



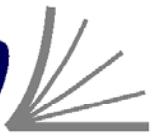
11 Topmost Digital Book Publishing Trends & Opportunities

Insights By Thad McIlroy, The Future of Publishing

December 2014

CONSIDER THESE
PRINCIPAL DEVELOPMENTS
IN **PLANNING** FOR THE **FUTURE**

Brought to You By:

dbw 
digital book world®

111

Topmost Digital Book Publishing Trends & Opportunities

TABLE OF CONTENTS

3

Introduction

4

Topic 1: It's Early Days Yet: The Future Is Ripe for Innovators, Change Agents and Book Business Entrepreneurs

6

Topic 2: Ebooks Will Continue to Open up New, Greater Audiences for Publishers

7

Topic 3: Aftermath of the Amazon and Hachette Dispute Offers Publishers a Moment to Reflect, Reevaluate

8

Topic 4: Publishers That Embrace and Maximize IT, Data and Analytics Will Be Best Suited for Growth

9

Topic 5: Digital Publishers Need to Learn a New Set of Skills to Master Mobile - the World's Fastest Growing Media Platform

10

Topic 6: Self-Publishing Will Continue to Grow as More Options Arise from Technological Trendsetters

11

Topic 7: The Educational Publishing Market Is Experiencing Its Own Transformation and Seeing More Opportunity with "EdTech"

13

Topic 8: Those Who Navigate the Intricacies of International Markets will Succeed with Digital Book Publishing

14

Topic 9: Professionals Who Grasp Content Marketing - and Its Role in the Publishing Industry - Will Build Their Brand & Audience

15

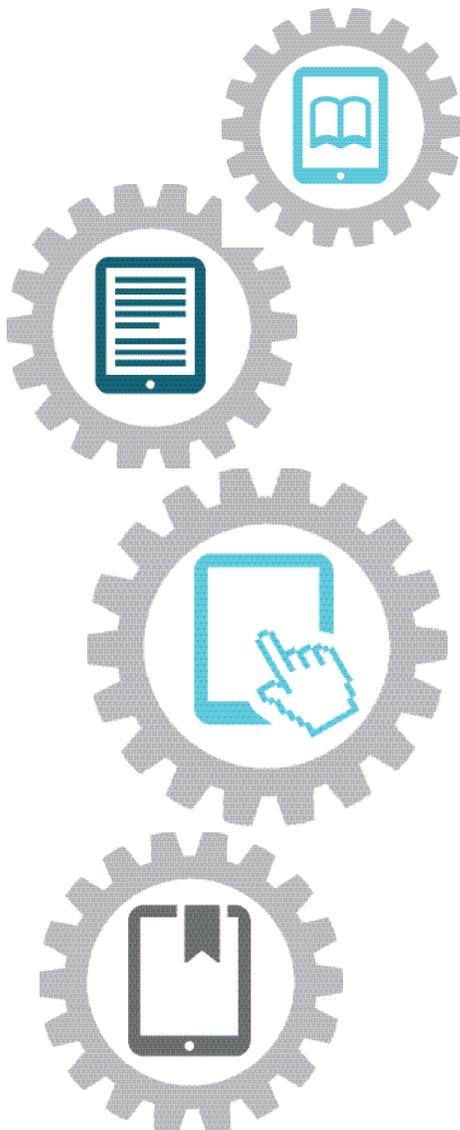
Topic 10: Savvy Publishers and Authors Will Build Dynamic Communities Around Content, Supercharging Discoverability

16

Topic 11: Leaders Who Embrace Partnership and Collaboration Within the Industry Will Realize the Most Success

17

Invitation to Attend the Digital Book World Conference + Expo; Contact Information



Brought to You By:

dbw
digital book world®

The **Three Cycles** of **Digital Transformation** in the **Publishing Industry**

Over the past three decades, the book publishing industry has evolved through three disruptive change cycles. Perhaps coincidentally, each took place about a decade apart.

Cycle No. 1

The first cycle dates to the mid-'80s with the introduction of desktop publishing, the early Macintosh computers, laser printers and Aldus PageMaker software. For publishers, this dramatically decreased the price and time required for prepress and art production. Self-publishers could economically create print books that looked more or less like the real thing. But they didn't have access to distribution and self-publishing remained a hobby, not a business.

Cycle No. 2

The Internet and the World Wide Web heralded the next big change. For book publishers, the web provided a way to present a public view of the company and its authors, and a way to offer more detail in a timely fashion to their cadre of readers. It created an unprecedented level of immediacy and engagement.

It also enabled Amazon, launched in 1995, to begin to upend how printed books were sold. Barnes & Noble and the other bricks & mortar retailers soon joined the online sales business.

Cycle No. 3

Over a decade later, in November 2007, Amazon released the first generation Kindle. The price was \$399 and it sold out in five and a half hours. Seven years later, the publishing industry is still evolving the successful launch of the ebook business into its business model.

What's Next?

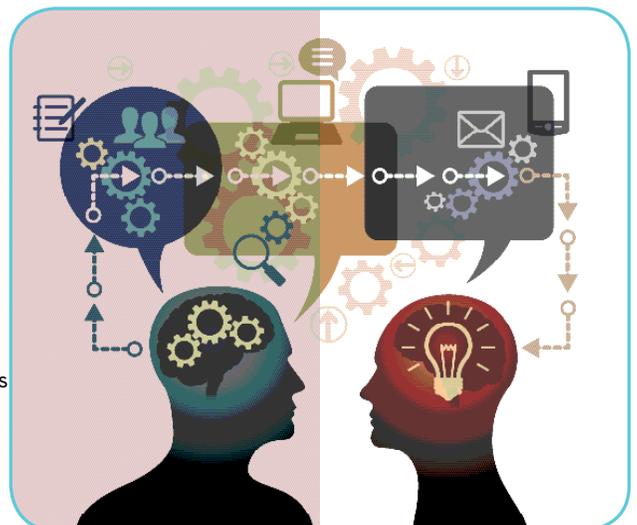
This white paper looks at a dynamic industry in flux. There are still more questions than answers. Have ebook sales slowed or stalled? Will radical changes in price impact ebook sales and

profitability? What will be the ongoing implications of the Amazon and Hachette dispute? Big data and analytics are an innovative solution, but what problems can they solve for publishers? With tablets, ereaders and smartphones everywhere, how can publishers maximize their reach through mobile? Also, content marketing is a new buzz phrase that seems to apply to publishing...but the application may not be clear.

This white paper, from Digital Book World, catalogs some of the most exciting but perplexing questions facing the book publishing industry. It sketches a quick overview of each topic and then examines the trends. Most importantly, it provides a guidepost to the opportunities facing book publishers and authors during this ongoing period of rapid change.

All of these topics will be thoroughly discussed by leading industry practitioners at the Digital Book World Conference + Expo, Jan. 13-15, 2015 in New York City.

Please visit the conference web site (conference.digitalbookworld.com) for up-to-date information on the agenda, speaker roster, exhibitors, attendees, registration information, etc.



It's Early Days Yet: The Future Is Ripe for Innovators, Change Agents and Book Business Entrepreneurs

Overview

"Pursue something so important that even if you fail, the world is better off with you having tried." –Tim O'Reilly

When you're in the midst of the revolution, it's all but impossible to understand just where you stand. Publishing is at an inflection point; the ebook revolution is taking a breather. No one knows if it will flatten further, pick up pace or fall back. Are ebooks a threat or a boon to publishing? The publishing companies that report sales and earnings are mostly holding steady; sales up a bit one year, off a bit the next. The industry is solid by most financial indicators. PricewaterhouseCoopers (PwC), for example, projected that total book revenue in North America, including consumer, educational and professional, will grow from \$37 billion in 2013 to \$39.4 billion in 2018.

Mike Shatzkin, DBW conference chair and founder of The Idea Logical Company wrote that "the book business has always looked ripe for disruption, but never any more so than now...everything is up for grabs."

In a presentation at November's Futurebook conference in London, keynote speaker George Berkowski said publishers should focus on entertainment

companies as their real competition, not on other publishers. "You've got to figure out who your competitors are," he said. "They are not the 'Big Five.' They are not the independent publishers. They are the people trying to get people's attention and doing it in a flashy way, with whizzbang and candy floating over your screen."

Russ Grandinetti, senior vice president for Kindle, Amazon, makes a similar argument. *The Guardian* reported in August that Grandinetti feels that the real competition "is not rival publications or publishers but the entire array of information and entertainment available to consumers. 'Books compete against mobile games, television, movies, Facebook, blogs, free news sites and more,' he says." These remarks echo a presentation he made at Publishers Launch Frankfurt 2013.

Publishers and Startups

In the introduction to his latest book, *The Innovators: How a Group of Inventors, Hackers, Geniuses and Geeks Created the Digital Revolution*, Walter Isaacson noted: "We talk so much about innovation these days that it has become a buzzword, drained of clear meaning." In an NPR interview, he expanded on his view of the topic. "When you look at innovation, especially in this day and age, it happens in teams," he said. "Creativity is a collaborative effort in the digital age." (Isaacson is a presenter at the 2015 Digital Book World Conference + Expo in New York.)

Clayton Christensen's book, *The Innovator's Dilemma*, introduced the idea of "disruptive innovation," a product that creates a new market, and as a result disrupts the existing order. The common business advice to "listen to the customer" becomes the seed of a company's downfall. Their customers by nature look for incremental improvement: better quality, delivered more quickly and at a better price. Companies fail to catch market shifts because they're rewarded for doing more with less, not for risking sinking the ship. One or two failed "disruptive initiatives" and the CEO is out looking for work.

Startups, on the other hand, succeed by changing the rules of the game. Their



success is forged either by introducing dramatically more productive ways to run existing businesses (think cloud storage) or by introducing new business models that change the rules of play (think Airbnb and Uber).

And so publishers (wisely) look to startups for innovative ideas.

A tally of publishing industry startups published in January 2014 lists 600 companies. Nearly all are independently owned. Collectively they raised about \$330 million. Without the eight largest startups, the total was just over \$100 million.

The only publisher that has made a significant number of acquisitions is Pearson, which invested in or purchased 15 companies from 2010-2013. Only one of those acquisitions was in trade publishing, Pearson's controversial \$116 million purchase of Author Solutions in 2011.

Trends

"Everything is changing at once. Everything is so interrelated. So many of the decisions that shape the future hinge not on technical issues but on personalities, egos, competing commercial interests and happenstance. Just when you think something is settled, along comes something new that changes the picture completely." —Jonathan Seybold, 1989

How can we be certain that it's still early days for innovation in the book publishing industry? One way is to measure the duration of the current disruption cycle and plot that against the disruption for other technologies. One thing is certain and measurable: the pace of disruption is increasing.

Consider this: Cell phone adoption grew faster than did all the computer, communications and entertainment technologies that preceded it.

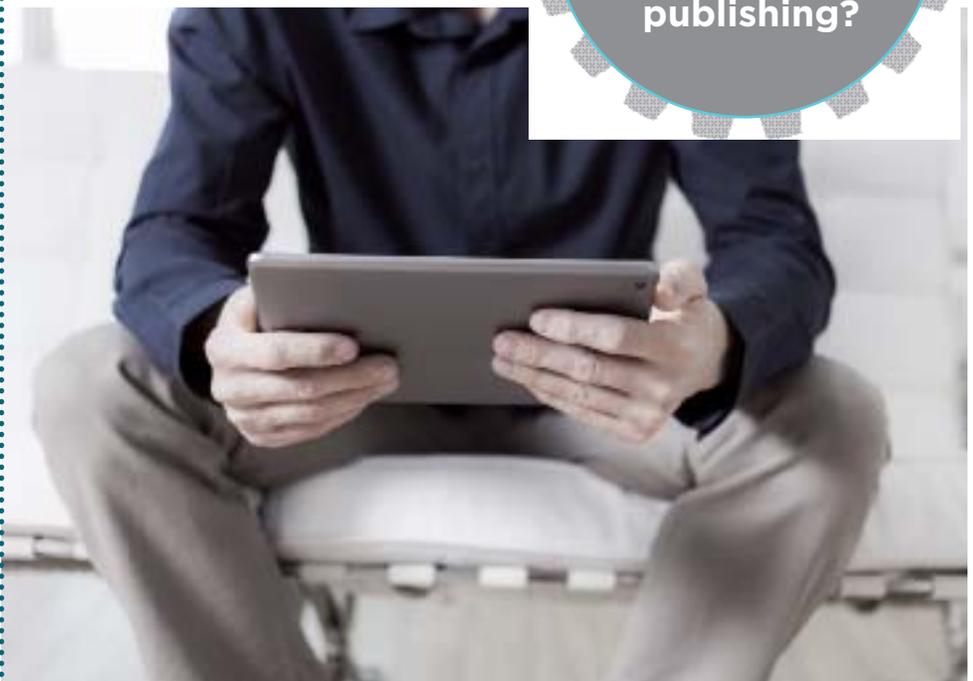
What Are Some of the Trends That Remain in Play?

- Ebook pricing is only starting to be understood, with publishers trying to find the right balance between maximizing unit sales and maximizing profitability.
- Ebook formatting is still a work in progress. The existing formats worked just fine for text-only books but are still sadly lacking both for illustrated books and for interactive books.
- Subscription models are much in vogue these days, although their business model remains unproven.
- Data mining and digital marketing are still in their infancy.
- Some publishers have made the move to single source manufacturing, warehousing and fulfillment but the benefits are not well established.

Opportunities

How does a publisher take advantage of the rich opportunities in digital publishing? Benefits accrue to the organizations that understand the nature of the changes taking place more quickly than their competition. With these insights, they should be the first to adjust their business model and offer new products.

How does a publisher take advantage of the rich opportunities in digital publishing?





Ebooks Will Continue to Open up New, Greater Audiences for Publishers

Overview

The publishing industry is caught between its still-profitable print business and a new digital business that produces better profits per unit but lower overall revenue. Many publishers view ebook sales as cannibalizing print sales. Their retail ebook pricing is, arguably, set high enough to help print remain attractive to many readers.

Jonathan Nowell, president of Nielsen Book, a presenter at the 2015 Digital Book World Conference + Expo, said, "For the foreseeable future, we will operate in a hybrid print and digital world, and we will witness further publisher consolidation in the drive for coverage and efficiency."

The launch of the Amazon Kindle marked the beginning of an enormous explosion in the sales of e-books in the United States. The year-to-year increase in sales caused many observers to posit an ongoing upward sales trajectory. Would e-books soon represent 50 percent of all book sales? Could they reach 70 percent? Then in 2013, the growth rates did not merely diminish; they all but stopped. Optimists assumed this was a blip, but the data increasingly proved that the growth in ebook sales had come to a halt. After years of double- and triple-digit growth, ebooks have settled in at around 30 percent of revenues for the publishers who report their sales through the Association of American Publishers.

Michael Cader, founder of Publishers Lunch and PublishersMarketplace.com, created the most detailed analysis (subscription site) of trade sales of ebooks. Unlike other analyses, he also looked closely at self-published ebook numbers. His conclusion: the market is flat (even down slightly), and self-publishing isn't big enough to change that.

Trends

PricewaterhouseCoopers (PwC) is an enormous (200,000 employees) "professional services networks" offering "assurance, tax and advisory services." Its global entertainment and media outlook reports are credible in their authorship and detail. The 2014-2018 edition includes a section on book publishing. In the full report, the authors report good news for print: "Declines in print revenues will slow over the next five years and, in the long term, the market will plateau, with printed books still seen as desirable to own."

They are even more sanguine on the prospects for ebooks: "Consumer books electronic revenue will rise by a CAGR (compound annual growth rate) of 13.9 percent to US\$9.2bn. By 2018, a tipping point will be reached: 52 percent of consumer book publishing revenues will be generated by sales of e-books."



Opportunities

With data so much at odds for the purpose of marketing planning, the prudent path for publishers may be to assume that ebook numbers won't change any time soon (without changes in price, at least not drastically), but to prepare for longer term future growth.

In the meantime, publishers should maximize their online audience reach. Also, the international ebook sales opportunity is still nascent, but by all indicators could be enormous.





Aftermath of the Amazon and Hachette Dispute Offers Publishers a Moment to Reflect, Reevaluate

Overview

On Nov. 13, 2014, the dispute between Amazon and Hachette was finally resolved, more with a whimper than with a bang. As Mike Shatzkin wrote, "Amazon and Hachette have settled so there will be no big bang change in the publishing business model."

Some say the specifics of the disagreement and the details of the final agreement are less important than the underlying issues revealed by the dispute. Most important is Amazon's dominance as a retailer of books, both print and digital. In print, it outsells its major bricks and mortar competitor, Barnes & Noble. In digital, it swamps the competition, Apple and Barnes & Noble (and several others in the domestic market).

The secondary issue concerns the specifics of business deals forged with online resellers, both Amazon and its competitors.

Those issues include controlling retail prices, discounts from retail pricing, co-op fees, and other special arrangements.



Trends

The dispute between Amazon and Hachette may have pointed to future trends in dealings between publishers and online resellers. Amazon was able to clearly demonstrate, though not for the first time, how powerful an industry player it has become, and its willingness to play hardball with its suppliers, and not just in publishing.

At the same time, the impasse demonstrated that, at least for the largest publishers, they still can exercise clout in their dealings even with a behemoth like Amazon.

Smaller publishers may not have the power to hold Amazon hostage in contract disputes. On the other hand, it's hardly worth Amazon's attention to negotiate separately with the thousands of smaller publishers that it represents. The benefit of non-negotiable terms is that they ease planning.

Opportunity

The aftermath of the dispute between Amazon and Hachette offers publishers a moment for reflection to reevaluate their reseller programs both for bricks & mortar and for online. The shift that's been so evident over the last decade is continuing, albeit at a somewhat slower pace. Amazon's dominance, both in the United States and abroad, will only continue to increase. Barnes & Noble's market presence continues to diminish, particularly in digital. But with a 650-store retail network, it remains vital to the book publishing ecosystem.

Online bookselling may remain largely an exercise by Amazon, and then everyone else. Apple should be a much more important player than it is. With the continued explosive growth in its sales of tablets and smart phones, and with eBooks preloaded on those devices, the eBooks store is clawing back some of its lost marketshare.





Publishers That Embrace and Maximize IT, Data and Analytics Will Be Best Suited for Growth

Overview

As Marcello Vena, founder and managing partner at All Brain, said, “When it comes down to actually undertaking meaningful data analysis, everyone talks about it, nobody really knows how to do it, everyone thinks everyone else is doing it, and therefore everyone claims they are doing it, too.”

Erik Brynjolfsson, professor of management science at MIT’s Sloan School of Management, described the three phases of becoming competitive with data. “The prerequisite, of course, is the technological infrastructure,” he said. “The harder thing is to get the set of skills” required to understand how the data can be used. The third thing, the most important, is also the subtlest: a cultural change within an organization about how to use data.

All three aspects are challenges for the book publishing business. As with other “cultural industries,” publishing has succeeded best when technology didn’t get in the way of creativity. As with other entertainment industries, publishing is a blockbuster business. Editors and marketers pay big advances based mostly on hunches borne of years successfully calling acquisitions. When the hunch pays out, it covers a host of smaller errors and propels the company to a solid year of sales. When the hunch doesn’t pay out, year-end bonuses disappear. On to the next hunch.

“Fifty years ago, editors just picked the books and the sales department had to sell them. Thirty years ago, editors picked the books, but checked in with the sales departments about what they thought about them first. Ten years from now, marketing departments (or the marketing ‘function’) will be telling editors that the audiences the house can touch need or want a book on this subject or filling that need.” –Mike Shatzkin, *The Idea Logical Company*, September, 2013

Infrastructure

The book publishing business divides mostly into three sectors - trade, educational and professional (including STM - Scientific, Technical and Medical).

Each sector is concentrated at the top - a Big Three or Four or Five control most of the action. As a result, publishing technology is unevenly dispersed, favoring the large players in each sector. IT vendors are particularly fond of STM publishers, with their well-delineated and repeatable processes.

Technology embraces trade publishing mostly in page production. Large vendors like Aptara, Integra and Manipal, to name just a few, can handle everything from simple typesetting to XML tagging to innovative interactive book apps. Vendors like RSuite and Cenvéo are aces at content management and workflow.

Yet business systems technology is sadly lacking. The IT vendors serving the publishing industry, including Klopotek and Publishing Technology, focus on large international publishers. The average book publishing company suffers from underpowered, out-of-date hodgepodes of information systems. For many publishers, IT means just sales and author royalty reporting. Title planning takes place on Excel spreadsheets.

Publishers need urgently to revitalize their IT infrastructure before they can move into a culture of data.

Trends

“This is relatively technical work but does not require one to be a ‘data scientist.’ Just unafraid of technology, curious, and able to employ the logic.” –From *Big Ideas from Big (or Small) Data*, by Pete McCarthy

Silicon Valley, whatever its virtues, is a suckhole for IT talent. It has also inflated salaries to levels far beyond what the book

publishing industry can readily pay. When a company can’t hire from outside, it has to train and promote from within. The publishing schools don’t teach IT, statistics or data analysis with any depth and so the skills need to be developed from sources outside the industry.

In his presentation, *Data-Driven Publishing*, offered at Frankfurt, 2013, Ken Brooks, the senior vice president of global supply chain management at McGraw-Hill, listed the key questions for which good data can provide answers. Some of the questions overlap into multiple departments, for example, editorial, sales and operations. But at their core, every question addresses the challenge: How can I sell the most books most profitably?

Opportunities

In May 2014, a music data site called Next Big Sound announced a new foray into book data analysis. Named, not surprisingly, Next Big Book, it promises to provide a dashboard for the publishing industry that “draws sales, publicity, events, social media, web traffic and web trends data together on a daily basis in order to provide a holistic view of a book’s trajectory in the marketplace and highlight which factors are most influential, from social signals to book tours.” Macmillan has climbed on board as the first industry partner.

The opportunities are enormous for publishers to improve their existing data-gathering technology and then to embrace new systems and processes for data analysis. This is the future of publishing. With the exception of the occasional blockbuster that changes the balance of power for a few months or (much less frequently) years, the most profitable and powerful publishers will have internalized the technology, the skills and the mindset to be fully data driven.



Digital Publishers Need to Learn a New Set of Skills to **Master Mobile**— The World's Fastest Growing Media Platform

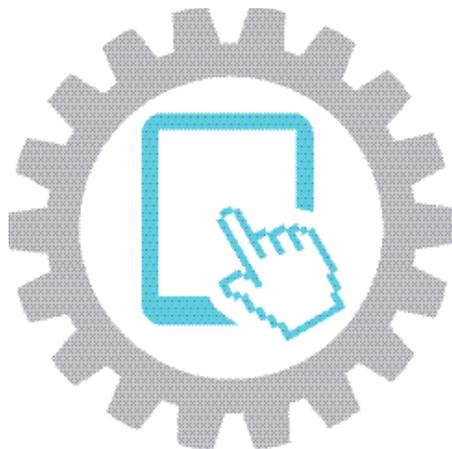
Overview

For some book publishers, mobile is a foreign country.

Most of the population is young; some are very young. An estimated 74 percent of teens 12 to 17 years old own a smartphone, bested only by the 80 percent of 18 to 24 year olds who do. Publishers own smartphones too, but if they're like most adults, they skim over the surface of how these small portable computers are used by the next generation of book buyers.

Understanding mobile is in part understanding the devices - tablets, e-readers and smartphones. With all of the energy focused on smartphones, publishers shouldn't lose sight of the broader landscape. There are roughly 50 million e-readers in use in the United States today and 160 million tablets. Publishers need to optimize their content independently for each. More importantly, they need to understand how users interact with each device to better understand how to reach those readers.

As with so many other digital market shifts, publishers need to learn a new set of skills to master mobile marketing. Mobile marketing is mostly about authors, not about publishers. It's about ebooks and not about apps. It's about reaching readers where they live, regardless of the hardware and the software they're using.



Trends

Following mobile trends is like chasing a cloud. One moment it's clearly in sight and the next it's just vapor. Consider the following:

- Facebook: A report from the UK suggests that nearly 10 percent of social media users stopped using Facebook in the past year. Ian Maude, of research firm Enders Analysis, agreed that there are fewer new users but noted that the decline in growth is inevitable "because Facebook is literally running out of humans." Facebook has signed up more than 50 percent of all Internet users on Earth.
- Twitter has problems reaching the youngest users: Facebook is 3.5 times more popular in the 8 to 15 year old segment (and YouTube is No. 1 for this group).
- One report shows that Instagram and Reddit are the fastest growing social sites.

In an industry fond of hyperbole, the most outrageous of claims about mobile often turn out to be the most conservative. There are 175 million smartphone users in the U.S. today. Asymco data indicates that by the end of 2020, nearly 100 percent of Americans older than 13 years old will be using a smartphone.

Beyond the hardware consideration is the software in use on these devices. Apple absolutely dominates the markets for both tablets and smartphones. Amazon absolutely dominates the market for e-readers. It's also the largest player in ebook reading software used on tablets and smartphones.

Opportunities

It's all but impossible to overestimate the mobile opportunity for book publishers today.

The first challenge of the opportunity is to focus on delivering the widest variety of attractively designed and attractively priced ebooks. With the proliferation of file formats, reading software and reading devices, this is still hard work. The publishing industry is transitioning from EPUB 2 to EPUB 3 and from Mobi to Amazon KF8. It's learning about revised metadata standards (ONIX 3) and new international subject codes (Thema).

Though now in a slow decline, there remains a large installed base of dedicated e-readers (estimated at roughly 50 million in the United States; perhaps double that number worldwide). Data from Nielsen Book Market Research and from the Pew Research Center show that e-readers are still the source of a third of ebook purchases.

In tablets, Apple continues to dominate the U.S. market (of about 80 million installed). It still has over half of the installed base. Roughly a third of tablet owners use them for reading and they're the source of 42 percent of ebook purchases.

Pew Research Center data shows that 12 percent of cellphone owners use them for reading. The number seems small compared to ereaders and tablets until measured against the installed base of 175 million. That's 21 million people reading books on cellphones. They account for about 7 percent of ebook purchases.



Self-Publishing Will Continue to Grow as More Options Arise from Technological Trendsetters

Overview

As of this writing, the No. 5 title on the Amazon Kindle fiction bestseller list is *His Secretary: Undone (A Billionaire Romance)* by Melanie Marchande. Published more than a month ago, it's on sale "for a limited time" for 99 cents. The book has received 178 reviews and averages a 4.4 (out of 5) rating. On her Amazon author page, Marchande describes herself as "a young writer who loves creating fun, flirty and occasionally steamy stories about two people realizing they just can't live without each other." She has nine titles available from Amazon; six have the word "billionaire" in the title (including two boxed sets).

On Marchande's blog, a reader asked about the inspiration for the author's first book, *I Married a Billionaire*. Marchande replied: "Great question! The title came to me first, and from there it was a matter of figuring out why the premise of the book would be about marriage..."

Judith Curr, the president of Atria Publishing Group has described what she looks for in a self-published author. "I always look for somebody that has a great ability for telling a story and who tells a story fast... really fast paced and there aren't a lot of characters." That description matches the very successful Melanie Marchande.

Self-publishing has come a long way from the days of vanity publishing. (In fact, Vantage Press, the poster child of vanity publishing, went out of business at the end of 2012.) Self-published authors were the object of scorn. Ebooks on Amazon made it possible for just about any author to make their book available for sale on a digital platform that reached many millions of potential readers. They were still objects of scorn. Several of those authors turned into best-selling authors and this marked the beginning of a change in attitude throughout the publishing industry about the legitimacy of self-publishing.

In some respects, self-publishing is akin to the farm system in baseball. New talent sharpens its skills in the backwoods, and as it moves into the ranks of the professionals, larger publishers reach out with fat checkbooks and sign up the cream of the crop.

Self-publishers also represent the farm system for publishing innovation. With small budgets and huge ambitions, they have become the innovators, finding ways to reach readers that are as adventuresome as they are cost-effective. The most successful self-published authors become aces as online marketers, fine-tuning their exposure through social networks, blogs and via the promotional opportunities offered byetailers like Amazon and Apple.

Trends

The self-publishing system for ebooks is only about a decade old. The structures and the systems are still in flux. According to Bowker, the number of self-published titles in 2013 "increased to more than 458,564, up 17 percent over 2012 and 437 percent over 2008." Bowker's data is based on ISBNs issued. It's widely acknowledged that self-publishers frequently avoid buying an ISBN, so the number of titles is certainly larger.

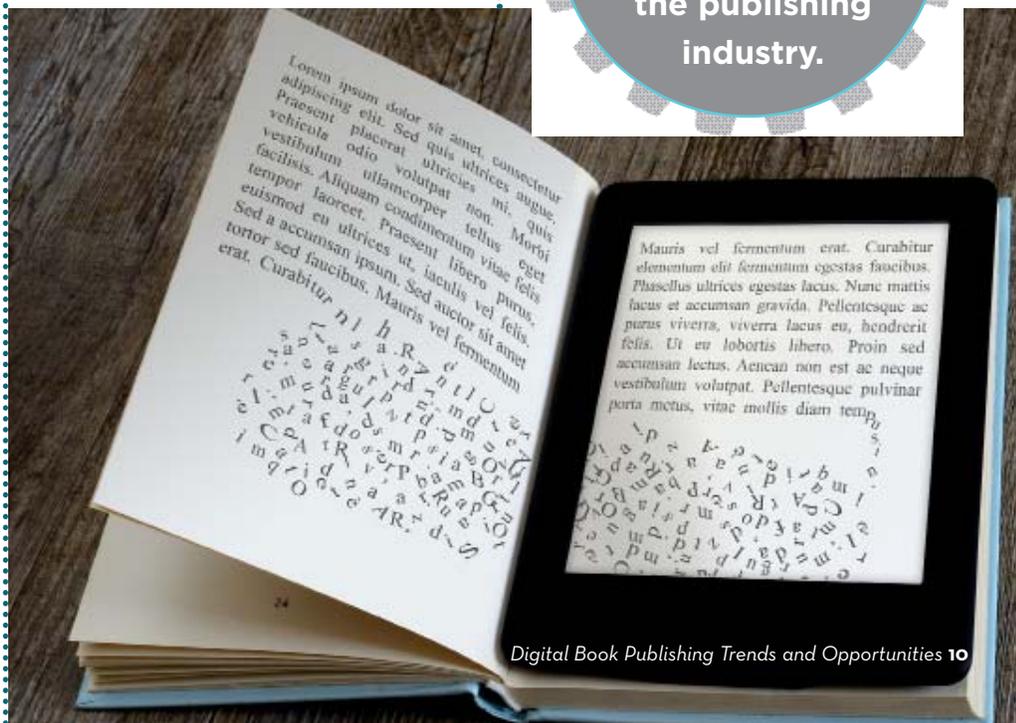
The top issue in assessing self-publishing's impact on the broader publishing industry is not how many self-published titles are out there nor their total sales. The sales number is used mostly as a stick, either to beat commercial publishers over the head about the "threat" that self-publishers

represent, or to hit self-publishers on the head to prove that they are still the lightweights of the publishing industry.

Self-publishers are keen to share, and their online community is constantly buzzing. Top sites like Porter Anderson's, Jane Friedman's and Joel Friedlander's *The Book Designer* reveal what's working and what's not, and give outsiders an inside view of this dynamic market.

Opportunities

Self-publishing represents a creative disruption within the publishing industry. As such, it's to be embraced. These self-published authors may have much to teach the entire publishing industry; each experiment is an idea that a "traditional" publishing house might adopt.



The Educational Publishing Market Is Experiencing Its Own Transformation and Seeing More Opportunity with “EdTech”

Overview

In June 2013, President Obama announced the ConnectED initiative, “designed to enrich K-12 education for every student in America.” The most important element of the plan is to provide next-generation broadband access to 99 percent of American students by 2017. In a speech outlining the ConnectED initiative, President Obama said, “In a country where we expect free WiFi with our coffee, why shouldn’t we have it in our schools?”

ConnectED offers an enormous opportunity for educational publishers. So far, only one has signed on. And with a \$100 million commitment. On Nov. 19, 2014, Andrew Savikas at Safari Books Online announced, “Safari Brings America’s K-12 Free Access to Books, Videos from O’Reilly Media.” O’Reilly’s has a tremendous depth of content in programming, web design and mobile tools. This could be a major boost to improving the oft-lamented failure of U.S. schools to provide an effective education in digital technology.

The other donors include Autodesk and Microsoft for software and AT&T and Sprint for broadband. Apple, “in an unprecedented commitment for the

company, has pledged \$100 million in iPads, MacBooks, and other products... to enrich learning in disadvantaged schools... in the communities that need it most.” As Tim O’Reilly put it: “And thanks to the folks at the White House, who used their convening power to get a whole lot of donations to help kickstart better STEM education in America.”

Educational publishing, for so long a stable business dominated by just a handful of very large companies, is now an industry in flux. The move away from print, gradual a decade ago, is picking up steam. In a recent investor presentation, McGraw-Hill Education illustrated that its “traditional print” sales dropped from 81 percent in 2008 to 35 percent this year.

There isn’t a single education industry. It’s usually sub-divided into K-12, Higher Ed and Professional, which includes adult education. The Association of American Publishers (AAP) uses four categories in its sales tallies:

1. K-12 Instructional Materials
2. Higher Educational Course Materials
3. University Presses (less than 1 percent of total sales)
4. Professional Books

While the U.S. Census Bureau counts:

1. Elementary and high school
2. College
3. Scholarly (about 2.5 percent of total sales)
4. Professional

Pearson, Houghton Mifflin Harcourt and McGraw-Hill are the Big Three of the K-12 market. Pearson, McGraw-Hill, Cengage, Wiley and Macmillan dominate the higher education market.

Entrepreneurs need to decide what sector of the education industry they want to play in. Each has different dynamics. The notion of simultaneously disrupting education in more than one sector is improbable. Not that disrupting any sector is easy.

Educational publishing is now an industry in flux.



As Dan Rosensweig, Chegg's CEO, put it, "With education in particular, the skills you need are fluid, but institutions are not fluid. The whole system has been designed around supporting the institution and not supporting the student."

Trends

The industry has recently faced large bankruptcies and spinoffs. Two of the highest profile events were the managed bankruptcies of Houghton Mifflin Harcourt and of Cengage. These weren't so much proof of mismanagement as they were occasions to shed billions of dollars in takeover debt left behind by leveraged investing. Separately, in 2013, McGraw-Hill Education was spun off from McGraw-Hill Cos. because of activist investor pressure.

Discrediting print textbooks as the primary vehicles for pedagogy has been the most important trend in the higher education publishing market. For years, retail prices have been on a fast upward trajectory sending students and their parents into sticker shock. As a result, print textbooks are being slowly disassembled.

The short-term impact of high-priced print textbooks has been a burgeoning textbook rental market. While Amazon could be the fastest growing player in this market, there are several large incumbents, including Barnes & Noble College (700 stores under management) and Follett (900 stores), both major players in a market estimated at 4,500 college stores.

Investors are as glum about printed textbooks as students are. Things are moving to digital as fast as the industry can push it. Chegg is the largest independent company focused on textbook rentals and appears to be a harbinger of things to come. While textbook rentals are still at the core of its business (70 percent of sales), the company now fashions itself "as the leading student-first connected learning platform" i.e. a digital education company. Pearson, the largest higher ed textbook publisher, has knocked print down to just 40 percent of revenues.

The first wave of the transformation was digitizing existing textbooks and putting them online. These didn't play well with students: pages were easier to navigate in print than on a computer screen. One commentator put it plainly: the key feature of printed texts is "the ease of being able to open several at the same time in front of you while studying."

Technologies like Apple iBooks and Inking Habitat suggest a more exciting future for textbooks online. But with some 20,000 textbooks in current use in the United States, the conversion to interactive digital formats will take a long time.

The K-12 market has its own dynamics. The Common Core State Standards (CCSS) figure large, but they've moved from solely "a set of grade-by-grade goals" into increasingly a political play. Nonetheless, as Neil Goff explains, "CCSS is bringing about profound changes in the way teachers instruct their students - and is causing educators to rethink what kinds of books they need for their classrooms. This rethinking, in turn, is creating new opportunities for trade publishers."

Neil Jaffe, president of Booksource (and a speaker at 2015 Digital Book World Conference + Expo), noted that distribution of content to schools is literally being re-wired. Indeed, there are implications for publishers who sell to the K-12 market. "Don't believe anyone who tells you that digital reading in the K-12 market is all decided," said Jaffe. "K-12 educators are lost in the wilderness of ebook publishing with all the business models, devices, bandwidth and much more. Plus, they're still trying to determine the value of ebooks for students and budgets."

Opportunities

The opportunities in the EdTech market are proportionate to the level of risk. It's not an easy market to crack.

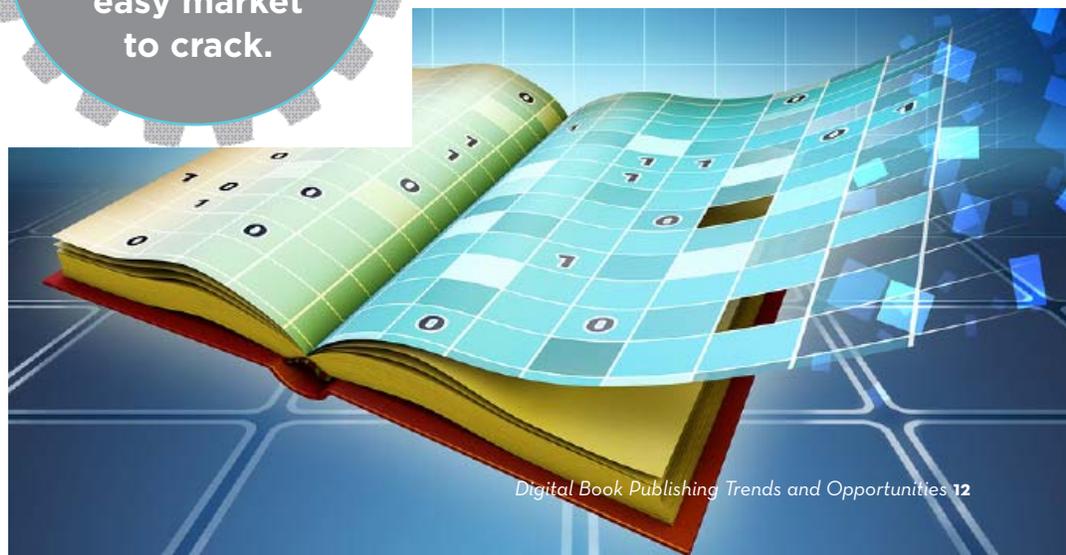
There are 130,000 K-12 schools in the U.S. assembled into 13,500 districts.

- Reaching those schools is via a complex maze of state and school district rules and regulation.
- There are 7,000 post-secondary degree-granting institutions and 1,270,000 post-secondary teachers. Reaching this group can be one professor at a time. This is perhaps the most compelling reason to bet on the incumbent industry players; they're large enough to afford a sales force that can cover most of the territory.

In a post titled "Why Education Startups Do Not Succeed," Avichal Garg makes a compelling argument. "VCs and entrepreneurs tend to be well educated," he wrote. "Well-educated people think about education as an investment." Not so for others: "The average, middle class person thinks about education as an expenditure, not an investment." What this means is that "educational companies that focus on delivering higher quality solutions to consumers will not scale to the mainstream. Educational companies built around driving down costs to the end consumer will scale."

There is no shortage of effort and investment spared. According to TechCrunch, EdTech startups raised more than \$500 million in Q1 2014. "What began as a trickle in 2009, with 20 companies raising \$64 million is now a flood as funding leapt to \$500 million in 99 venture-backed startups, according to CrunchBase data.

The opportunities in the EdTech market are proportionate to the level of risk. It's not an easy market to crack.



Those Who Navigate the Intricacies of International Markets will Succeed with Digital Book Publishing

Overview

International sales of printed books from the United States continue to be challenged, inhibited by costly logistics and shipping costs. According to figures in *The Culture and Commerce of Publishing in the 21st Century*, export sales of trade books were roughly \$1 billion in 2009. Canada accounted for nearly half. International sales as a percentage of total publishers' sales declined from nearly 10 percent in the 1990s to about 6.5 percent by 2004.

The last reported data from the Association of American Publishers (AAP) for 2012 showed a 7 percent gain, but as Michael Cader noted, "nearly all of the revenue increase came from the growth of export ebooks (which rose in dollar sales by 63 percent)."

Publishers sell international rights, but these mostly favor top titles. Rights sales are uneven; many countries won't secure rights for a mid-list title.

Only the largest publishers have established an international presence, and so most publishers must develop international strategies from the home office.

But the opportunity is enormous. Based on statistics compiled by the British Council:

- English is spoken as a first language by around 375 million and as a second language by an additional 375 million speakers in the world.
- Around 750 million people speak English as a foreign language (where English is not spoken as a first or second language)
- One out of four of the world's population speaks English to some level of competence, and demand from the other three-quarters is increasing.

Trends

The primary international distribution mechanisms are in place: Amazon and Apple report having bookstores in 12 countries and "51 territories" respectively. Kobo says that it now sells ebooks in more than 190 countries, and has localized stores in Canada, the United States, Brazil, France, the United Kingdom, Germany, Netherlands, Italy, South America, India and Japan.

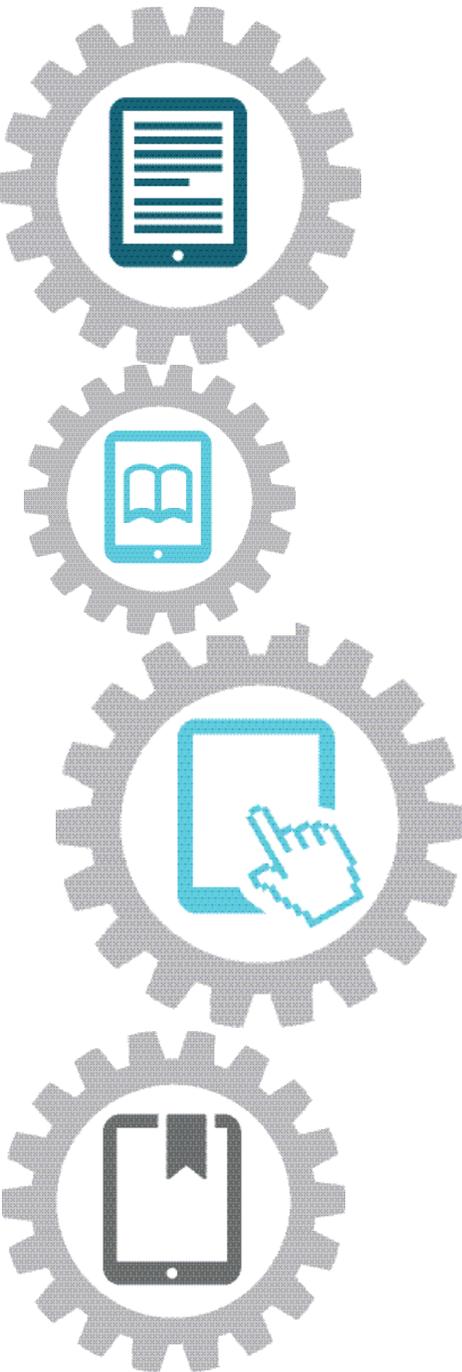
Amazon offers links to resources for translating self-published books from English. Barnes & Noble's NOOK Press is accessible to publishers in eight countries who want to access the U.S. market.

In his presentation at Publishers Launch Frankfurt 2013, Senior Vice President for Kindle, Amazon, Russ Grandinetti, offered trendlines for Amazon's success in selling English-language books specifically to non-English speaking countries. Grandinetti illustrated the upward trajectory in Amazon's sales of English-language books to non-English speaking countries." (He'll also discuss current industry topics at 2015 Digital Book World Conference + Expo in a keynote Q&A.)

Opportunity

The raw data indicates that publishers could more than double existing ebook sales with a more aggressive pursuit of international markets. Top frontlist titles with major print sales expectations may still go through the foreign rights channels. But backlist titles can be sold most profitably in ebook format via the major international retailers as well as local ebook channels. Publishers can also look to sales from publishing their own translations in major countries/languages without rights sales.

Simon & Schuster CEO Carolyn Reidy said that international is where it expects to find the greatest digital sales growth. "Last year, we sold an ebook in over 200 countries," she noted.





Professionals Who Grasp Content Marketing - and Its Role in the Publishing Industry - Will Build Their Brand & Audience

Overview

Joe Pulizzi is the public face of content marketing (and a Digital Book World Conference + Expo presenter). He began to use the term “content marketing” in 2001, and in 2007 went on to launch what became the Content Marketing Institute (CMI). Nearly 100,000 subscribe to the CMI newsletter - and content marketing has become a big deal.

Mike Shatzkin suggested a practical definition of content marketing: content which promotes a client or a product, content which is meant to be found online and delivered for free.

The CMI wrote: “Basically, content marketing is the art of communicating with your customers and prospects without selling... Instead of pitching your products or services, you are delivering information that makes your buyer more intelligent.”

The CMI offers a free ebook - “100 Content Marketing Examples” - which describes blogs, webcasts and podcasts, social media, events, newsletters, videos and apps. Where print is mentioned it’s for magazines, catalogs and direct mail. The CMI defines four primary channels content marketers use: Facebook, LinkedIn, Twitter and YouTube.

10 Examples of Great Content Marketing, found at Business2Community.com, offers a brief showcase of the state of the art. Included are infographics, videos and Twitter campaigns.

Content marketing can mean two things to publishers. The most common meaning is new content produced under contract to meet the marketing communication needs of a corporate or association sponsor. The more important meaning is creating opportunities to reuse content from a book in process or already published.

Special sales are an important revenue channel for most publishers. Bulk selling to special customers has been a well-established practice in the industry for decades.

There’s a distinction to be made between content marketing and bulk “special sales.” Special sales can be thought of as content marketing that’s not tightly targeted. In the most common example of special sales, a company buys a book in bulk to give away to customers to broadly further a business objective. The objective might be just a Christmas gift to clients. More often, the topic of the book overlaps with the messaging the company wants to send to its customers. Think of content marketing as a content sale directed at the target’s bull’s-eye. To hit a bull’s-eye, the content almost certainly needs to be reworked and redefined to overlap a precise marketing message.

Just as special sales has evolved to supporting dedicated sales reps who understand intimately the opportunity and know where the prospects live, so too does content marketing demand a specialized level of insight.

Trends

Content marketing is in its early days, and book publishers are considering it as a potential secondary revenue source, together with licensing and merchandising. Most of the content marketing examples in this market involve nonfiction publishing.

Opportunities

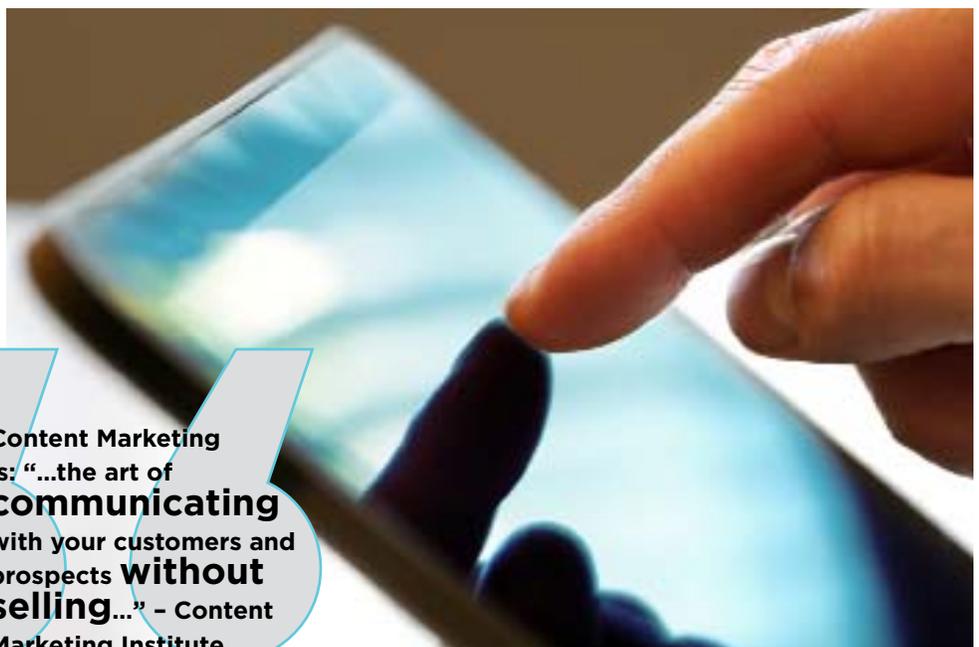
The content marketing industry has much to show publishers about matching content to readers, content that’s bright and engaging and fills a gap on popular subjects.

For book publishers, the practice is to comb through the non-fiction backlist and consider each title:

- Who wants to know about this topic?
- Which associations do they join?
- What vendors supply their market?
- What are other associated topics?

There’s another opportunity in a new crossover publication, a magazine that looks like a trade paperback. This is the so-called “bookazine” which comprises one of the few bright spots in newsstand sales today. Dennis Publishing calls them “MagBooks.” They’re mostly spawned from magazines’ archives, but there’s no reason that the book publishing industry couldn’t play at this table.

The content marketing business is growing rapidly, and it’s hungry for the high-quality content that the book publishing industry supplies.



Content Marketing is: “...the art of communicating with your customers and prospects without selling...” - Content Marketing Institute

10 TOPIC NO. 10

Savvy Publishers and Authors Will Build Dynamic Communities Around Content, Supercharging Discoverability

Overview

Reader communities have been at the center of publishing for nearly a century, foreshadowing the online communities flourishing today. Founded in 1926, the Book of the Month Club had more than three million members at its 1993 peak. Clubs like the Science Fiction Book Club and the Mystery Book Club addressed more specialized interests. Of course, the communication in these early communities was one-way only; no response was required (other than checking off your preferred monthly selection).

Another long-standing community of book lovers congregates at any of 16,415 public libraries in the U.S.

The Internet enables a non-stop conversation among fans and their vocal cheerleaders. The most dedicated fans form a core group that will gobble up every new book, film adaptation and author memento sent their way. Book publishing is catching onto the opportunities inherent in online communities.

Launched by Penguin in 2011, Book Country is now a division of Penguin Random House but it's managed independently of the mother ship. Its members congregate mainly around romance, science/fiction/fantasy and mystery/thrillers. Book Country recently incubated Andrea Dunlop's *The Sojourn* (acquired by Simon & Schuster) following a pattern that most famously gave us 2011's *50 Shades of Grey*.

Wattpad is "a place to discover and share stories: a social platform that connects people through words." It has become the mother of all online publishing communities with over 35 million users and 75 million stories created. Goodreads (now owned by Amazon) is the No. 1 reader enthusiast site: 30 million users have created 34 million reviews.

Trends

The bookish community is increasingly active on the full blown social platforms like Facebook and Pinterest. *The Hunger Games*, for example, has more than five million Facebook likes and another 100,000 Pinterest pins.

These online communities are moving increasingly from the desktop to mobile: About 30 percent of Facebook's regular users visit from smartphones and tablets, up from 19 percent a year ago. Wikia is home to over 400,000 communities for fans, by fans.

The inner soul of online communities is "fandom," readers who become passionate about a single title (or series), author or genre. Their feelings run deep and find much of their expression online via broad-based social media and through bulletin boards and wikis. George R. R. Martin's *A Song of Ice and Fire* series is a top fan inspiration, and Westeros is its premier fan site.

At fandom's heart is fanfiction, stories about characters or settings written by fans of the original work, rather than by the original author. The *Fifty Shades* trilogy began as *Twilight* fan fiction, featuring characters named after Stephenie Meyer's main characters, Edward Cullen and Bella Swan.

As Jen Donovan pointed out in her *Fanfiction and Fandoms: A Primer, A History*, "Fanfiction has been steadily growing in popularity, particularly over the last three years," drawing in both writers and readers. Prominent authors like J.K. Rowling and Stephenie Meyer now endorse fan fiction based on their characters. Science-fiction novelist Orson Scott Card, author of the best-selling *Ender's Game*, makes a clear case for supporting fanfiction. "Every piece of fan fiction is an ad for my book," he says. "What kind of idiot would I be to want that to disappear?"

In spring 2013, Publishing Technology commissioned Bowker Market Research (BMR) to conduct a study of publishers' use of online communities. Under the headline that "Publishers' commitment to online communities set to double by 2015," the survey revealed that two thirds of the publishers surveyed already hosted one or more online community. Most were convinced that their investment was already paying off.

Opportunities

Brett Sandusky may have hit that nail on the head when he wrote that "the book publishing industry has a history of creating product for a 'customer' that they never speak to, speak of, see, interact with, or consider." He continued: "In fact, many publishing houses could consider their authors to be their primary customers, with author services being one of the major components of the business."

In defense of publishers, with bookstores as intermediaries, it has been difficult to develop a dialogue with readers. It's easier to do so today, at least in concept. This is the Holy Grail of publishing: knowing who your customers are and what exactly they want.

Unfortunately there is a new set of intermediaries, even more opaque than bricks & mortar booksellers. These online intermediaries, Amazon, Apple, Barnes & Noble and the rest, identify their customers as a top asset to be fiercely guarded. Very little information is shared.

It's all the more reason for publishers to identify and support publishing communities and maximize their efforts to reach the enormous crowds populating sites for fan, book review enthusiasts, social media sharing, and more.

The mechanisms in place to reach these online readers foster two-way communication. They give publishers the ability to target promising readers in ways that make an advertisement in the *New York Times Book Review* seem antiquated. Just as important is listening to these readers and understanding where they want their stories to go.

None of this suggests that the independent and chain bookselling community has lost its value. Bookstores house armies of enthusiasts speaking to some of the most devoted book buyers. The American Booksellers Association (ABA) is the key community for independent brick-and-mortar retailers. Through the ABA and its regional affiliates, publishers can keep their partners in the loop, supplementing the major opportunities provided by the more traditional trade shows, BookExpo America (BEA) and other regional events.

11

TOPIC NO. 11

Leaders Who Embrace Partnership and Collaboration Within the Industry Will Realize the Most Success

Overview

In a review of Ron Adner's *The Wide Lens: A New Strategy for Innovation*, Leigh Buchanan described the importance of collaboration. "Companies trying to commercialize innovations won't succeed," she writes, "unless suppliers, distributors, and other partners can and will do their parts."

For most companies, "partners" means just companies that they ordinarily work with, not real partners in the sense of risk and revenue sharing. As in many other industries, publishers often see one another as old-style competitors rather than partners trying to engage readers. The idea that one copy sold of your hot new bestseller is one less copy sold of mine makes no sense in a business that's struggling to find new business models. Engaging with readers is a work in progress. There's no statistical evidence that total readership in the United States is declining (although revenue may be shifting from pricier print books to less expensive digital versions).

There are so many questions still to be answered regarding who the reader will be in 2020. Shelly Blake-Plock wrote that "books were nice. In 10 years' time, all reading will be via digital means. And yes, I know, you like the 'feel' of paper. Well, in ten years' time you'll hardly tell the difference as 'paper' itself becomes digitized."

No one has the answer. All digital? Subscriptions mainly? No more public libraries? Amazon owning everything?

Much of the focus on publishing partnerships surrounds startups partnering with existing publishers. In fact, there are much broader dialogs taking place - publishers with resellers, publishers with suppliers, authors with booksellers and publishers with other publishers.

The International Digital Publishing Forum (IDPF) is a good example of a large-scale industry partnership. Its broad member base collaborated to create the EPUB standard. EDItEUR has over 100 members in 23 countries moving ONIX forward into its 3.0 iteration.

Booktrope is a "team publishing" startup centered on a collaborative model. Authors don't fly solo; they're part of a creative team that typically includes an editor, a designer, a proofreader, a "book manager" (who handles marketing) and a "financer" who covers up-front costs.. Each member of the team shares in the risk, and each is rewarded in proportion to their contribution to the project. (A sample sharing chart illustrates how this works).

Trends

Supply chain management is changing the business of book publishing.

Four years ago, Ingram Content Group and O'Reilly Media announced a total inventory management initiative integrating O'Reilly content with Ingram's worldwide print, distribution, and inventory management services.

The April 2011 press release noted that the program enables O'Reilly to shift from a capital-intensive traditional inventory model to an on-demand program selecting the most timely and cost-effective method to print and distribute books. O'Reilly is able to increase title availability, substantially reduce inventory, and free up resources to invest in content development, while keeping the most relevant content available in the market.

A month later, HarperCollins and RR Donnelley announced "a breakthrough global supply chain agreement." RR Donnelley would handle fulfillment of all HarperCollins new releases from its Harrisonburg, Va. facility and all frontlist and backlist titles for HarperCollins' Zondervan division. RR Donnelley would also provide *global* print-on-demand services to HarperCollins, enabling most titles to be printed anywhere HarperCollins holds publishing rights.

Opportunities

The practices of partnering, joint ventures and strategic alliances are well defined. The benefits as well as the pitfalls are thoroughly documented. The challenge is in identifying suitable partners, identifying realistic goals and creating a process to manage the team.

Book publishers must drop their guard and invite new partners to the publishing party. Yes, sharing means revealing information sometimes held under lock and key. Most importantly, sharing provides the opportunity to learn new lessons so they don't have to be endlessly repeated.



The International Digital Publishing Forum (IDPF) is a good example of a large-scale industry partnership.



Join the Global Book Industry and Learn More About These Themes and How to Strategize for the Future.

JANUARY 13-15, 2015 • NYC

DIGITAL BOOK WORLD CONFERENCE + EXPO

All of the topics contained in this white paper will be thoroughly discussed by leading industry practitioners at Digital Book World Conference + Expo, Jan. 13-15, 2015, in New York City.

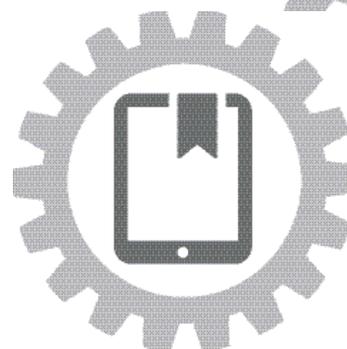
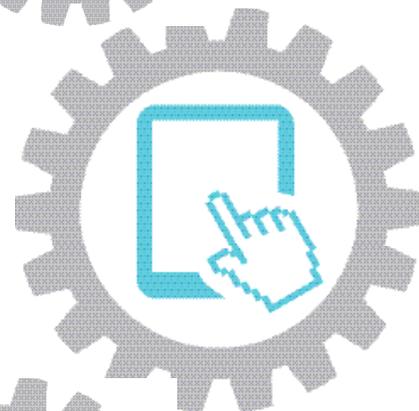
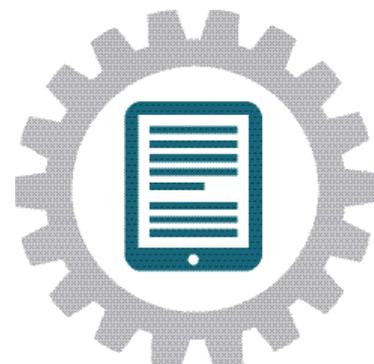
The Digital Book World Conference + Expo (DBW) is the largest event worldwide dedicated solely to the business of digital publishing. It features some of the most prominent thought leaders and innovators in the industry.

DBW focuses on digital content and digital book strategies, as well as the challenges and opportunities facing publishers and content providers of all sizes and business models, with an emphasis on the digital transformation.

Speakers at Digital Book World Conference + Expo include: CEOs and C-level executives responsible for developing their organizations' digital strategies, innovators who are bringing new ideas and new technologies to market, and path-making authors, agents, marketers and editors. These leaders will share best practices and wisdom from their personal experiences - what has worked and what hasn't - so attendees can avoid pitfalls and make wise strategic decisions.

Attendees of DBW include large and small book and ebook publishing businesses, book marketers, directors of international book sales and rights, editors of publishing houses and literary agents, digital strategists and content professionals, and managers of operations, finance, sales/marketing and technology within industry and allied organizations.

Please visit the conference web site for up-to-date information on the agenda, speaker roster, exhibitors, attendees, registration information, etc.



About the Author - Thad McIlroy (thefutureofpublishing.com) is an electronic publishing analyst and author based in San Francisco, Calif., who provides consulting services to media companies as well as vendors serving the publishing industry. His latest books are *Mobile Strategies for Digital Publishing: A Practical Guide to the Evolving Landscape* (to be published by Digital Book World in January, 2015) and *The Metadata Handbook: A Book Publisher's Guide to Creating and Distributing Metadata for Print and Ebooks* (co-authored with Renée Register). He will be making two presentations about mobile publishing strategies at the Digital Book World Conference + Expo in January 2015.

Register

conference.digitalbookworld.com

Questions?

digitalbookworld@fwmedia.com

Connect

@DigiBookWorld
#DBW15