INFO 290-5 | Fall 2013
"The Future of EBooks"
The Business Models

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Agenda

- Some high level overview about business models and channel strategy

- Different perspectives:

  - Publishers of different types (traditional, textbook, corporate, self)

  - Bookstores

  - Libraries

  - Platform vendors

  - Production houses

  - Brands

Business Models 101: Supply & Distribution Chains

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Tier 3

Tier 2

Tier 1

Enterprise

Distributors

Retailers

Customers

Materials
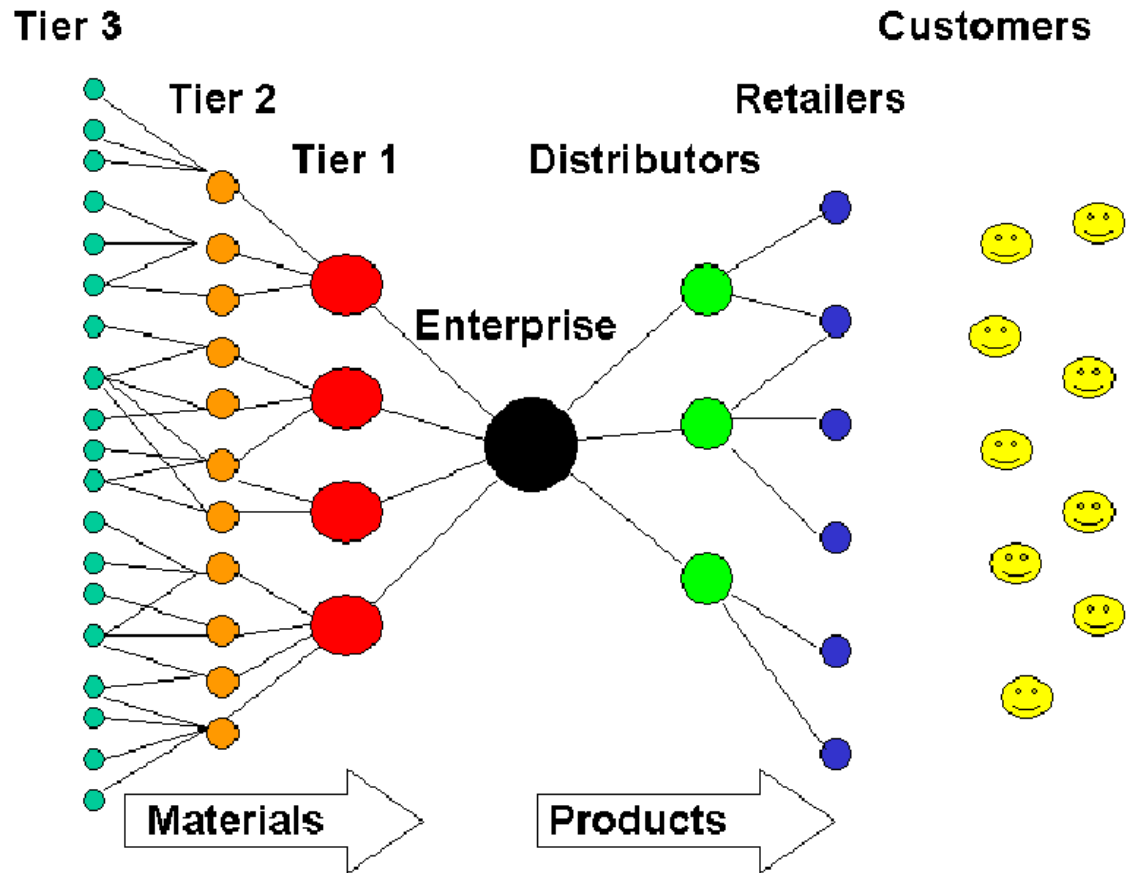
Products
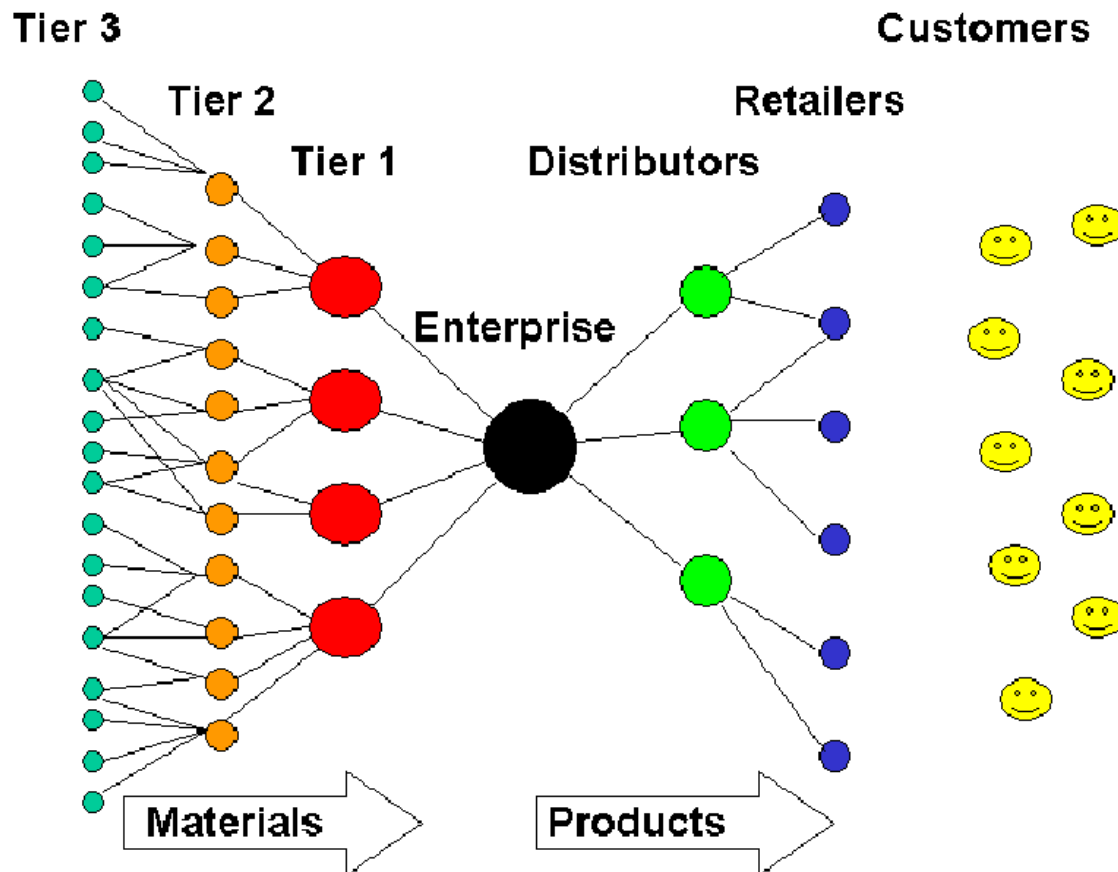
Indirect distribution is required for an enterprise to reach a large market, but can reduce or eliminate visibility of customers

Publishers have long relied on book distributors and book stores to sell print books

Business Models 101:
Direct Distribution
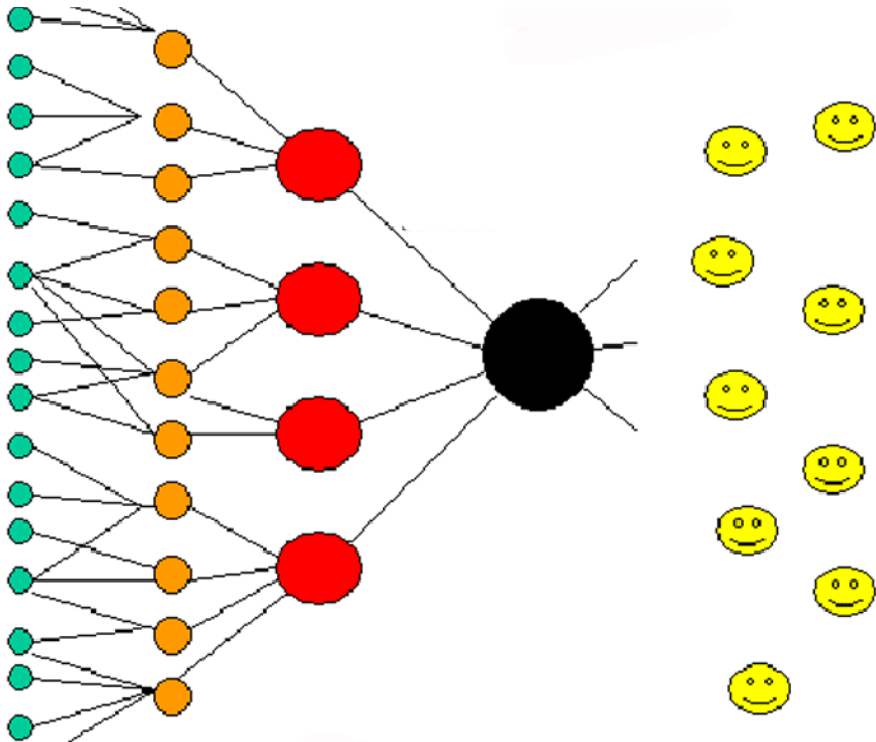
Some goods (and most services) are sold directly to their customers

The web greatly expanded the number of direct sellers

Most publishers have web sites where they sell direct to customers

Retail, Wholesale, and Agency Models

- A publisher can gets a much higher price by selling direct, because it needs to give its retailers and wholesalers about half of the list price

- The last player in the distribution channel decides what price to sell to the retail customers, and prices might differ (e.g. loss leaders, promotions)

- In agency pricing, the publisher sets the price for the distribution channel, and the retailer gets a percentage

Business Models 101: Channel Conflict

A publisher might want to have it both ways..

Lots of new ventures and alliances are being tried

But this can cause conflict with its distributors
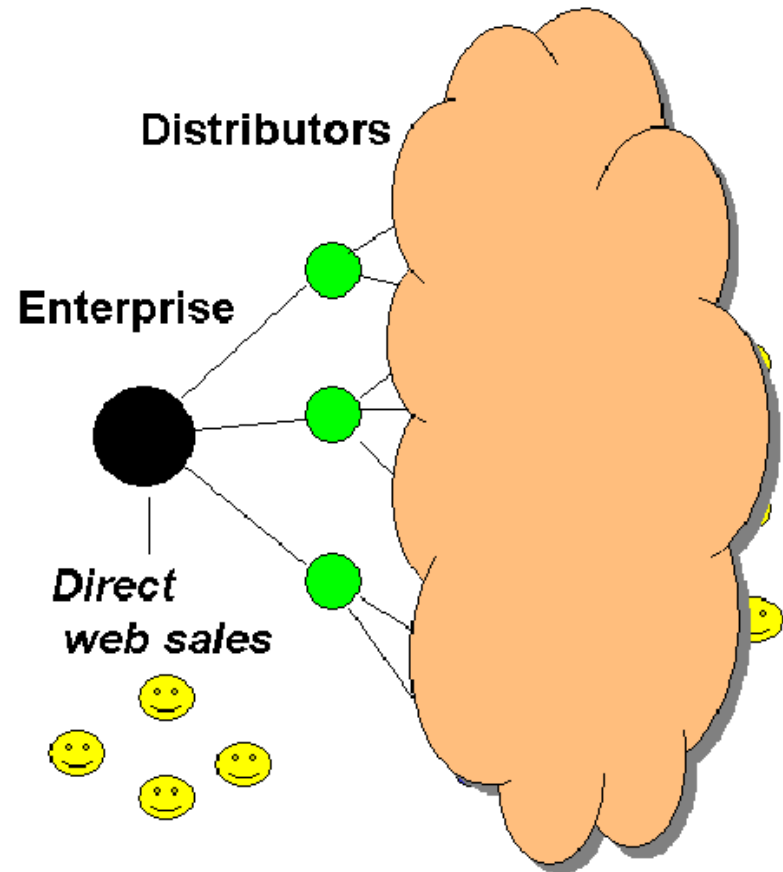
Selling, Licensing, DRM, Access/Usage Models

- At their "first sale" the publisher loses any ability to control use or redistribution or printed books

- Publishers rely on the inconvenience, lack of cost effectiveness, and limitations of single-copy technology to constrain copying of printed books by individuals, along with users' respect for intellectual property

- For information goods packaged in physical containers (shrink wrapped sw, CDs, DVDs, etc.), it was argued that this was licensing rather than selling, but this didn't hold up in court

- Digital rights management and other "technical protection" measures were introduced to re-establish control, but this gives power to the platform vendors

- Many new business models in publishing emphasize pay-for-access instead of allowing actual ownership

Publishers – Traditional

- Traditional publishers vs corporate publishers
- Acquisition and editorial model
- They lack the content engineering
  - no technological sophistication
  - unable to adapt quickly
  - don't control means of production
    - don't benefit from new business models
      - bundling and new product development

Publishers – Textbooks

- Textbook publishing has some special issues
- The used book market is huge – over 20% of all sales
- Textbook publishers try to undermine this resale market by frequently issuing new editions
- But they often run into political problems and criticism about the impact on the cost of books for schools and students
- Ebook versions of textbooks enable new business models that let publishers make money while avoiding the political issues

Textbooks and eTextbooks

- Digital versions of textbooks made up 27% of the textbook market last year ($12.4 B)

- See http://www.pcmag.com/article2/0,2817,2423062,00.asp

- Amazon:
  - sells new and used textbooks
  - rents textbooks
  - sells and rents etextbooks

- Apple's iBooks Author is targeted at textbook authors and publishers

- Many sites where you can read textbooks online (Boundless)

The Dilemma for Publishers

The Potential Prisoner's Dilemma in Adding New Channels

		Firm B	
		Do Not Add	Add
Firm A	Do Not Add	Status Quo	Firm B gains customers
	Add	Firm A gains customers	Firms A and B compete for customers on a broader front and possibly grow market.

Publishers might not want to make their books available as ebooks (to libraries) because they can charge more for print versions

But publishers who don't make ebooks available can lose out to publishers that do

13

Bookstores

- Publishers primary customers

- Book stores can't compete on price with digital content malls (Amazon, Apple iBookStore, etc.)

- Bookstores as community

- No easy to move customers from browsing for physical books to eBooks – showrooming (discovery)

- Print-on-demand is cruel hoax

  - Seductive, but doesn't scale, introduces new challenges

Publishers – Corporate

- Traditional publishers vs corporate publishers
- Don't need bookstores as channels
- They start with editorial model
- Sometimes lack content engeering knowledge
  - they have motivation and means to invest in developing new skills and capabilities
  - authors work for corporate publishers
- Driven by time-to-market, customer experience, customer satisfaction, regulatory compliance, legal requirements, new markets
- More skin in the game

15

Production Houses

- They serve publishers (traditional and business)
  - Exists first to convert back catalogs
    - Temporary arbitrage opportunity
  - In the future serve as consultants for eBooks
    - Relies on platforms and publishers
  - They compete with in-house production
  - They compliment in-house production
  - They have skills/technology publishers do not

Libraries

- "Publishers view circulating libraries as thieves" (Lynch)

- For content where libraries are a large part of the market, libraries have some ability to negotiate with publishers about digital content (research libraries)

- But for consumer content, libraries have much less leverage; publishers won't give libraries the ebooks they want when they want them on terms the libraries want

  - No unlimited use licenses
  - No first sale equivalent

Publishers – Self

- Frustrated authors, experts, educators and technologists taking the process into their own hands

- Varying levels of editorial and technological skill

- Private labels lack stature, but are often nimble

- May offer direct sales through blogs, etc.

- May offer sales through Amazon, Apple, etc.

- May peddle to Traditional or Corporate publishers

Brands as Publishers

- Content Marketing

  - a technique of creating and distributing relevant and valuable content

  - designed to attract, acquire, and engage a clearly defined and understood target audience

  - to drive profitable customer interactions

- Don't need publishers anymore – the brand will publish its own content

- e.g., Cisco hires laid off journalists to write content for "Cisco Newsroom"

Customer Concerns

- They have expectations (installed base issues)
- They may be concerned about
  - price (high or low)
  - flexibility of license (no lock-in)
  - platforms supported
  - editorial quality of the product
  - technological sophistication of the product

Platforms

- Platform is a very commonly used word in our context but is not usually defined very carefully

- A platform solves some class of generic design and implementation problems so that designers and developers can focus on specific services or content that "runs" on the platform

- For ebooks, hardware devices like the Kindle are platforms, but so are book reader apps (like the Kindle app, which can run on hardware other than Kindles, and numerous epub reading apps). Apple iBooks is also a platform but it doesn't run on any Apple device other than iPad. Android and Chrome are platforms controlled by Google

- Browsers of course are the most generic platform, but one that publishers are wary of because they can't control the use of ebooks on them

- But publisher fear of losing control with books-in-browsers has caused them to cede control to Amazon and Apple, and in some

Impact of Platforms and Devices

- Technology drives innovation
- Consumers upgrade, grow attached to them
- They mimic familiar retail channel
  - They sell online/in-person
- Innovations they make change everything
  - Finger prints – technology enabled restriction

Designing Multi-{Device, Platform} EBooks

- The existence of competing platforms means that a publisher needs to decide on which one(s) to target

- This is both a business and technology decision

- Furthermore, it raises questions about whether to create a native design for each platform takes maximum advantage of its capabilities or to single-source as much as possible and produce a less capable ebook that targets the least capable platform

Software and Services

- They provide systems, tools, and services for publishers of various types

- corporate, traditional, consumer/self-publishers

- They may rely on internal and external staff

- They may support standards/proprietary formats

- They are not usually motivated to make you self-sufficient

O'Reilly

- Special case (Bob explain why)
- Invested in production processes
- Invested in building a user community
- Innovative business models
- Creative collaborations

Implications for Our Course

- Which of these perspectives is most important to us?

- Who are OUR stakeholders? What are their "business model" issues?

- Who can help us?

- Who can't (or won't help) us?

- Who can we help?

- Who can't we help?