the traditional publishing houses was that the current business model is not sustainable. But why is change needed?

Author and reader demands

The potential audience for books may be growing but readers are also looking for something different – in the digital age, consumers are used to engaging and interacting with the media, sharing this within social groups and communities. Watching TV or reading a book is becoming less of a passive activity and more of a shared social experience. In order to attract and retain authors, publishers are under increasing pressure to show they can achieve this level of engagement with readers.

“We have to redefine what we can do for the author as there’s a danger that publishers do what they used to do and are marginalised. Publishers need to develop new digital competencies and offer an array of services to authors” says Tim Hely Hutchinson.

Kate Wilson, MD of Nosy Crow states “In order to survive, publishers need to be very clear on the value they can add – whether this is marketing strategy, quality editorial or something different.”

Pricing and the value chain

One of the key challenges to the current model is the pressure on profits and the value chain. The majority of respondents to the survey (66 per cent) believe that e-books should be priced lower than the printed version of the book (see figure 4), and this doesn’t come as a surprise – e-books don’t have the same costs of paper, printing, binding and distribution not to mention the challenge of returns and the substantial cost of books that are ultimately destroyed. The removal of these costs should in theory enable publishers to offer e-books at lower prices without seriously jeopardising profit margins. The challenge is that e-books, despite showing exponential growth, still only represent around 10 per cent of the market in the UK, and therefore publishers still need to offer books in both printed and digital format – and this is where pressure on profitability arises.

Figure 4 – How should e-books be priced?

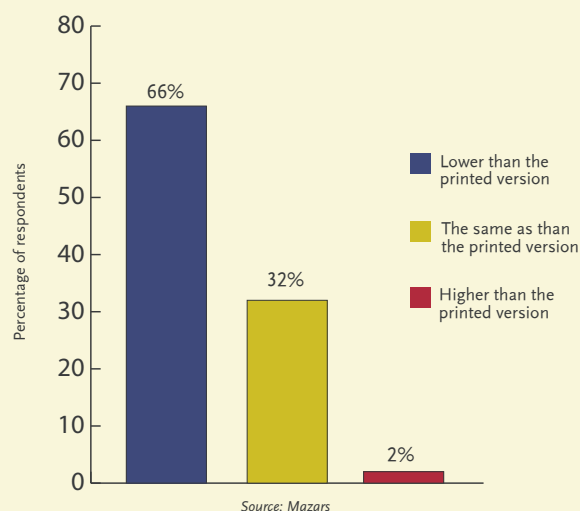
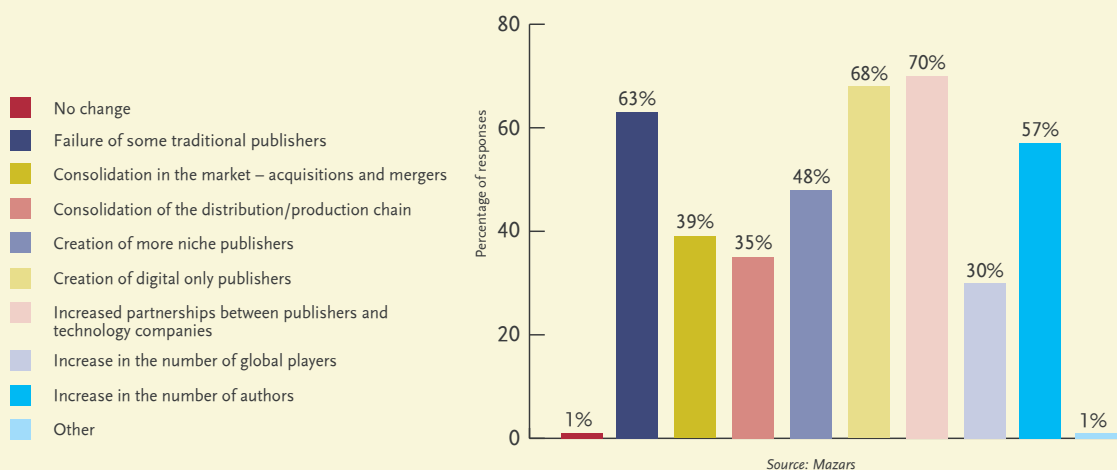


Figure 3 – How do you think digital will change the shape of the publishing sector?

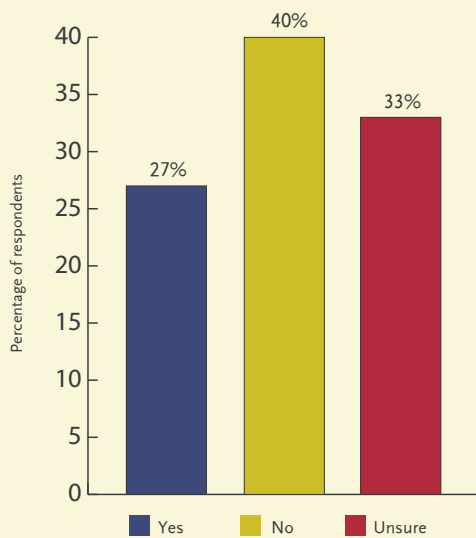


As consumers become accustomed to buying lower priced e-books and generally accessing digital content for free in a wider context, the printed book is devalued. Publishers are squeezed by reducing prices while still incurring all of the costs associated with the printed book – costs which are now perhaps higher as print runs and returns become more difficult to estimate, and economies of scale reduce. This is in addition to pressure from authors and agents to increase royalty rates. Current views indicate that e-books will never completely take the place of the printed book so publishers will be managing this challenge for many years to come. Richard Charkin notes, “For trade there will always be a print market, it is just the model that needs to be improved to make it work in the current environment”. The majority of respondents to the question ‘Will publishers be less profitable because of digital?’ are unsure – which is a reflection that although a pure digital only model can be profitable, this is not the scenario currently faced by the majority of publishers in the UK (see figure 5).

Some of the major players in the sector have looked to protect profit margins by signing agency agreements with their e-book distributors, essentially enabling publishers to set the prices of their books, therefore limiting the extent by which the book can be devalued. But the lawsuit by the US Department of Justice into price fixing and the similar on-going investigation by the European Union have thrown this model into question and created doubts that it is viable going forward. Publishers therefore need to look towards other business models to overcome the challenges to pricing and profitability.

The ultimate threat to the future profitability of publishers is piracy. There is understandably limited data available in respect of the amount of lost revenues for publishers and for authors as a result of piracy, but it is clear that this poses a much higher risk in the digital environment. Piracy was the most popular response to the question in our survey about the biggest risks and challenges for publishers as a result of digital. After all, if it becomes ‘acceptable’ for readers to download illegal versions of e-books for free, then discussions about pricing become almost irrelevant and publishers will be facing the same scenario experienced by the music industry ten years ago.

Figure 5 – Do you think publishers will be less profitable in the future because of the move to digital?



So what needs to change?

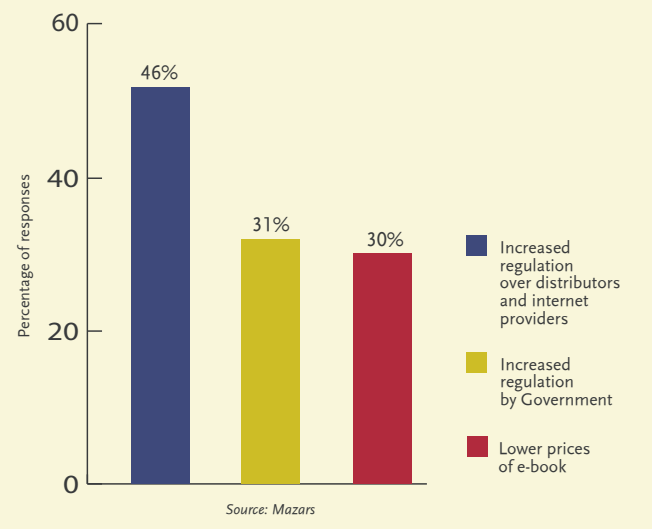
Adopting a digital mentality

One of the most popular responses to our question on actions that publishers should take to embrace digital is to become a genuinely digital organisation and educate everybody within that organisation to think with a digital mentality. Richard Charkin stresses that publishers should “become digital first, and print second”. Others note the importance of recruiting employees with digital capabilities and making investments in digital processes and procedures. However, it is the change in mindset and culture that is likely to have the most impact.

This may be a difficult step for traditional book publishers but ultimately organisations that think of digital as being integrated throughout everything they do and not as an ‘add on’ to their existing business are likely to be more successful. Waterstones have recently announced that they will be selling the Amazon Kindle in their stores and allowing customers to download e-books as well as browsing and buying printed books. Whether this is enough to combat the decline of the traditional book retailer is yet to be seen, but it does represent a major change in their model – accepting and incorporating digital and not choosing to battle against it.

By adopting a similar mentality, publishers could find new business models which are viable in this environment. Releasing e-book formats before or at least at the same time as the printed format, or allowing consumers purchasing a printed book to be given access to the digital version are two potential ways forward. Ensuring that digital versions of books are accessible and affordable is also seen as a major factor in combatting piracy according to our survey results. Although other means are considered as important such as regulation of internet providers, and action by governments, an almost equivalent number of respondents (30 per cent) believe that piracy can be largely resolved through making e-book versions of titles accessible and reasonably priced (see figure 6).

Figure 6 – What do you think should be done to prevent piracy in the publishing industry?



New technology, new revenue streams

With pressure on prices, publishers will increasingly look at new revenue streams going forward as a way of generating and maintaining profits. Over 70 per cent of respondents to our survey believe there will be increased partnerships between publishers and technology companies in the future (see figure 3). New technology opens up a whole range of potential advancements for e-books themselves – from audio to video to reader intervention, but also new possibilities in terms of how publishers market their books and how they reach out and engage with readers.

Over 85 per cent of respondents are open to innovation in e-books – ranging from video clips in non fiction titles such as travel guides, through to sound effects to set the atmosphere in consumer fiction titles, through to multi functional apps created around Children’s picture books (see figure 7). Music and sound effects were the most popular enhancement, with nearly half of respondents (47 per cent) viewing this as a likely development to e-books in the near future. In a recent interview Tim Hely Hutchinson noted “People want simplicity. The demand for enhanced e-books has to come from the public, not from the publisher.” The results from the survey may indicate, however, that consumer demand is already starting to move in this direction.

Advertising is another potential new revenue stream for publishers. Perhaps unsurprisingly, this was less popular in our survey results with only 10 per cent of respondents viewing this as a likely development in e-books in the short term. However, Diamond Media Solutions is a

technology company with a different point of view – they are already working with a number of UK publishers and matching them up with brands willing to be featured in e-books for particular titles. As readers we might be initially turned off by the concept of seeing adverts in books, but if the adverts are tailored and relevant to the material we are reading, it is potentially more convenient than distracting – for example a link to a travel website when reading about a particular location, or to buy ingredients when browsing a cookery book. Potential consumer appetite for this can be demonstrated by what is currently happening with ‘connected TV’. New apps such as Zeebox are enabling TV viewers not only to interact socially about the programmes they are watching, but also to link instantly on an i-pad or second screen to websites where they can find out more about what they have seen in the programmes and buy the products they have viewed. Co founder and CEO Ernesto Schmitt states that as long as the primary purpose is to bring benefit to the consumer, then it works – and with 15,000 new users of the Zeebox app every hour, this does seem to be working for consumers. Could we see similar trends developing for e-books going forward?

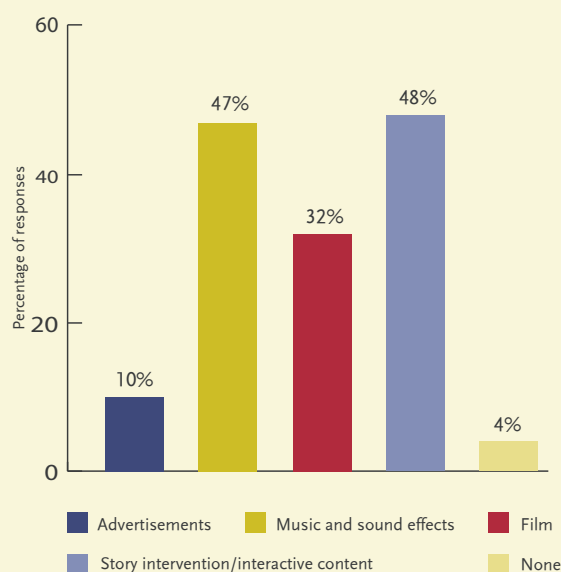
Engaging with readers

If readers are looking for engagement and interaction, then facilitating this becomes a key responsibility of the publisher.

In the self-publishing model, writers can reach out directly to their readers through social media and self promotion. But publishers can also play this role, using social media to create communities and discussion around specific books and authors, and using technology to help readers learn more about authors and the background of a particular book. Kate Wilson at Nosy Crow points out “In recent years publishers have not focused on building their own brands – this is something they are starting to do through social media.” The blog on the Nosy Crow website allows the company to engage and connect with parents and it is this interaction, together with press coverage for the innovative apps they have launched, that is helping the company to become a recognised brand in children’s publishing. This is a new marketing model for publishing companies, in which social media is used to create demand for a book directly among consumers rather than relying on traditional marketing to retailers. Richard Charkin notes “Publishers need to understand consumers and the market much more. In the past they have only had to deal with the retailers, but now they need to work out how to market to the consumers directly.”

In our survey, 48 per cent of respondents indicate that they would like to see more interactivity in e-books, including reader intervention and collaborative story telling where readers can even help to influence the outcome or ending of the book (see figure 7).

Figure 7 – What type of innovation would you like to see more of in digital publishing?



Source: Mazars

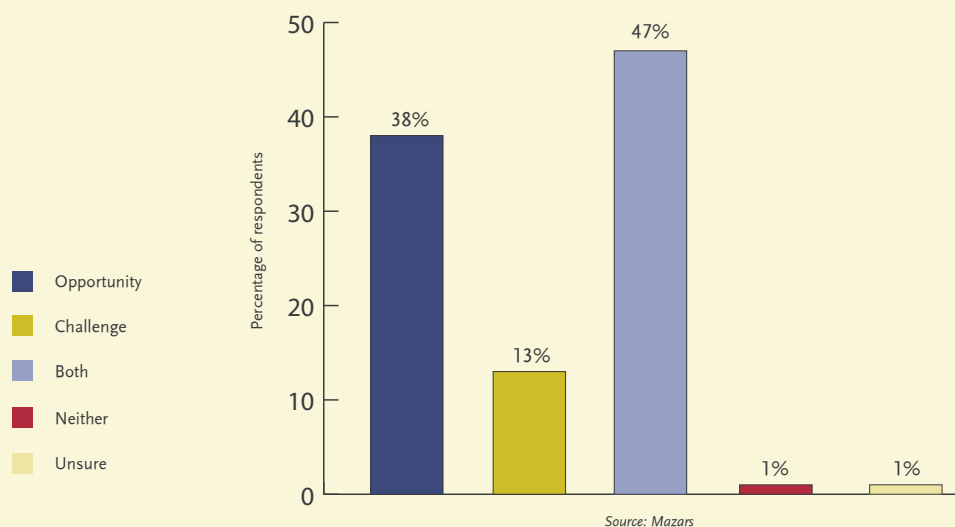
One of the key roles of a publisher is understanding what readers are looking for and matching this to what authors are writing about. Unbound is a company which does exactly this – readers choose potential books and buy them up front, and when enough finance is raised the book is published. This is a specific case, but many publishing companies are now in a position to start using technology to build up their knowledge of readers and reader preferences. One of the reasons that Amazon has achieved such a competitive market position is the vast amount of data they hold about consumers and their buying habits, which they have the power to use to target consumers with certain types of books. Through direct interaction and engagement with readers, publishers can build their own data about consumers and use this in more innovative ways to influence the books they publish and how they are marketed.

Conclusion

Overall, 47 per cent of respondents to the survey agree that digital continues to represent both an opportunity and a challenge for the publishing sector (see figure 8). It is recognised that the digital revolution could create huge opportunities for publishers – new audiences, new revenue streams and direct engagement with readers,

but only if publishers are willing to change and adapt their business models to embrace this change. It is this adaptation – creating the appetite within the business to make changes, and a willingness to take risks to do new things that represent the real challenges for the sector today.

Figure 8 – Overall do you see digital as an opportunity or a challenge in the sector?



Methodology

Mazars' digital publishing survey 2012 was designed to provide an insight into the current state of the publishing and media sector, identifying how digital has affected business and the industry as a whole, the key challenges and opportunities and respondents' predictions for the future.

We surveyed a cross section of publishers, authors, agents and service providers at the London Book Fair 2012. Our analysis is based on 182 responses.

We would like to take this opportunity to thank respondents for the time and thought they devoted to completing this survey.

About Mazars

About Mazars

Mazars is a global partnership providing audit, advisory, accountancy and tax services to clients in 69 countries.

Our expertise

Mazars has specific expertise in the media sector and provides a full range of services to assist media companies, particularly in dealing with the challenges and embracing the opportunities offered by the digital environment. Our current client portfolio includes one of the largest publishers in the UK and the fourth largest communications agency in the world.

By listening closely to clients and understanding their needs, our range of services to the media sector is designed to provide the assurance of recognised technical and regulatory expertise together with the added-value of a business partner that can advise effectively on improving performance at all levels.

Our services to the media sector

- Audit and assurance
- Governance and risk
- Financial reporting advisory
- Due diligence and transaction support
- Restructuring
- Forensic investigations and litigation support
- Tax advisory and compliance
- Internal audit
- Transaction services
- Outsourcing
- Corporate finance
- Licensing and royalty services



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