



The Business of Books 2016: Between the first and the second phase of transformation

An overview of market trends in North
America, Europe, Asia and Latin America,
and a look beyond books

Rüdiger Wischenbart

White Paper, Summer 2016

Table of contents

Executive summary.....	3
The treacherous calm in the book business	4
The new world of mobile plus social	4
Amazon - beyond books.....	5
Creating ecosystems, not just an industry.....	6
New competition: reading or viewing	6
A few winners take all: the craze of blockbuster bestsellers	7
Market overviews and snapshots.....	8
United States of America.....	9
United Kingdom	10
Germany	11
France	12
Spain	13
The Netherlands.....	13
Emerging economies (BRIC – Brazil, Russia, India and China).....	14
Brazil.....	14
China and India.....	15
Outlook: Welcoming the next wave of change.....	16
About the author.....	16

Executive summary

The Business of Books 2016: Between the first and the second phase of transformation. An overview of market trends in North America, Europe, Asia and Latin America, and a look beyond books

The business of books is currently evolving in many different directions simultaneously. In many Western countries, the overall value of markets is declining, while sales are rocketing for a few blockbuster bestsellers which control an ever bigger share of total revenues. At the same time, however, analysts have identified a modest return to growth in the United Kingdom, which, with its exuberant discounting, was previously thought to be on a highly disruptive path. The new growth is driven by (independent) publishers with the strongest

midlist, and not the bestsellers. Independent bookstores have bounced back in both the United Kingdom and the United States, where they have been battered for years by the rise of Amazon and a crisis among the retail chains.

Meanwhile, the much-lauded growth of the emerging economies, notably the 'BRIC' countries, Brazil, Russia, India and China, can hardly be dealt with under just one headline, as different developments prevail in each. The Russian publishing sector has continued to decline since 2008. In Brazil, the recent economic crisis is hitting consumers and businesses across the board, while budget cuts in important government programmes, especially in (digital) educational initiatives, have added to the challenge.

In China and India, the markets for books and reading, both educational and for entertainment, continue to expand, albeit more slowly than a few years ago.

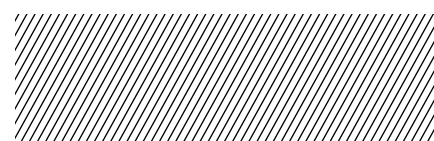
The American model of selling e-books as digital versions of printed books accounts for only a small market share in Asia and many other regions of the world.

In China, online platforms bring together authors and readers by the million. Integrated exploitation models are emerging, in which platform owners can easily recognize the most popular storytellers, enabling them to turn their content into games or movie series, or even issue them as books through traditional publishers. Nevertheless, in a number of

growing niche areas in the two big Asian markets, Amazon has found ways to successfully introduce its Kindle platform.

In some respects China's online communities echo the surge of self-published titles in the West. This demonstrates ever more clearly that there is no single way for authors to address the increasingly segmented and fickle audiences. In a word, developments in publishing have added a lot of complexity.

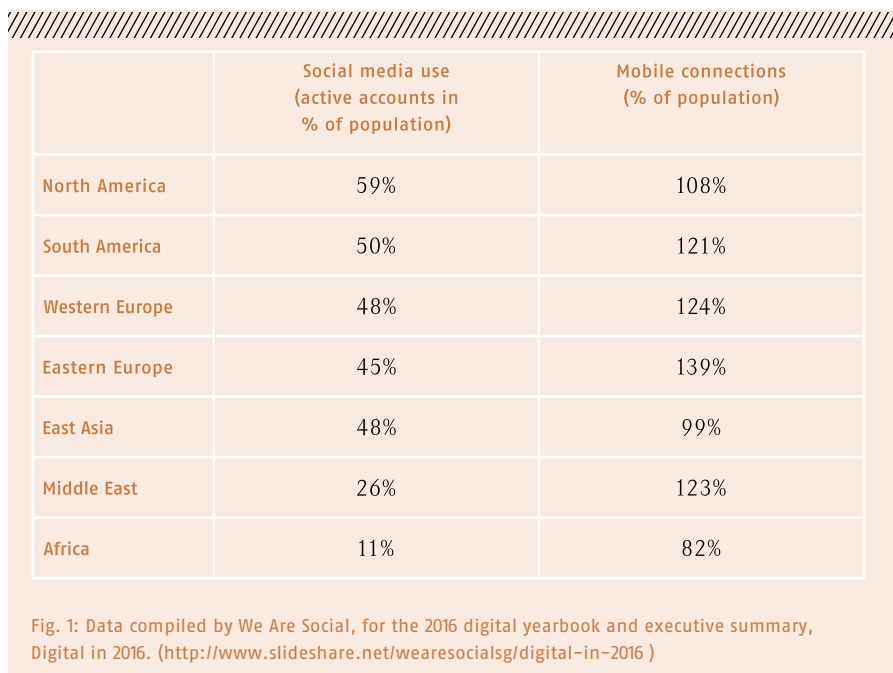
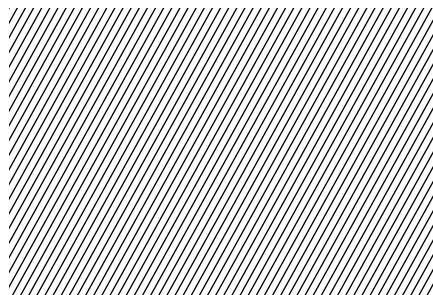
All these developments should therefore be seen in the larger context of the ongoing transformation of all the media and communication industries. This is characterized by growing tension between those sectors that are able to access new audiences through digital delivery and new direct-to-consumer business models (e.g. home entertainment, games etc.), and those still struggling with the barriers of physical products (newspapers, magazines). Consumer and educational books currently sit somewhere between the two extremes, with no prospects for growth but experiencing minimal decline at worst. These developments will accelerate significantly in the near future due to the rapid shift to mobile phones as the predominant channel for consumer access, and to social media for debate and appreciation.



The treacherous calm in the book business

In the past 12 months, many reports on the international book industry have highlighted indicators suggesting the stabilization of the sector. A theme across innumerable articles, not just about the English-language markets, has been that print is back and digital growth has stalled.

Compared to the last two years, fewer incidents occurred on the path to consolidation among the largest publishing groups, which are striving to become truly global, or at least major regional players. The biggest example came in scientific publishing with the merger of Holtzbrinck's Nature group with Springer Media, to form the new SpringerNature. In the US, Hachette and the wholesaler Ingram – having failed at their first attempt a year before – gobbled up Perseus, which began life as a consortium of independents before growing into an innovative publisher, distributor and aggregator. In Brazil, Abril bought the publishing arm of Saraiva. In Italy, Mondadori also finalized its acquisition of a large part of RCS Rizzoli, a move that had been in the making for a long time. But with the exception of the new SpringerNature, none of these changes is significant enough to affect the big trends in publishing in a substantial way. The relative calm contrasts strongly with developments seen in other media and digital industries that are closely related, and highly relevant, to publishers. It was “the pace of change that caught our eye this year,” reads the summary of Digital in 2016. As in previous years, this major compendium of “global digital, social, and mobile data, trends, and statistics” was compiled and published by the communication agency “We Are Social”. (www.slideshare.net/wearesocialsg/digital-in-2016)

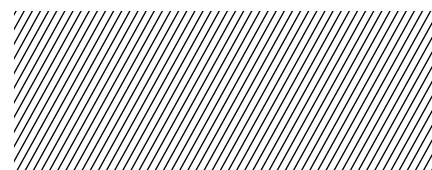


The new world of mobile plus social

In 2016, 46 percent of the world population, or 3.42 billion people, now use the Internet, a remarkable 10 percent increase on the previous year. Some 1.97 billion people, or 27 percent of the population, are mobile social media users (up by 17 percent on 2015). In a dozen or more countries, Internet penetration has reached well over 90 percent. These include Iceland, Norway, Sweden and the Netherlands, as well as the United Arab Emirates. At the other end of the scale, in numerous sub-Saharan countries like Niger, Ethiopia and Somalia, less than five percent log on. Worldwide, some 39 percent of all website visits are made through mobile phones (a year-on-year increase of 21 percent). In November 2013, Silicon Valley analyst Ben Evans already flatly concluded: “Mobile is eating the world.” (<http://ben-evans.com/benedicte-vans/2013/11/5/mobile-is-eating-the-world-autumn-2013-edition>) This new mobile world is different from the more open “old” World Wide Web insofar as large parts of it are controlled

by just four companies: Amazon, Apple, Google and Facebook – the “four horsemen” who are “driving the agenda,” as Evans phrases it. Their services are in fact digital gated communities. Each forms its own ecosystem whose highest priority is to keep users within its world for as much of their digital life as possible.

Two and a half years on, in mid-2016, it might be wise to include two more “dragons” for a more representative picture of the new world, namely the Chinese search engine Baidu, and social messaging service Tencent QQ. All six platforms are among the global top 10 Internet destinations, according to the normally reliable Alexa page ranking. (<http://www.alexa.com/topsites>)



Amazon – beyond books

Amazon started in 1994 as a company selling books, yet it has grown into an entity that defines to a significant extent how consumers use the Internet for their various commercial activities. Books, or even the revenues from media content, account for only a fraction of Amazon's sales. In recent years, its sales of international media content have even declined slightly. Nevertheless, that income is sufficient to make Amazon the biggest book-seller, not just in the English-speaking markets, but also in Germany and France.

Amazon used to earn around 85 percent of its non-US revenues in just three markets: Germany, the UK and Japan. Recently however, sales in other territories have begun to go up noticeably. This new dynamic is probably most pronounced in the two largest consumer markets, China and India, where Amazon has made significant investments in its ambition to gain a foothold.

Amazon attracts outstanding rates of web traffic, with a growing share through mobile devices. This is true not only in places where it runs a web shop in the local language, like Germany, France, Italy, Spain and the UK, but also in markets without a localized presence. For example, Amazon has been able to develop a strong position as a competitor to local vendors in three such different commercial environments as Sweden, Slovenia and the United Arab Emirates. Overall, these few indicators suggest that the context is changing dramatically for anyone doing business online – including publishers and bookshops.

Amazon reported revenue and stock quote 2010 to 2015



Fig. 2: Amazon's revenue and stock market value.
Source: SEC Filings 2010 to 2015.

	Amazon (national page ranking)	Facebook (national page ranking)	Highest ranked domestic site	
Germany	4	3	9	Web.de
France	9	3	7	Orange.fr
Italy	5	2	8	Libero.it
Spain	6	4	11	Marca.com
UK	5	3	6	BBC.co.uk
Slovenia	16	3	5	24ur.com
Sweden	37	3	7	Aftonbladet.se
UAE	11	4	7	Manoramaonline.com*
			10	Dubizzle.com

(*) Indian service

Fig. 3: Page ranking of Amazon and the respective strongest local competitors in selected markets.
Source: Alexa page ranking. (www.alexa.com)

Creating ecosystems, not just an industry

In Germany, online bookselling grew by six percent in 2015, while the traditional retail business shrank by 3.4 percent and now accounts for less than half of all books sold.

Overall, e-commerce is on the rise.

The GlobalWebIndex

(<http://www.globalwebindex.net>), a resource for insights about digital consumption, indicates that in each of the world's 30 major economies except India, at least 25 percent of the population made an online purchase in the past month. In the UK, the figure is as high as three-quarters of the population. Again, more and more of these commercial transactions are being made from a mobile phone.

With mobile usage representing a fundamental shift in consumers' habits, the challenge clearly goes beyond direct transactions and purchases.

The purchase of a printed book from an independent publisher by a reader in a small neighborhood bookshop might well result directly from the use of a mobile phone to access a social media site.

There, the reader sees a friend's discussion of a newly discovered title, and goes on to find references to other media and sources of information, as well as reviews in online reading communities. From the point of view of the publisher or book retailer, the main risk is the loss of ownership of the reader. Even if the publisher or retailer has a successful mobile and social media strategy, book-loving consumers are increasingly making their purchase decisions in an environment where other services, media and communities of friends and like-minded peers, or indeed competing vendors, can all flag up a broader choice of titles than just the book which prompted a reader's interest in the first place.

McKinsey Global Media Report 2015 Selected categories

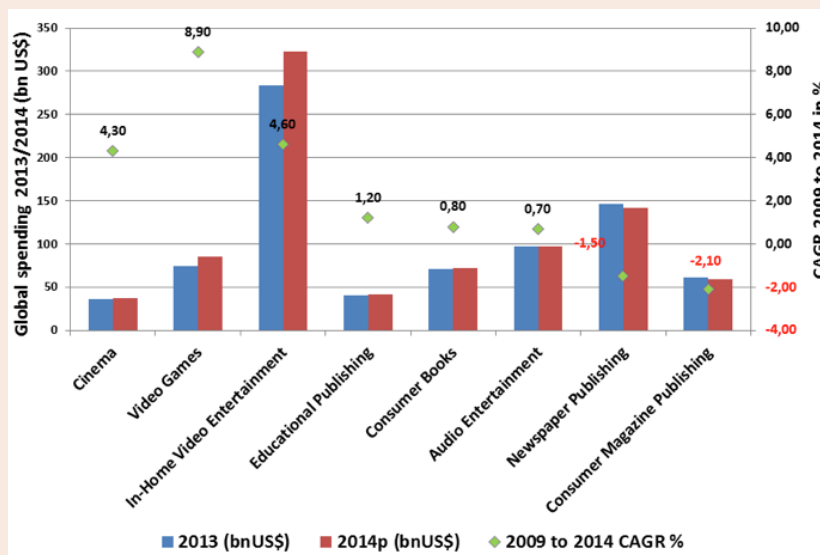


Fig. 4: Performance of selected categories of media industries from the McKinsey Global Media Reports 2014 and 2015, in absolute market value (USD billion), and relative growth or decline over five years (compound annual growth rate/CAGR, 2009 to 2014, <http://bit.ly/hUwt4la>). Courtesy McKinsey Global Media Report.

New competition: reading or viewing

Various content formats offered through multiple channels are in direct competition with each other.

Since 2013, in a comparative survey based on real market data (not just projections) from the past several years, the McKinsey Media Reports have documented the relative gains and losses of several media industries.

Only a few media industries have found ways of distributing and monetizing their content through digital delivery directly to consumers, and in doing so have managed to secure the prospect of strong growth. Others, like newspapers or consumer

magazines, have not. Publishers of educational titles and of books for general readers are currently sitting in the middle, in an unclear – and uncomfortable – position, still unsure of where their industry is heading.

A few winners take all: the craze of blockbuster bestsellers

The past decade was characterized largely by changes at the top, in terms of successful authors and titles.

Perhaps it all started with some magic, when a certain unemployed Joanne K. Rowling wrote the coming-of-age story of an orphan of sorcerer parents, in a plain, old-fashioned England. She sent the manuscript to scores of publishers only to be rejected time and again, until someone at Bloomsbury decided to give it a try and printed a few hundred copies in 1997.

The first Harry Potter book launched a phenomenon that is still capable of surprising us even today when, for instance, a play based on the characters triggers a huge controversy because a black actress is cast for Hermione, Harry's adored, yet unreachable female superego.

The ingredients of that now very familiar magic potion include writing a series of books rather than just a single novel, and using a set of characters that allow multiple identification and role play; it involves skilled professional writing, with lots of dialogue that makes it easy to produce a film script; and it starts by targeting a young adult audience but ultimately gains an adult readership that far outnumbers the youngsters.

A new category of blockbuster bestsellers has since emerged along these lines that easily accounts for about one fifth of all bestsellers.

Tracking and analyzing bestsellers in a broad selection of today's major markets over the course of a decade, we recorded how long titles would sit in the top 10 of the ranking charts, and attributed 'impact points' accordingly. This does not reveal the absolute sales figures, but rather the presence of a title or a series – how it occupies space and attracts attention compared to competing titles and authors. It emerges that, since 2006, just a few such blockbuster titles have a huge impact each year. In some years, the effect is much stronger than in others. From our data, we could not establish whether the trend is accelerating or dwindling over the years. In fact, it resembles more an El Niño effect in the publishing industry, with a stronger impact in some years than

in others, but clearly, in the strong years, shaping the climate of publishing worldwide.

The principle of a tiny few titles having such enormous power to leverage the industry, or at least significant parts of it, does not just apply to the very top segment. It has become a force shaping each and every category of trade books – and more specifically fiction.

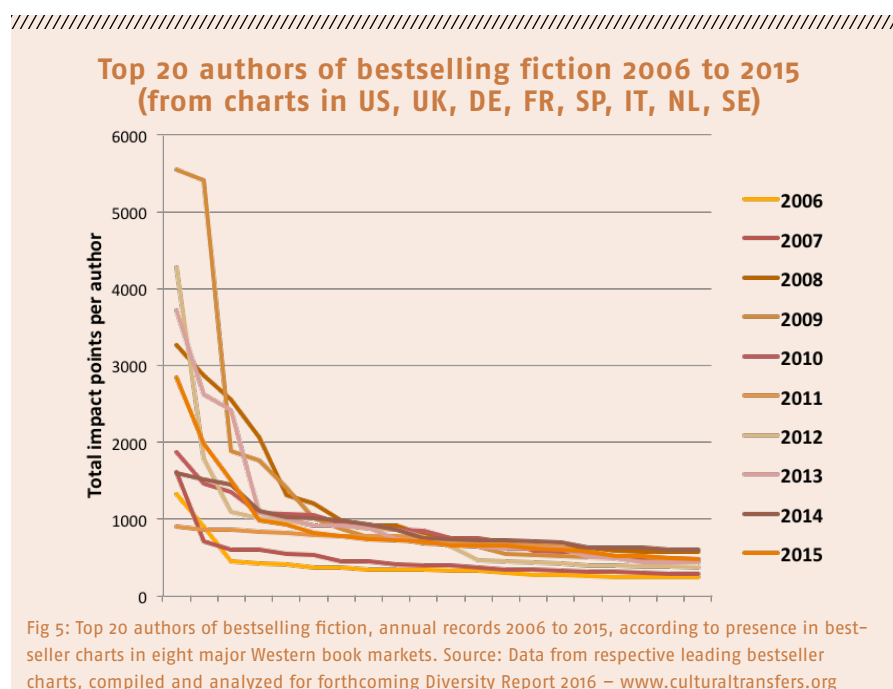
For a snapshot of 2014, over several months we recorded how in Amazon's Kindle e-book charts for Germany, a self-published novel, *Honigtot* by Hanni Münzer, outperformed one of the strongest comparable books from a traditional publisher, international star author Jojo Moyes' *Last Letter From Your Lover*.

Conventional wisdom has it that the best-seller segment is dominated by books written in English, to the clear disadvantage of authors writing in less widely spoken languages. Our analysis of best-selling fiction suggests that English has indeed gained ground against other languages, and today accounts for around half of the most successful authors in the charts, up from one third a decade ago. However, more data and analysis is needed to verify if this is a real trend. While half of the top international bestsellers are written in English, that is still well below the roughly two-thirds overall share of all translations enjoyed by today's "lingua franca".

Much more exciting is the odd way in which a few truly minority languages

have in recent years given rise to a glut of internationally bestselling books. 'Nordic crime' has become a global brand for the darkest of thrillers, spreading tales around the world about atrocious serial killers and unsettled, beaten communities on the fringes of middle-class societies. These books are set in locations all over Scandinavia, in some of the most modern, affluent and arguably most equitable countries in the world today, written in languages such as Swedish, Norwegian, Icelandic and Danish, each of which counts only a few million native speakers. This pattern developed over at least two decades – with Germany as one of the bridgeheads, although Germany initially missed out on the particular author who made the craziness a global epidemic: Stieg Larsson with his *Millennium* trilogy. Of course, there have been waves and trends before in literary history, but never on a similar scale.

For international publishers as well as authors, these observations carry a tough message about the changes at the core of the industry. Authorial brands rule! And this pre-eminence can build up to a level at which even the original language of the writing has little significance for the success of a powerful creator, provided he or she can rely on the organizing muscle of a good agent. And 'genre', as a shortcut to recognition by a community of consumers, readers or fans, has become a factor that can override the marketing power of even the biggest publishing corporations.



Market overviews and snapshots

According to our estimates, the global book publishing industry has combined revenues of EUR 114 billion, derived from general interest books, educational and learning materials and scientific and professional publications. In line with McKinsey's Global Media Report quoted above, we assume that this value has been constant for several years, as the few major growth markets, like China, and the slowly contracting markets (most of the English-language markets and Continental Europe) roughly balance each other out. Such figures can only be rough estimates, due to the lack of standard international definitions of what counts as book publishing, and due to the incomplete reporting by professional organizations and market players.

The book publishing business, like other content and media markets, is anything but a level playing field. In fact, the six largest markets account for about two-third of all value generated globally by the industry. Even among those leading countries, continuous growth has become exceptional, especially since the dramatic slump of 2008.

However, defining the book industry in terms of its generated revenue is just one way of assessing what publishers do. Looking at the title output provides an entirely different perspective.

Again, a small number of countries stand out. In around ten countries worldwide, more than 1,000 new titles (and reissues of particularly successful older books) are released each year.

The field is clearly led by the United Kingdom. This not only highlights the consequences of English being today's lingua franca, it also reflects Britain's position as probably the world's largest exporter of 'creative' goods in general. In the famous words of Tony Blair from the mid 1990s, when he stood for election as prime minister, "British pop is bigger than British steel." The fact that London remains the global city of reference for many of the Commonwealth continues to sustain this position.

The title output of publishers based in Spain is influenced by a similar heritage,

Evolution of the six largest book markets worldwide

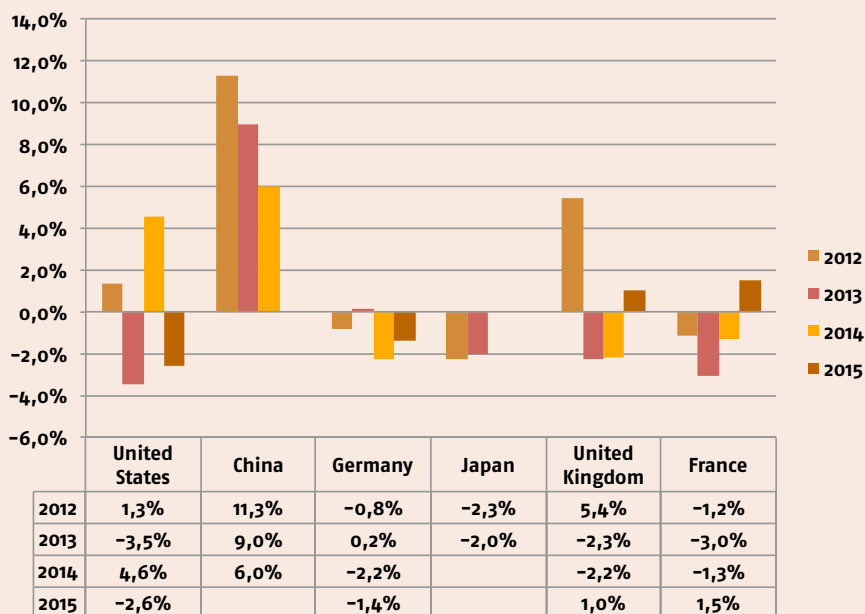


Fig. 6: Market evolution in reported value at domestic currencies, in the six largest publishing markets, 2012 to 2015. Various sources, compilation by RWCC.

Book markets ranked by new title production (new & reissued titles per million inhabitants)



Fig. 7: Top countries ranked by title production (release of new titles and re-editions) by 1 million inhabitants. Most recent data available. Various sources. Compilation by RWCC.

since exports to Latin America and, to a lesser extent, to the Spanish-speaking readers in the USA, make up as much as half of some house's overall revenues. France and Germany are among the top performers in terms of book releases, primarily due to the strength of their respective domestic markets, although France gains some benefit from the "Francophonie" – the mix of cultural and economic ties that continues to link many African countries to Paris.

The intriguing detail in the title produc-

tion statistics, however, is the fact that smaller countries in Scandinavia and Central Europe are among the biggest markets, relative to their population, with Denmark, Slovenia, the Czech Republic, Norway, Sweden and Hungary all highly ranked. A mix of national pride and cultural tradition, both of which prompt government support for small-scale publishers, libraries and reading, as well as a broad consensus about the role of books in culture and as a business, contribute a great deal to national identity in these regions.

The United States of America

“Flat is the new up.” That was already the key statement in Len Vlaho’s summary of developments in the US market, in the fall of 2014. Overall, US publishers saw a four percent increase in trade sales in 2014, which was followed by a slump of 2.6 percent in 2015 (according to preliminary reports by AAP). However, the real news is in the detail.

Only two of the major categories reported a positive development, with adult books in particular growing by 2.2 percent to USD 4.9 billion. Meanwhile, higher education and course materials fell by 7.2 percent and 4.1 percent respectively. Children’s and young adult literature dropped by 3.2 percent. E-book sales declined by 9.5 percent overall, and by a spectacular 43.3 percent in children’s and young adults. (AAP StatShots, Full Year 2015, April 2016)

At the same time – and well into 2016 – independent bookstore sales sustained the amazing growth they have recorded since 2014. As the head of the American Booksellers Association, Oren Teacher, told his members at their annual gathering in March, “sales for the first two months of 2016 appear to be tracking the same rate of growth of 2015 over 2014.”

(*Publishers Weekly*, 7 March 2016)

Things are clearly more complex in digital publishing. As the first break down numbers for 2015 started to arrive last winter, there was surprise at how differently the segments of the industry had developed, notably with regard to the type of publisher. As early as February 2016, the self-

publishing surveys from Author Earnings (www.authorearnings.com) provided a convincing argument for the fact that continuously falling e-book sales from the “big five” (the five largest English-language publishing groups: Penguin Random House, Hachette, HarperCollins, Simon and Schuster and Macmillan) were accompanied by a steady rise in sales of self-published (or “independently” published) books.

Later in the year, this trend was confirmed by data from Nielsen BookScan in its BookScan/PubTrack Digital. E-book sales by volume declined from their high

of 242 million units in 2013 to 204 million in 2015.

The digital market share of the big five fell from 46 percent in 2012 to just 34 percent in 2015. Thus it was almost matched by the ever rising figure for unit sales by small and independent publishers, which achieved a 30 percent share in 2015 (from only 14 percent in 2012). In Nielsen’s figures, self-published e-books account for 12 percent of all purchases. This is much lower than the equivalent figure from Author Earnings, but both observers are in agreement regarding the underlying trend of the big five losing ground at a remarkable pace.

**Market share of e-book gross \$ sales by publisher type
23 month trend: February 2014 – January 2016**

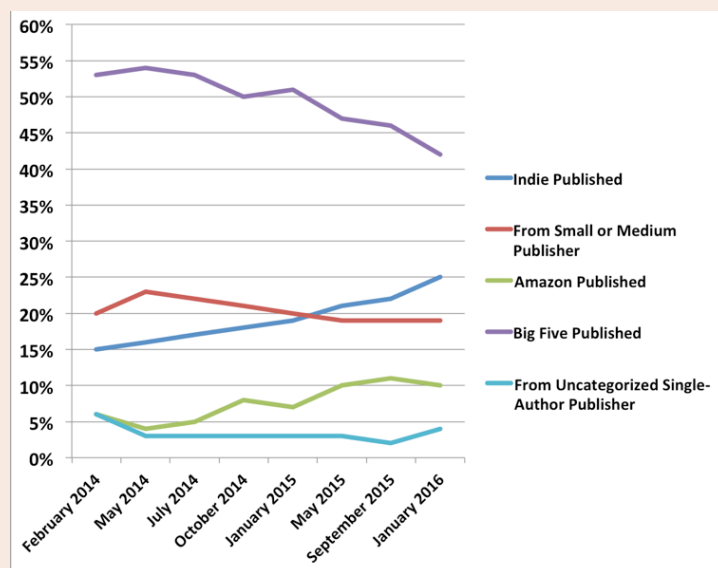


Fig. 8: Author Earnings Report, February 2016: Development of market share in revenues, by publisher type. Courtesy AuthorEarnings/“DataGuy”.

United Kingdom

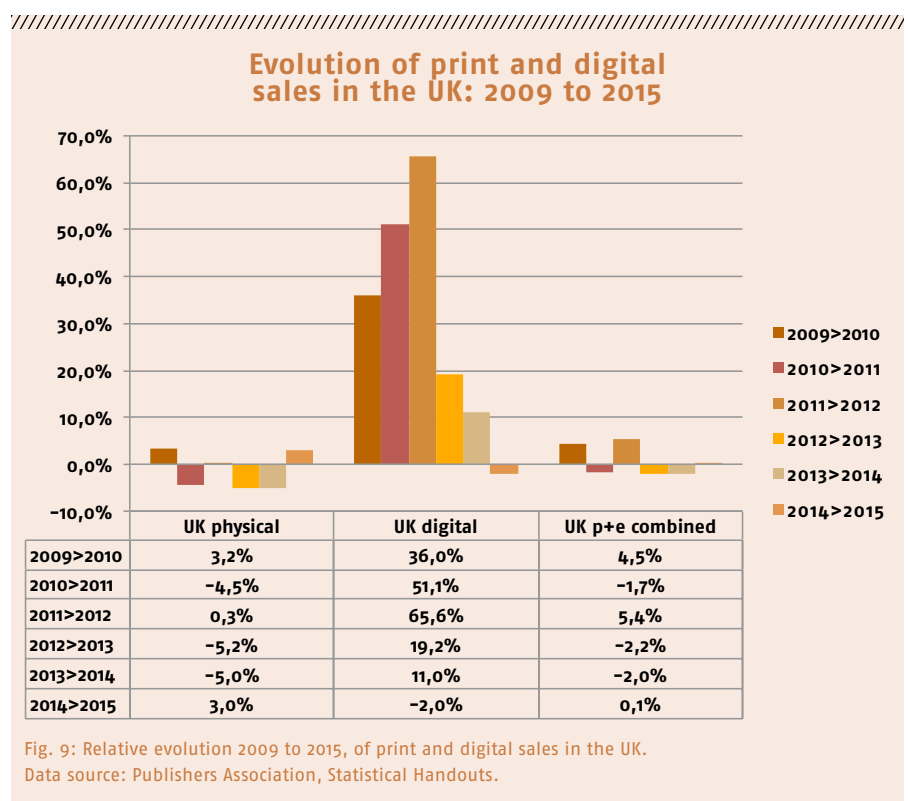
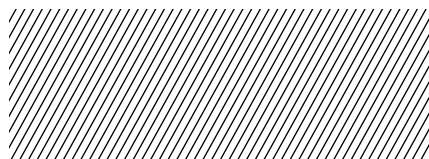
In the UK too, the surprises derive less from the big picture than from the fine detail. Overall, print regained some ground, while digital publishing appears to have lost out. But in 2015 the combined revenue for both formats rose slightly on the previous year, something which had only happened before in 2012.

However, a closer look brings several surprises. As Philip Jones, the editor of *The Bookseller*, has put it: "The book market is performing in almost exactly the wrong way." Contrary to the expectations of most observers, the largest publishers did not gain in market share and the biggest books did not add more sales muscle. The best financial results were not achieved by the publishers with the biggest bestsellers, but rather by those who sailed a steady middle course.

(*The Bookseller*, blog, 16 January 2016)
Revenues from e-books at the largest publishers declined in 2015 for the first time, falling by 2.4 percent on average. The strongest declines were at HarperCollins (down 4.7 percent) and Pan Macmillan (down 7.7 percent). Nevertheless, 41 percent of UK publishers reported that digital sales accounted for more than 20 percent of their total revenue. (*The Bookseller's Future-book Census 2015*)

Digital sales account for 17 percent of UK publishers' overall sales, with a value of up to GBP 554 million in 2015 (compared to 563 million in 2014, and 506 million in 2013). Of this, GBP 335 million came from domestic sales (360 million in 2014; 319 million in 2013). (The Publishers Association, Statistical Handout 2015)

According to Nielsen BookScan, 22 percent of all e-book titles are self-published, up from just 16 percent of all units sold in 2014. Nielsen added another disturbing detail for traditional publishers: "All of the e-book growth in 2015 can be attributed to a rise in purchasing of Amazon/self-published titles, with purchases of e-books from mainstream publishers down slightly on 2014." (*The Bookseller*, 23 March 2016)



Germany

The German book market has traditionally been portrayed, at least by its professional representatives, as a model of diversity, with a mix of small, medium-sized and large publishers, and a tightly woven network of independent bookstores.

This message was revived once again when the financial results for the whole of 2015 were reported, showing a decline of 1.7 percent overall. Yet in a long term view it was noted that, with a total value of EUR 9.2 billion at consumer prices, the German market had fallen to the level of 2005.

Several other key parameters suggest a challenging overall outlook, at least for the traditional actors in the German book industry. The share of sales through high street retailers – mostly book chains and independent bookshops – has fallen well below half, to 48.2 percent. Meanwhile, online bookselling has risen steadily to 17.4 percent in 2015 (as compared to 16.2 percent in the year before).

Amazon is clearly the largest retail channel for books, either physical or digital, and it is still growing. Unlike most other markets with a strong local Amazon presence, Germany has also seen the rise of a strong domestic competitor in the shape of Tolino (www.tolino.de). This is a consortium backed by Deutsche Telekom, which takes care of e-book logistics and of part of the marketing for a significant number of book chains and other retailers. It claims to match Amazon's digital market share.

In a market characterized by the strict regulation of prices, which was recently extended to include digital books, publishers have established a consensus to keep retail prices for e-books high and close to print levels. They discourage discounting and marketing over price in the conviction that a reliable readership will translate its belief in the cultural importance of books into a willingness to spend EUR 15 to 20 on the e-book edition of a newly released frontlist novel. However, over the past two years or so the situation has become more complex. While e-book revenues account for the low share of roughly five percent of the overall trade, numerous individual publishers of fiction, both corporate and independent, derive around 15 percent of their revenues from digital products.

Retail book sales (% change on previous year), Germany

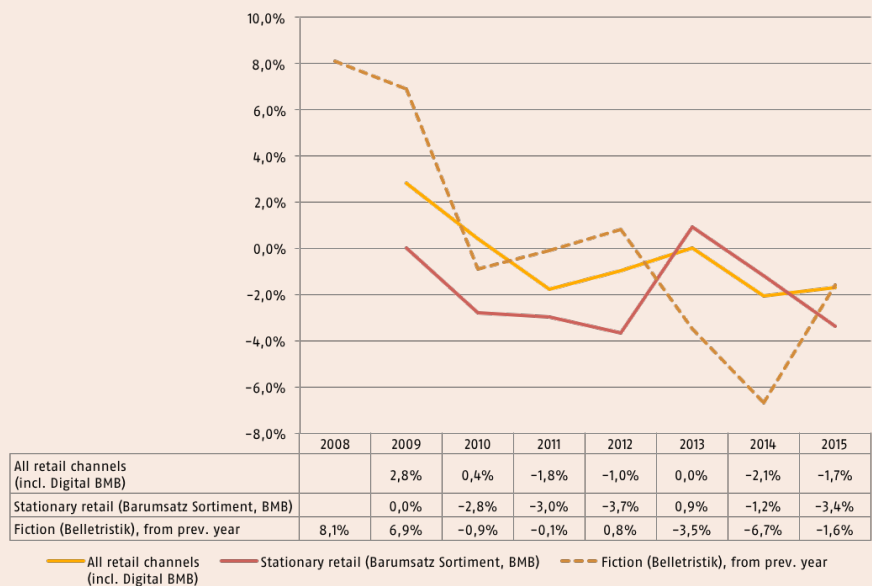


Fig. 10: Development of the German book market for selected key categories, 2008 to 2015.
Data source: Börsenverein.

Total unit sales 2015 (by retail price)

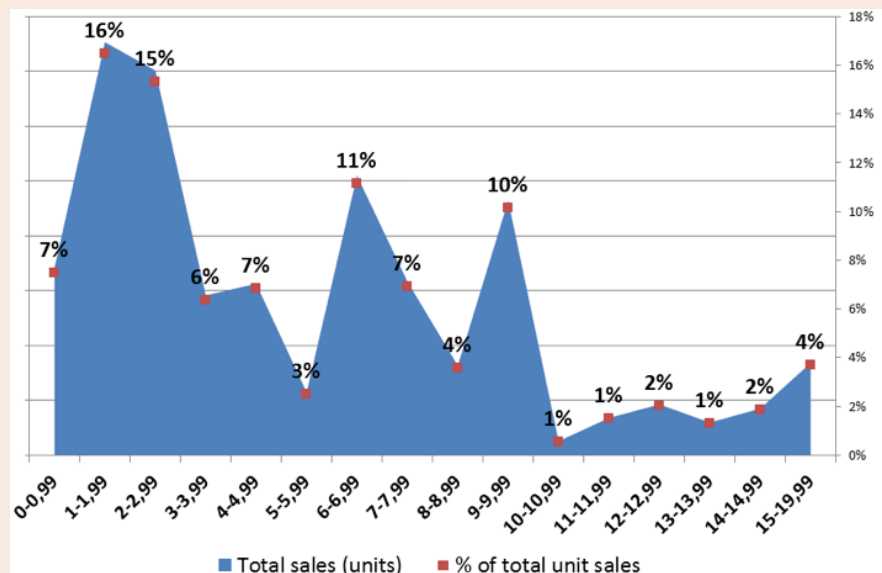


Fig. 11: The German e-book market in 2015, by price segments in unit sales.
Data from e-book distributor Bookwire (www.bookwire.de), based on a catalogue of 70,000 e-book titles priced between EUR 0.99 and 19.99.
Originally compiled for the Global eBook Report 2016 (www.global-ebook.com)

At the same time, self-publishing has become well-liked among readers of the popular genres of romance, fantasy, crime and other bestselling fiction titles. Several German authors, like Hanni Münzer (*Honigtot*) and Oliver Pötsch (*The Henchman's Daughter*), have become hugely successful with their self-published books, both at home and abroad. As well as Amazon, Tolino, too, has recently improved its direct services to authors.

Altogether, self-published books may realistically account for around 15 percent of all e-book sales in Germany, according to Matthias Matting, initiator of the "Self-publisher's Bible" (www.selfpublisherbibel.de).

In 2015, the German digital book market was clearly split between two different strategic approaches. One was the pursuit of high prices, which certainly generates income, yet brings little prospect of growth. The other approach is driven by scale and an expanding market share at much lower prices.

In a survey, based on data from Bookwire, half of all e-books sold in 2015 were sold at a unit price lower than EUR 5. On the other hand, in the price range preferred by traditional publishers (EUR 10 to 20) sales added up to just 11 percent by volume, although that still amounted to a significant share of the total revenue generated from e-books.

France

For a country that likes very much to be seen as "different", the French book industry has been on a remarkably normal path lately.

After the economic crisis of 2008, publishers' sales declined for several years, but have regained stability since 2015. While complete statistics are not available at the time of writing this study, a recent poll showed a year-on-year rise in book sales of four percent in April 2016. (*Livres Hebdo*, 26 May 2016)

As in the UK and the US, independent booksellers had strong reasons to celebrate 2015 as a year in which they returned to health.

With 2.7 percent growth, they did better than the total market.

France has recently experienced developments in sectors where, in the past, most experts saw deviations from the international trends. According to official statistics, e-books have only the very modest market share of four percent of all trade sales, and traditional publishers are pushing strongly to keep the prices of digital editions of their frontlist titles high, using

print as their benchmark. However, according to several other indicators for reading habits and points of purchase of books as well as sales, more and more consumers are using online retail platforms, with Amazon arguably being the leading channel for book buyers in France. More people now also read various content online (e.g. 45 percent read newspapers on the web).

As in other European markets, leading publishers like Editis are experiencing the continued expansion of digital sales.

While that growth is slower than a few years ago, it still amounts to around 20 percent year-on-year, and in some genres, such as romance, digital sales account for up to 15 or even 20 percent (Marie-Pierre Sangouard, Editis' director of digital strategy and marketing, in an interview for the *Global eBook Report 2016*).

Self-publishing has also picked up in France, having a "massive presence" at the Livre Paris fair in spring 2016. (*ActuaLitté*, 20 March 2016)



Spain

Spain is the textbook case of a book market that reflects a wider economic crisis.

Revenues in the publishing industry shrank by almost one third in the space of six years. Digital sales picked up more rapidly than anywhere else in Continental Europe, as e-books were more affordable for a readership trapped in a rampant consumer crisis and rising unemployment. But the digital surge hit a ceiling much earlier than expected. On the side of the industry, this was seen as being due to a shift from legal downloads to piracy. Piracy platforms out-competed the legal market, not only on price, but also in their convenience and user-friendliness.

Many of the leading publishers only managed to stay afloat with steady exports into Latin America, which, for some of the larger Spanish houses, accounted for up to half of their sales.

Surprisingly, the production of new titles did not decline at first, and the average retail price of (printed) books continued to rise. E-book prices have come down slightly over the past years, while discounts for digital editions of frontlist titles now often amount to around 50 percent of the print price. This compares to around 20 percent in France and Germany.

Professional observers feel the bottom was reached in 2015, and they now expect the situation to stabilize. The pressure from piracy also seems to have eased, as the legal supply has improved and consumer confidence has increased.

The Netherlands

A turnaround is also in sight for the consumer book sector in the Netherlands. After a steady slide over the previous five years, 2015 brought a much more healthy outlook and greater confidence.

In the Netherlands, publishing for a general readership faces bigger problems than does the professional and scientific publishing sector. In the latter, the globally leading houses include several corporations with strong Dutch links, such as Reed Elsevier (now re-branded as RELX) and Wolters Kluwer.

Not only are the professional and scientific publishers generally more profitable, but they also drive digital innovation, with digi-

tal subscriptions accounting for 80 percent or more of their revenues. However, for well over a decade this has also caused an at times acrimonious debate regarding alternative models for scientific publications, especially with respect to the open access, and to the fees charged by leading publishers for digital library subscriptions. After complex negotiations that dragged on for years, late 2015 finally saw what could prove to be a landmark deal between Elsevier, the science division of RELX, and several Dutch universities, under which some research papers by Dutch scientists are to be made freely accessible.

In many countries and in international organizations, the controversy surrounds the freedom of access to the findings of research funded with taxpayers' money, with publishers and universities, the general public and political opinion leaders all taking opposing positions. In recent years the decline has been blamed on the overall economic situation, just as much as on factors specific to the book business. This was most visible to consumers when, between 2012 and 2014, the country's largest book retail chain, Selexyz, and its successor company, Polare,

failed within two years of each other.

Improvements in 2015, helped significantly by a good performance in the holiday season at the end of the year (up 15 percent on 2014), have put the book trade on a better course once again.

Digital reading has become established among Dutch consumers, with almost one in 10 now owning an electronic reading device. According to data from Centraal Boekhuis (CB), the leading wholesale distributor for both print and digital books in Dutch, e-books now account for 5.9 percent of all consumer book sales, and 27.6 percent of all books purchased online. The year-on-year growth rate slowed down in 2015, although it is still going up steadily. At the same time, the average retail price of a consumer e-book has continued to fall. More remarkable is the recent development of e-book lending, which only began in 2014. Already in the first quarter of 2016, this out-performed sales of e-books by volume. This is particularly significant, as e-lending is otherwise only seen as relevant in Scandinavia. (CB e-book barometer, 1Q2016, <http://www.boekenid.nl/e-book-barometer-cb/>)

Spanish book production and sales 2005 to 2014

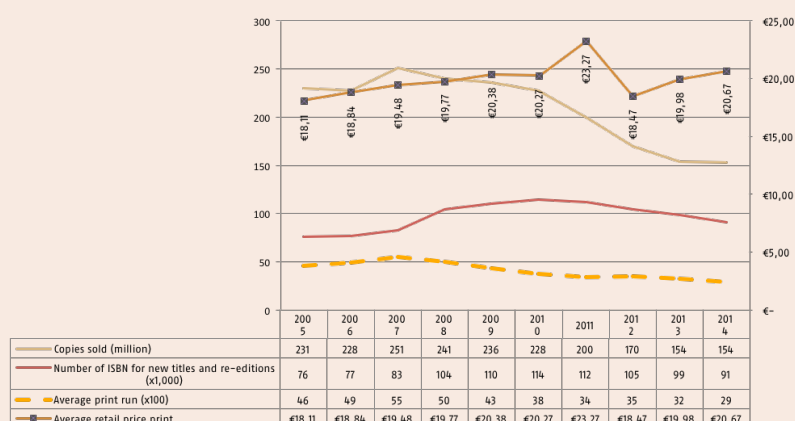


Fig. 13: Key indicators for the Spanish book market, 2005 to 2014. (Source: FGEE)

The Netherlands key parameters (2009 to 2015, NUV)

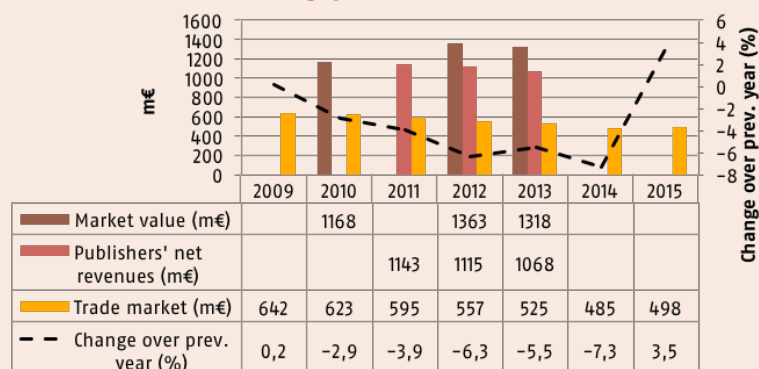


Fig. 14: Key parameters for the Dutch book industry, 2009 to 2014. (Source: kvb and NUV)

Emerging economies (BRIC – Brazil, Russia, India and China)

For many years, emerging economies were also seen as the most promising markets for generating growth in publishing. Both the leading international publishing groups and global players such as Amazon, Apple and Kobo invested in local offices and acquired local companies, or in the case of China and Russia, formed joint ventures. In 2015, the enthusiasm had very much cooled off. As the economies slowed down, it became more difficult to translate even the prospect of a new and growing middle class, hungry for education and entertainment, into an attractive business plan. By 2016, the hopes of a bonanza seem to be over, and the outlook for most of the shiny emerging economies of the past decade must be assessed much more closely.

Brazil

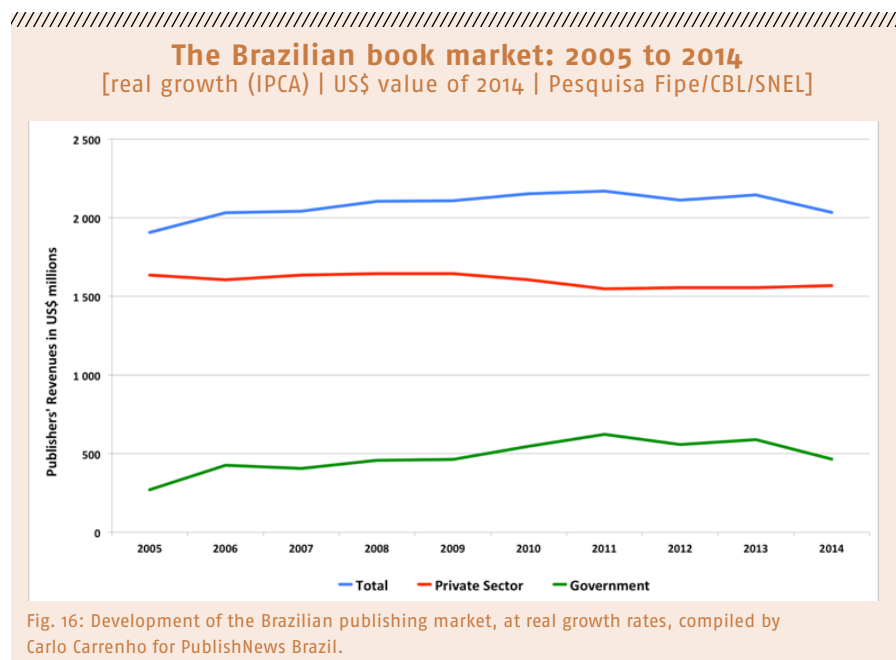
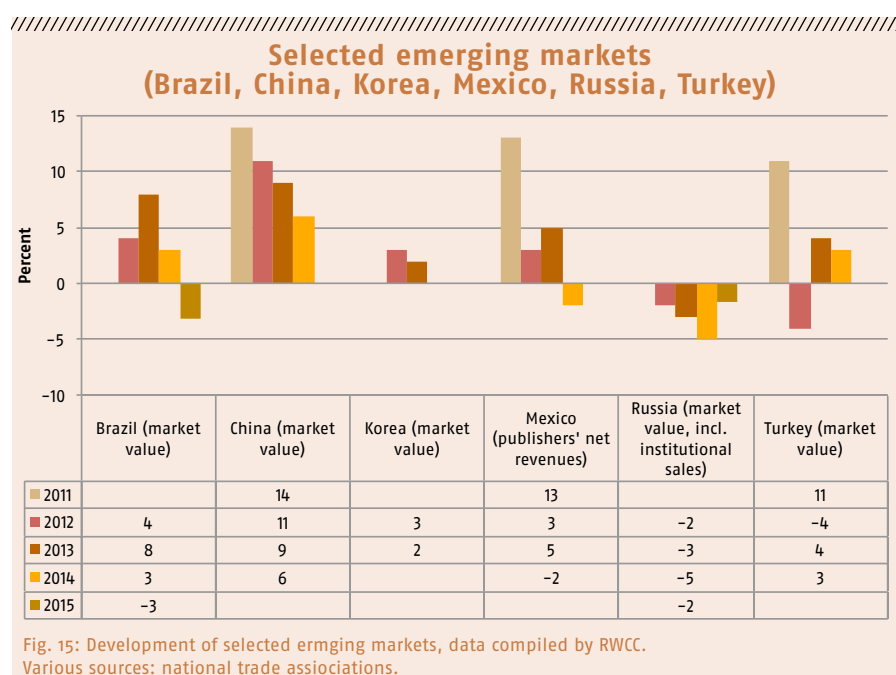
The publishing sector has not escaped the deep economic crisis that has built up in Brazil over the past several years, a period during which the Brazilian currency has lost about one quarter of its value against the euro, and inflation climbed above 10 percent.

In 2015 alone, there was a significant decline in terms of all key parameters. Over 10 percent fewer copies were sold from an ever-shrinking catalogue of new releases (down by 13.81 percent). With mounting inflation taking its toll, average prices at constant value have fallen continuously for a decade, from around BRL 15 in 2004 to just under BRL 9 in 2015. (All data from “PRODUÇÃO E VENDAS DO SETOR EDITORIAL BRASILEIRO”, by CBL/SNEL/fipe, 2016). All this adds up to an increasingly alarming overall situation for a book industry in which government spending, notably on educational books, has traditionally accounted for roughly a quarter of all publishers' revenues. The public sector budgets were indeed responsible for much of the growth of the past decade. Recent cuts, especially those since 2014, have hit the publishing industry with great force. The publishing arm of

Saraiva, the largest book retail chain of Brazil, was acquired and assimilated by its competitor Abril Educação, the country's leading educational publisher. With its earlier promise of market growth in a generally expanding economy, Brazil became a target both for the leading international publishers (e.g. HarperCollins and Hachette), and for global Internet platforms with a particular interest in digital books. In 2012, in the space of a few months, Amazon, Apple, Google and Kobo all launched operations in the country. Despite the strong initial presence of domestic actors, led by Saraiva, Amazon was able to leave all its competitors behind within just three years, with an

estimated 60 percent share of the e-book market by the end of 2015.

However, the battle for the digital future of the Brazilian book business will not be decided in the private sector, but rather through public policy and budget decisions on the part of the government. As in the past, the national programme on educational books (PNLD), operated by the Ministry of Education, which acquires all the textbooks for Brazilian schools, will have the biggest impact on future developments. (For a detailed summary of the government's digital strategies with regard to education, see the Global eBook Report 2016, www.global-ebook.com)



China and India

Among the emerging economies, China and – in a more complex situation – India, have continued to grow over the past few years.

The Indian book market in 2015 was estimated by Nielsen to be worth some USD 3.9 billion, and it is growing by around 20 percent a year. This figure includes book imports, which are particularly important in a market where 55 percent of all trade sales (and about 90 percent of all professional titles sold) are English-language titles. The lion's share of these revenues goes to publishing houses headquartered overseas, much of it still managed from offices in London. Books in Hindi account for another 35 percent, according to Nielsen, with the remaining 10 percent split between all the other Indian languages. (For a summary, see *Publishing Perspectives*, 21 October 2015).

The most exciting challenge for book publishers active in the Indian market may come from its digital development – this refers not necessarily just to digital books, but much more broadly to e-commerce and purchases made with mobile phones. Or, as *The Economist* has put it, “In the next 15 years India will see more people come online than any other country” (*The Economist*, 5 March 2016). With this prospect, Amazon has started to invest heavily in its Indian operations. It faces several local competitors, which the government had protected for a long time, before opening the market up to global players. Of these, the strongest is Flipkart, with a 45 percent share of the online retail trade.

The question is whether or not the emerging opportunities can be used for selling books. This remains uncertain, as is best illustrated by the decision of Flipkart to drop bookselling altogether and hand its e-book business to Kobo Rakuten.

(*The Digital Reader*, 11 Dec 2015)

China, where the government strictly controls any media-related activities – and books are considered much too important to be excluded from that control – is a different case altogether. In recent years, the government has encouraged Chinese publishers to “go out” and extend their operations into the global arena. In pursuit of this ambition, about a dozen of the leading publishing groups were chosen for the consolidation of their teams and their best

brands. They have been prepared for listing, mostly on Chinese stock exchanges, and to secure international partners.

Meanwhile, new and more efficient pathways have been established for bringing books into China, and to an even greater extent, professional and scientific publications.

Barely noticed outside the relatively small professional community of interested international actors, Chinese operators have established a number of digital exchange platforms and clearing houses. Among these is the CNP e-Reading portal, run by CNPIEC, China's national import and export corporation.

Joint ventures and other forms of cooperation have also been set up between Chinese players and leading international service providers, such as Ingram's Lightning Source for print on demand, or with Overdrive to serve Chinese libraries with digitized content.

Today, according to China OpenBook, the country's leading market research firm for the publishing industry, one fifth of the books sold on the Chinese market are either translated or imported titles, with US and UK authors accounting for 57 percent of them.

(*Publishers' Weekly*, 12 May 2016).

Generally speaking, for a number of years now China has enjoyed probably the steadiest and most consistent growth of any among the world's biggest book markets. When it comes to digital products, sales of e-books in the Western sense are still limited, with a market share in the low

single digits. But this reflects only one part of the digital reading market, which has been enjoying an outstanding and lively development for over a decade.

The main driver of this sector, however, are not books released first by traditional publishers, but online platforms on which authors often post serialized works that are read by millions of subscribers, primarily on their smartphones.

Now all the leading Internet giants have become involved in this genuinely Chinese path for bringing all kinds of literature onto screen. After a deep restructuring of these organizations in recent years, the reading platforms have become highly integrated ecosystems for creating and monetizing intellectual property.

The platforms closely monitor which of their authors are particularly popular with readers. These can then be further developed and the most successful items of content turned into games, TV series – or even printed books. These operations have only just begun to include e-books, but already there are high expectations for growth, both among Chinese stakeholders like China Reading Limited (resulting from a merger of the pioneering platforms of Shanda Literature and Tencent Literature), and on the part of Amazon, which has now also entered the Chinese digital market at full steam.

(For a detailed account of digital reading developments and main actors, see the Global eBook Report 2016, www.global-ebook.com.)

The Chinese book market: Development of key parameters 2009 to 2014

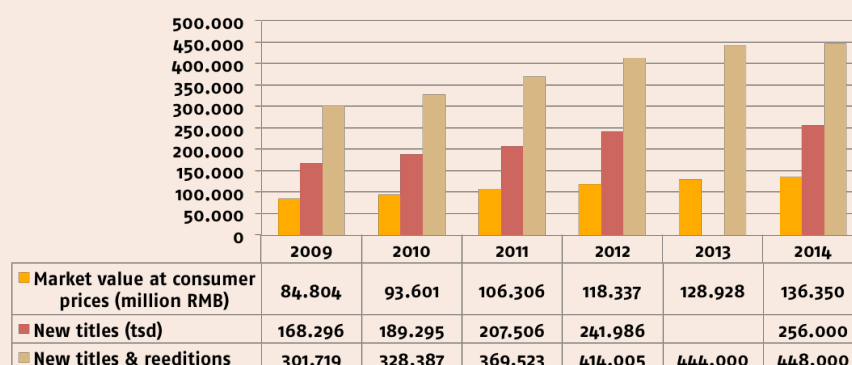


Fig. 17: Development of key parameters in the Chinese book market, 2009 to 2014.

Source: Chinese government, especially SAPFRT, formerly GAPP, compiled by RWCC.

Outlook: Welcoming the next wave of change

When the digital transformation started having a serious impact on general consumer publishing between 2010 and 2012, most observers focused on how quickly the market share of e-books would grow, compared to dwindling print sales. When a growing number of English-language readers traded their wooden bookshelf for Amazon Kindles, many expected this pattern would apply henceforth – at least in most of the Western book markets.

This view proved to be a too simplistic and short-sighted one, as it underestimated cultural differences, disregarded economic complexities and overlooked how different book markets – and consumer markets in general – work, even in the most affluent societies of Europe and North America. Countries like Brazil, Russia, India and China each present entirely different scenarios again.

Now in mid-2016, we have begun to understand that the first phase of the transformation in international publishing was only the beginning – although it did alter the readership and reshape the underlying drivers of reading culture and the business of books. What we see today is probably “the end of the beginning”, in the words of Michael Tamblyn, CEO of Kobo Rakuten.

In the second phase, which is just kicking in, we can see some new horizons emerging. The business of books is no longer a

closed field, walled off by the actors who originally developed publishing into what it is today – one of the largest cultural industries, but one that is governed from a few Western cities. New entrants are redrawing the map, and the readership is now global. As such, that readership is also much more diverse – and much more fickle – than it used to be.

Moreover, the idea of the book business as a funny village, with squabbling residents but highly integrated and with a single shared identity, has also vanished.

Books and their readerships are becoming fragmented into segments that have little common ground.

Finally – and crucially for the publishers – authors and their works are also becoming segmented more and more often.

Books are replaced by series, and authors become brands. They produce ever newer manifestations of their work that are not only read, but accessed across media and across territories, from games and movies to experiences and projection screens of their fans’ ideas and identities – not unlike pop stars, well known for other emanations of pop culture which have formed for a good century now. If publishers – or in another phrase, “book people” – want to maintain their role, they have to move forward. Their transformation has only started.



Rüdiger Wischenbart (@wischenbart on Twitter) is the founder of Content and Consulting, based in Vienna, Austria, a service specialized in the analysis of global book

markets and their digital transformation, and in running international professional debates, including the Global Market Forum at BookExpo America, and the Publishers’ Forum in Berlin. Several of his market reports have become standard references for the industry, notably the Global eBook Report (www.global-ebook.com), the Global Ranking of the Publishing Industry (www.wischenbart.com/publishing) and a series of Diversity Reports on translation flows in Europe (the forthcoming 2016 edition will be available in July at www.culturaltransfers.org).

Imprint

The white paper “The Business of Books 2016” is presented by the Frankfurt Book Fair Business Club.

© Frankfurt Book Fair /
Frankfurter Buchmesse GmbH
Braubachstraße 16
60311 Frankfurt am Main / Germany
www.book-fair.com

www.book-fair.com/businessclub
E-mail: businessclub@book-fair.com

Copy editor: Alastair Penny
Design: textgrafik.com
Adaptation: www.weirauch-mediadesign.de

All rights reserved. No part of this publication may be reproduced, stored in any retrieval system, or transmitted, in any form or by any means, electronic, mechanical, photocopying, recording, or otherwise, without the prior written permission of Frankfurt Book Fair.

June 2016

